



ROSNEFT



ANNUAL REPORT

2006



OPEN JOINT STOCK COMPANY
ROSNEFT OIL COMPANY
2006 ANNUAL REPORT











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Regions where Rosneft operates



Legend

- | | | | |
|---|---|---|---------------|
|  | Production and development |  | Capital |
|  | Rosneft refineries |  | Oil pipelines |
|  | Rosneft refineries acquired after accounting period | | |
|  | Marine export terminals | | |





Chairman's Address



In 2006, Rosneft acquired a new status when it became a publicly traded joint stock company of global significance. A long-term strategy of growth, the best operational and financial indicators in the industry, a unique resource base, professionalism and responsible management – these and many other factors attracted thousands of foreign and Russian investors to invest in the Company's shares. For Russia, Rosneft's IPO was indeed a national event. Over 115,000 Russian citizens took the opportunity to take part in the first fair and transparent privatization of one of the country's largest oil companies and become our shareholders.

Rosneft now represents a unique synthesis of two development models: that of a state company and that of an international public company. On the one hand, the government's stake in Rosneft allows the Company to participate in implementing our country's strategy of support for the sustainable and long-term development of the oil and gas industry for the benefit of all Russians. On the other, as a public company accountable to tens of thousands of shareholders, Rosneft is constantly focused on enhancing operating and com-

mercial efficiency, reducing costs and boosting profits and shareholder returns by increasing market capitalization and dividend payments.

As Rosneft's 2006 performance clearly demonstrates, this development strategy has enabled the Company to achieve the best results in the global oil industry in terms of increased production figures and operating efficiency.

But I consider this to be just the first step on a long road to becoming the best oil and gas company in the world. In the coming years, Rosneft will implement a number of large-scale projects aimed at maximizing profits and shareholder returns by expanding activities and deepening the Company's vertical integration. It will increase the volume of oil refining and improve the quality of products. The commissioning of the large Vankor field will further boost production of oil and gas in Siberia, while operations on the shelf off Sakhalin will inaugurate a new stage in the island's development as one of the leading oil and gas provinces in Russia - not least due to the efforts of Rosneft.

Last year's results also showed that Rosneft's strategy of mutually beneficial international cooperation paid off handsomely. The Company not only exchanges advanced scientific and technical experience with its foreign partners, but it also works with them to implement a number of large-scale projects in Southern Russia, Siberia and Russia's Far East.

Last year was declared the Year of Russia in China, and I would like to express my satisfaction with the success we have achieved in cooperation with our Chinese partners. We expect yet more impressive results from our joint projects in the future.

Russia's substantial energy potential is both a major source of the country's growing national wealth and a vital element in global energy security. New Rosneft projects in Eastern Siberia, Timano-Pechora, Russia's Far East and offshore in the Caspian and Black Seas and the Sea of Azov will contribute greatly to the energy supply of the international economy in the medium and long term.

Last year, the market demonstrated its appreciation not only of our impressive results so far, but also of our plans going forward. In 2006, Rosneft became the largest Russian oil company by market capitalization.



Rosneft headquarters and the Kremlin

As Chairman of the Board of Directors, I want to assure you that we are looking to ensure the Company's further development by consistent implementation of our growth strategy, broad application of new technol-

ogy and financial discipline. Our strong team of highly motivated managers ensures efficient governance and maintains a balance between rights and interests of the state, our investors and society at large.

Chairman of the Board of Directors of Rosneft

Igor Sechin



President's Address



Last year, Rosneft made a significant step forward in its development. We can boast some of the best production and financial results in the industry and have moved much closer to achieving our strategic goal of becoming one of the world's leading energy companies. Our successful growth strategy and high efficiency enabled Rosneft to consolidate its position in the world energy arena last year and become the leader among the world's largest public oil companies on a number of important criteria, including the size of proved liquid hydrocarbon reserves, reserves-to-production ratio and growth in oil production.

In 2006, we aimed to achieve dynamic growth by further expanding our resource base, increasing oil and gas production and improving our financial and economic performance. We did indeed make great progress in all three areas.

Our proved hydrocarbon reserves, including acquisitions and geological exploration, increased by 149 million tonnes of oil and 11 billion cubic meters of gas. Our reserves replacement ratio was 273%, the best figure in the industry.

But we did not stop at this and continuously increased our unique portfolio of assets in 2006, acquiring licenses to develop a number of promising blocks in Siberia, European Russia and Russia's Far East, all of which have considerable potential for geological exploration.

An oil company's performance, however, does not depend solely on its resource base. In 2006, Rosneft also delivered some of the best results in the industry, producing 80.8 million tonnes of crude oil and 13.7 billion cubic meters of natural and associated gas, 8.3% and 4.6% more, respectively, than in 2005 and easily exceeding the growth rates of our competitors.

Production growth last year was driven by new wells at Yuganskneftegaz, efficient well workover programs, bringing the Sakhalin-1 project up to its planned capacity and the acquisition of Udmurtneft.

Russia's vast distances mean that efficient delivery is crucial, so one of our most important strategic objectives is to optimize our production and marketing chains in order to maximize profits.

We are extending our capabilities in transport and product exports. For example, in 2006, we acquired the Nakhodka tanker port, the largest specialized commercial marine terminal on Russia's Pacific coast.

As part of the Sakhalin-1 international project, Rosneft commissioned a pipeline from the Chayvo field and an oil-loading terminal in De-Kastri. The Company also completed the refurbishment of a rail-loading facility for light petroleum products at Arkhangelsknefteprodukt and commissioned a 5 million tonne rail facility at Tupsenefteprodukt.

As a result, the Company increased oil exports in 2006 to 57.2 million tonnes, 60% of which was transported through marine terminals, 17.5% by rail and 22.5% via pipelines.

Oil refining is yet another important area of our operations. In 2006, Rosneft produced 22.7 million tonnes of petroleum products, of which 13.3 million tonnes were exported and 9.5 million tonnes were sold on the domestic market, including deliveries of petroleum products through supply subsidiaries.

As a result of our improved production performance and the high prices for oil and petroleum products on do-



mestic and global markets, revenues increased last year by 26% compared to 2005 to reach 652 billion rubles. Net profits amounted to 261 billion rubles, an increase of 136% over 2005. The Company recorded the best operating efficiency in the industry, with the lowest per unit operating and capital expenses.

Rosneft participates in international projects, where global experience and the latest technology are utilized to develop new fields, transport and process hydrocarbons, as well as protect the environment.

Last year, the Company established closer relationships with China's two leading oil companies, Sinopec and CNPC. Rosneft acquired Udmurtneft jointly with Sinopec and signed an agreement to establish a joint venture with CNPC. These and many other international projects implemented together with BP, ConocoPhillips and Exxon facilitate the further development of technology and accelerate the spread of best practice in oil production and environmental protection.

Top quality personnel are central to Rosneft's further development. The Company is therefore devoting ever-increasing attention to meet our demand for more and better-trained staff.

Rosneft's system of continuous training ranges from pre-college education for talented students to higher education and continued education in collaboration with majors in the oil industry.

The Company cooperates with leading educational institutions and offers employment to the most talented students and postgraduates. In 2006, about 21,000 Rosneft employees of all categories underwent training as part of our corporate training programs to increase motivation.

Last year, the Company actively implemented a social policy aimed at establishing safe and comfortable labor conditions for our employees and improving living conditions for them and their families.

In 2006, Rosneft continued to improve its corporate governance to enhance further the transparency and thus the investment attractiveness of the Company, as well as to protect the interests of our shareholders.

The completion of our program to consolidate 12 subsidiaries was one of the key events in 2006. As a result

of the consolidation, thousands of former shareholders in Rosneft subsidiaries can now share in the success of a powerful integrated company.

We also considerably improved the quality of information disclosure, significantly exceeding the strict requirements of the London Stock Exchange and the Russian exchanges.

Our Initial Public Offering (IPO) in 2006 was a major event for the entire Russian economy and financial sector. Rosneft's IPO was the world's fifth-largest ever and the biggest among the world's oil and gas companies, raising USD 10.7 billion. 115,000 ordinary Russians also took advantage of the IPO to purchase Rosneft shares.

Last year was thus a great success for the Company, but we are certainly not resting on our laurels. I am certain that in the future we will continue our dynamic development and progress.

We will maintain our efforts to consolidate our position as one of the leading energy companies in Russia and aim to achieve an optimal combination where we increase shareholder value and at the same time assure the long-term, sustainable development of the Company by implementing large-scale projects, achieving further oil production growth and enhancing production efficiency and financial management.

I would like to thank all our shareholders for the confidence they have shown in us. Our management team will do its very best to unlock Rosneft's unique potential.

President of Rosneft

Sergey Bogdanchikov

Key Events in 2006

February

- Rosneft won tenders for exploration and production licenses to the Tukolandsky, Vadinsky and Pendomayakhsky oil and gas bearing blocks in the Krasnoyarsk Territory.
- Rosneft received recognition for its high level of corporate and social responsibility at a competition organized by the Russian government.

March

- Rosneft established a single service drilling company, RN-Drilling, optimizing the management of drilling services.

April

- The Board of Directors of Rosneft and its subsidiaries voted on a consolidation program for the Company.

May

- A reserves audit in accordance with the SPE methodology by the international company DeGolyer and MacNaughton set Rosneft's net proved estimated reserves as of December 31, 2005 at 2.047 billion tonnes of oil and 691 billion cubic meters of gas.

June

- Rosneft, the Moscow State Institute of International Relations (University) and the International Institute of Energy Policy and Diplomacy (MIEP) MGIMO (University) signed a strategic partnership agreement.
- Rosneft acquired the Nakhodka Tanker Port (OJSC Nefteport)

July

- Rosneft held an Initial Public Offering (IPO) and sold 14.8% of its shares to raise USD 10.7 billion. On July 19, the Company's securities were floated on the London Stock Exchange and the Russian stock market.

October

- Rosneft completed the consolidation of its principal subsidiaries, optimizing the Company's organizational and management structure.
- Three months ahead of schedule, Grozneftegaz began industrial production of the first successfully completed production well drilled in Chechnya in the last 15 years.
- Rosneft and the Chinese National Petroleum Corporation (CNPC) agreed to establish a joint venture in Russia.
- The first crude oil tanker was loaded at the De-Kastri oil-loading terminal as part of the Sakhalin-1 project.

November

- Rosneft and BP signed an agreement to develop cooperation on the Sakhalin shelf.
- Rosneft and Gazprom signed an agreement on strategic cooperation.

December

- Rosneft and Sinopec completed the joint acquisition of OJSC Udmurtneft.



Company Information

Company history



Rosneft headquarters in Moscow

Rosneft is one of the vertically integrated oil companies that resulted from the privatization of Russia's oil industry. The company was established in 1993 as Rosneft, a government-owned enterprise, and was reorganized as an open joint stock company in 1995.

From 1995 to 1998, oil production and refining at Rosneft went into decline, but in 1998, a new team of managers joined the Company and began turning it around. By 2000, Rosneft had once again become profitable and embarked on a new stage of development. Oil production began increasing by an average of over 11% per annum.

Management improvement, the consolidation of existing assets and the acquisition of new ones, tighter financial discipline, as well as scientific and technical integration all contributed to a much more efficient use

of resources and a sharp increase in production. In just four years, Rosneft increased daily output from 37,000 tonnes in 1998 to 59,000 tonnes in 2004. At the same time, the Company started upgrading its oil refineries in order to improve the quality of products and enhance environmental protection.

In addition to its successful drive to deliver high growth rates, Rosneft has also pursued a strategy of acquiring new assets in Russia, paying special attention to the geological properties of fields and the potential for efficient product transport. In 2000, Rosneft acquired Selkupneftegaz, which is now one of the Company's leading producers of gas condensate. In 2003, Severnaya Neft and the Anglo-Siberian Oil Company, which held a license to develop the Vankor field in Eastern Siberia, were acquired by Rosneft.



Separation unit at Central Treatment Facility – 8, Yuganskneftegaz



The acquisition of these enterprises considerably improved the structure of Rosneft's reserves, and by the end of 2004, the Company was demonstrating industry-leading growth rates in the production of liquid hydrocarbons.

In December 2004, Rosneft acquired a controlling stake in Yuganskneftegaz, one of the largest oil-producing enterprises in Russia. It began integrating the

new assets into its production and logistics portfolio in 2005.

The acquisition of Yuganskneftegaz, as well as considerable growth in the Company's own production, saw Rosneft become Russia's second-largest producer of oil and gas in 2005, with an annual output of 74.6 million tonnes of oil and 13.1 billion cubic meters of gas.

General information on Rosneft

Full Company name: Open Joint Stock Company Rosneft Oil Company.

Company location: Russian Federation, 115035, Moscow, Sophiyskaya Naberezhnaya, 26/1.

Date of state registration and registration number:

Date of company incorporation: December 7, 1995.

Number of State Registration Certificate: 024537.

Date of entry into the Common State Register of Enterprises and Organizations of a corporate entity registered before July 1, 2002: August 12, 2002.

Series and number of certificate of entry in the Common State Register of Enterprises and Organizations for a corporate entity registered before July 1, 2002: August 12, 2002: series 77 No. 004856711.

Principal state registration number under which the

Company's establishment was entered into the Common State Register of Enterprises and Organizations: 1027700043502.

Primary type of company activity:

Performance of geological exploration for the purpose of discovering oil, gas and coal fields and any other mineral resources; production, transport and processing of oil, gas, coal and any other mineral resources, as well as timber; production of petroleum products, petrochemicals and any other products, including electric power, timber products, consumer goods and services; storage and sales (including domestic and export sales) of oil, gas, petroleum products, coal, electric power, timber products and any other products of hydrocarbon and other raw materials processing.

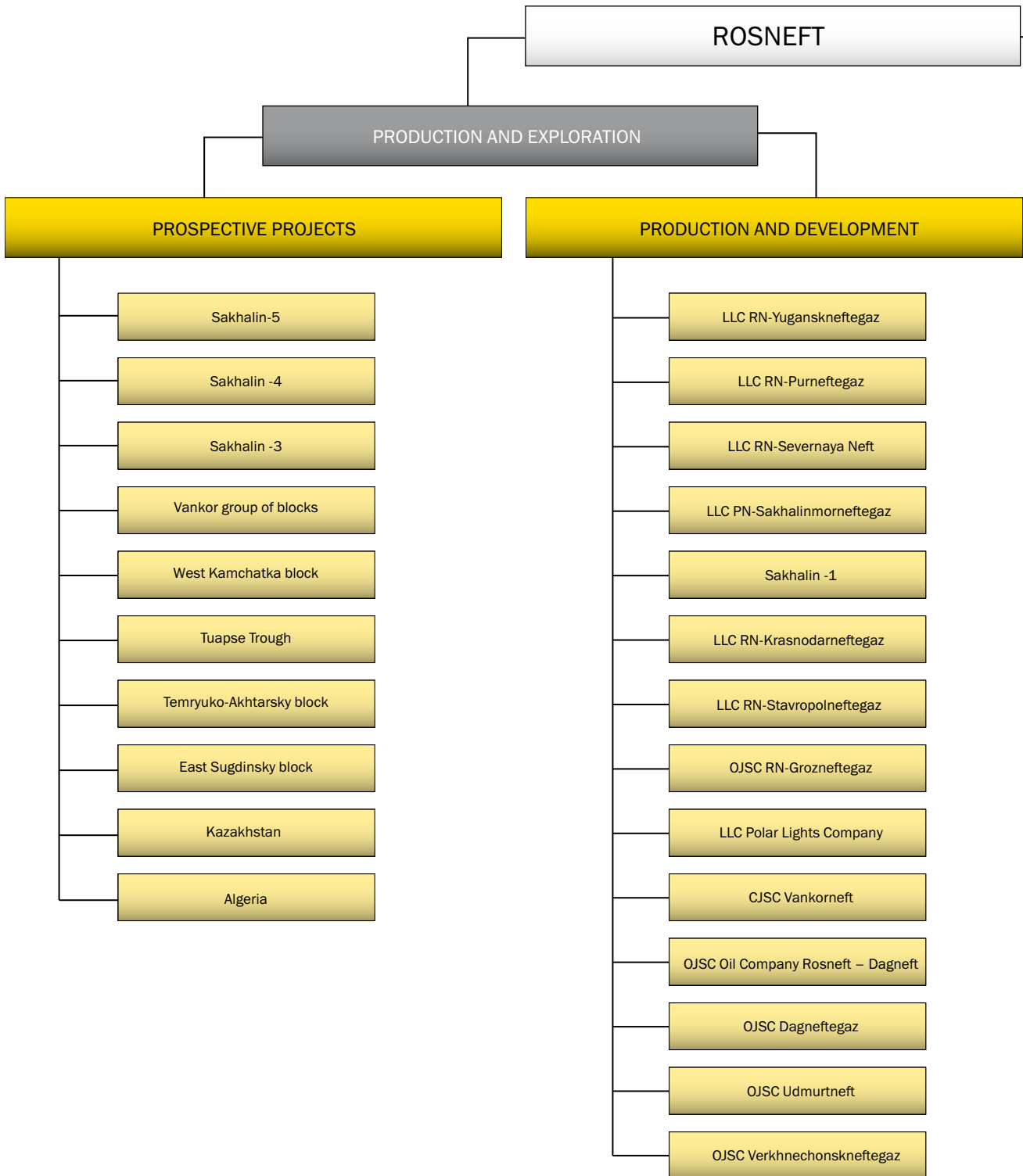
Structure of Rosneft

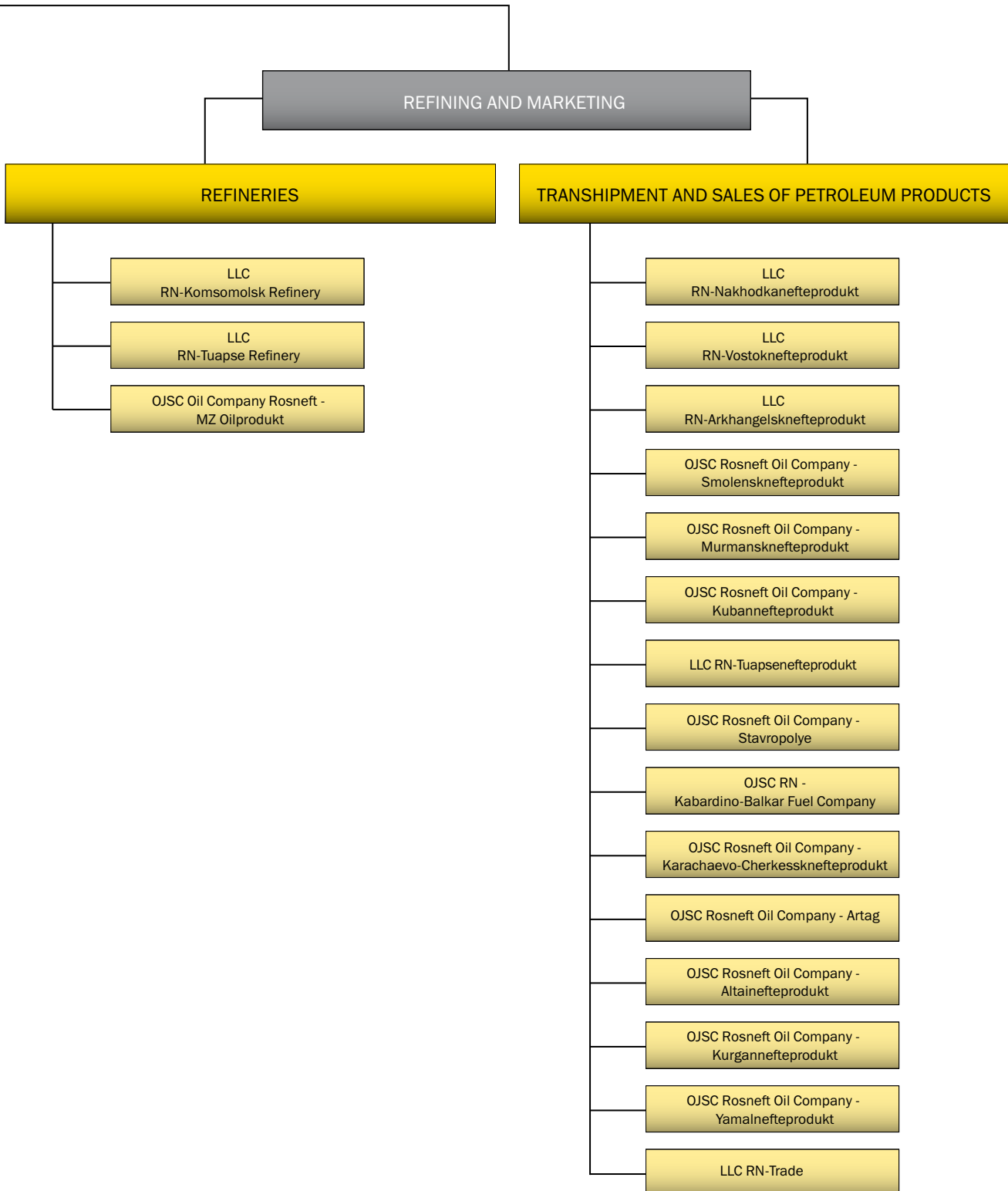
Rosneft is one of the largest vertically integrated oil and gas companies in Russia. Rosneft's headquarters is in Moscow and its core assets are located in Western Siberia, the Timano-Pechora oil and gas province, Southern Russia and on Sakhalin Island.

At the end of 2006, the Company had two oil refineries, one in the Northern Caucasus, the second in Russia's Far

East, with a combined refining capacity of approximately 12 million tonnes of oil per annum, as well as a lubricants plant in Moscow, four marine terminals for the transshipment of crude oil and petroleum products and 684 proprietary service stations in various regions of Russia.

Structure of Rosneft (as of December 31, 2006):







Rosneft today

Rosneft is one of the leading oil and gas companies in Russia. Its priorities are to:

- increase oil and gas production;
- expand the resource base and improve its structure;
- increase scientific and technical capability;
- increase the efficiency of field development;
- upgrade refining capacity and increase the output of oil products that meet environmental requirements;
- expand and upgrade transport infrastructure;
- develop sales capacity for oil products;
- identify and access attractive markets;
- enhance the efficiency of its subsidiaries.

Rosneft is one of the three largest oil producers in Russia and a leader in the country's oil and gas industry.

In 2006, Rosneft had the largest proved oil and gas condensate reserves among the world's publicly traded oil companies.

The Company aims to achieve a balance between hydrocarbon production and reserves replacement.

Last year, Rosneft was number one in the world in terms of reserves life and replacement ratio.

Rosneft has an extensive portfolio of projects at the exploration stage in parts of Russia and the CIS which could become important areas for oil and gas production in the near future.

As of December 31, 2006, aggregate resources of crude oil and gas condensate at Rosneft's exploration projects amounted to 5.8 billion tonnes – these large resources form a solid basis for future increases in proved reserves from geological exploration.

In 2006, Rosneft was the second-largest producer of crude oil and gas condensate among Russian oil companies. Rosneft has licenses to develop new fields with high potential, where well stimulation programs result in high daily well flow rates.

The Company's unique scientific capability also contributes to improved results in drilling and workover programs.



Nakhodka oil loading and marine trade port



The combination of Rosneft's highly productive assets and our application of optimal technology when developing fields allowed the Company to record the domestic industry's highest rates of crude oil and gas condensate production growth in 2006.

Last year, Rosneft was the third-largest gas producer among Russia's vertically integrated oil-producing companies. As of December 31, 2006, Rosneft's proved gas reserves amounted to 701 billion cubic meters, with the potential of further increasing this figure due to probable reserves of 433 billion cubic meters and possible reserves of 439 billion cubic meters.

Increasing the utilization of associated gas is a priority for Rosneft. In 2006, the Company launched its Gas Program, which provides for the construction of collection systems for associated gas, booster compression stations and underground gas storage tanks.

The Company also plans to improve gas treatment and processing by constructing new facilities. In 2005, the Company continued the construction of a gas compressor station at the Priobskoye field of Yuganskneftegaz in order to reduce the flaring of associated gas. More gas compressor stations are due to be commissioned in the fourth quarter of 2007.

Rosneft has ample opportunities to export crude oil and petroleum products from its terminals in Arkhangelsk, Tuapse in the Krasnodar Territory, De-Kastri in the Khabarovsk Territory and Nakhodka in the Primorsky Territory.

The Company's refineries are located in geographically advantageous regions. The Tuapse Refinery has direct access to oil product markets in the CIS and Europe and the Komsomolsk Refinery exports oil products to the Asia-Pacific region.

A favorable economic climate with high energy prices, i.e. both high prices for oil exports and the growing value

of oil products on the Russian market, has allowed the Company to implement its strategic plans and allocate more resources to increasing the volume of refining and oil product sales on the domestic market as it moves up the value chain. This shift will represent a qualitative change for the Company.

Rosneft's successful operational performance last year was also reflected in our financial and commercial indicators. In 2006, Rosneft demonstrated the lowest figures for production costs and administration expenses per unit of actual production.

The Company's production and financial performance improved not only due to the acquisition of new assets, but also because of its enhanced operational efficiency. Rosneft's Business Plan provides for the rational use of production facilities, the reduction of production and non-sales costs, increased capital investment efficiency and the optimization of logistics.

Principal achievements in 2006

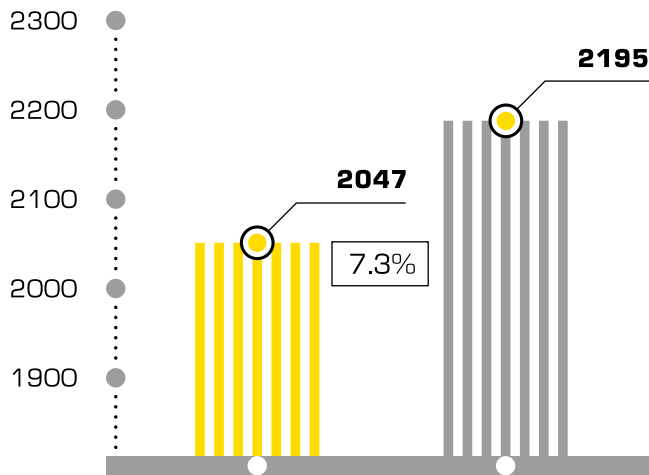
In 2006, Rosneft achieved impressive results in numerous areas:

- Highest reserves of liquid hydrocarbons among the world's publicly traded energy companies
- Industry-leading figure for organic replacement of proved reserves
- Highest industry increase in proved reserves per exploration well
- Lowest replacement cost per tonne of reserves
- Fastest oil production growth rate in Russia
- Highest new well flow rates
- Lowest figure for production costs in Russia
- Lowest figure for refining costs in Russia
- Lowest administrative costs per unit of production in Russia
- Highest market capitalization among Russian oil companies



Key operating and financial indicators

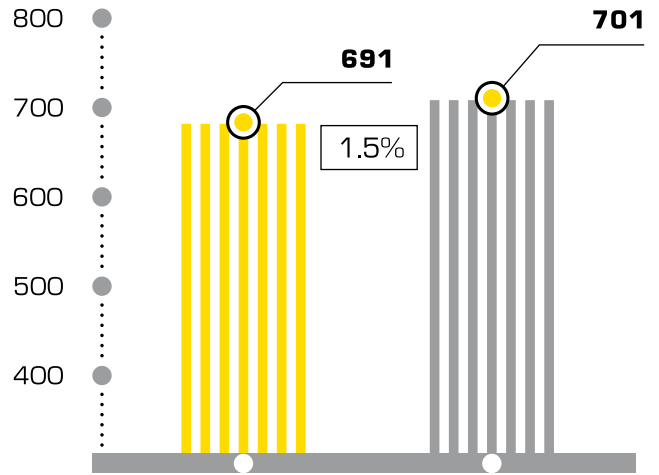
Proved oil reserves (SPE*, million tonnes)



■ 2005 ■ 2006 □ Change, %

*Society of Petroleum Engineers (Общество инженеров-нефтяников)

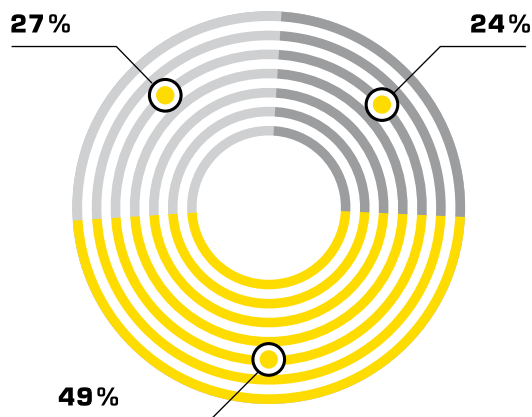
Proved gas reserves (SPE, billion cubic meters)



■ 2005 ■ 2006 □ Change, %

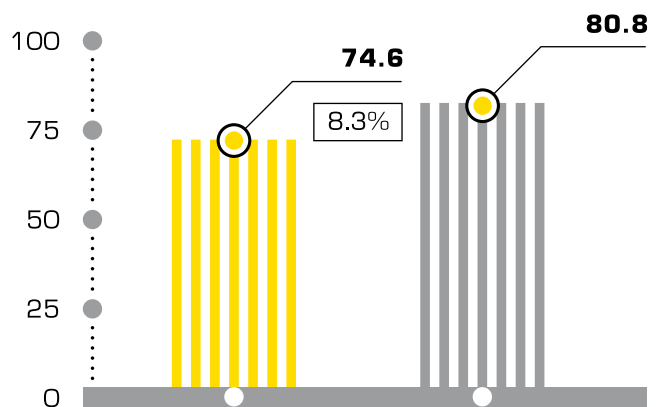
Allocation of SPE oil reserves according to reserves audit performed by DeGolyer and MacNaughton, as of December 31, 2006

Probable 1.21 billion tonnes
Possible 1.07 billion tonnes



Proved
2.20 billion tonnes

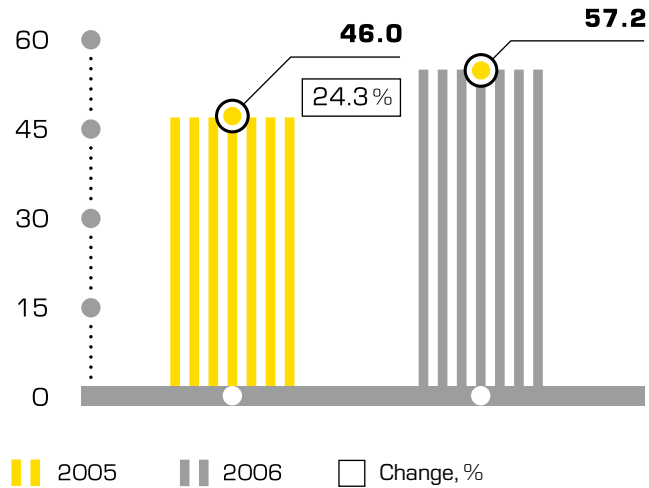
Level of crude oil production (million tonnes)



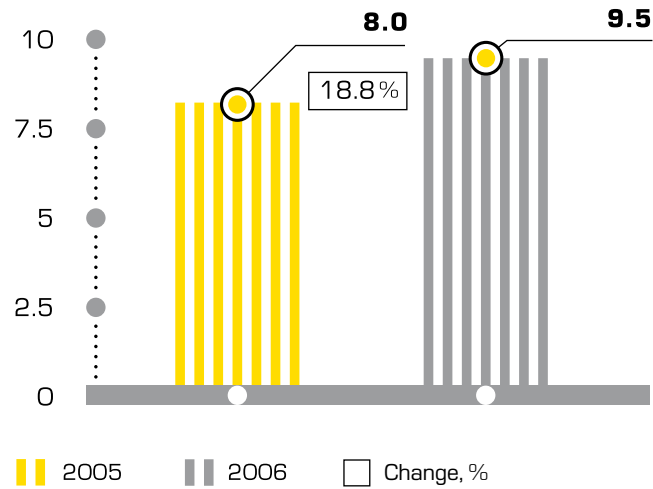
■ 2005 ■ 2006 □ Change, %



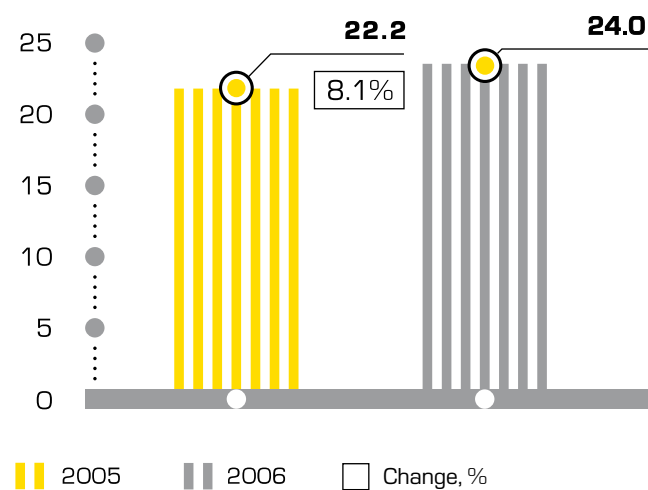
Export of crude oil (million tonnes)



Sales of oil products in Russia (million tonnes)



Total refining (million tonnes)





Severnaya Neft drilling rig

Financial indicators (billion rubles) ¹

	2005	2006	Change in %
Earnings	519	652	26%
Profits before taxation	170	347	104%
Net profits	110	261	136%



Production indicators

	2005	2006	Change in %
Proved oil reserves (billion tonnes)	2.047	2.195	7.3%
Proved gas reserves (billion cubic meters)	690.5	701.1	1.5%
Reserves-to-production ratio (years)	27.4	27.2	-0.7%
Volume of oil production (million tonnes)	74.6	80.8	8.3%
Volume of gas production (billion cubic meters)	13.1	13.7	4.7%
Overall refining (million tonnes)	22.2	24.0	8.1%
At Rosneft refineries, including mini-refineries (million tonnes)	10.6	10.9	2.8%
At third-party refineries (million tonnes)	11.6	13.1	12.7%
Manufacture of oil products	21.3	22.7	6.5%
Oil product sales in Russia (million tonnes)	8.0	9.5	18.8%



At the Vankor field



Rosneft's development and strategy outlooks



Purneftegaz fuel and lubricants base – tank farm

Rosneft's strategic objective is to become Russia's leading oil and gas company with the best production and financial indicators in the industry and to join the ranks of the world's largest energy companies.

The Company's management expects to achieve these objectives in the near future by increasing production, processing and sales of oil and gas products in Russia and abroad and by applying new technology.

Efficient management and tighter financial discipline are also crucial to this strategy, which will ensure dynamic growth in our production and financial indicators in the interests of our numerous shareholders.

The Company's strategy, approved by the Board of Directors in 2002, sets our main priorities as follows:

Further growth of liquid hydrocarbons and gas production

The Company believes that if favorable economic conditions continue, it can increase annual oil production to at least 100 million tonnes in 2010, excluding new acquisitions, and to at least 140 million tonnes in 2015.

In the short-term, growth will be driven primarily by further development at Yuganskneftegaz, Purneftegaz and Severnaya Neft.

Yuganskneftegaz is one of the largest oil producing enterprises in Russia. At the beginning of 2005, Yuganskneftegaz was integrated into the Company's production system and now accounts for approximately 70% of Rosneft's total oil production and proved oil reserves.

Purneftegaz is Rosneft's second largest oil-producing company and also has extensive reserves of natural gas at the Kharampur field.

Severnaya Neft is Rosneft's principal oil-producing company in Northwest Russia. The Company acquired Severnaya Neft in 2003 and since then it has increased oil production over 2.4 times. The subsequent acquisition of licenses in the Timano-Pechora oil province combined with the expansion of the Arkhangelsk terminal's export capacity will provide substantial potential for future growth.

Rosneft plans to play a major role as a supplier to the energy markets in the Asia-Pacific region. The



Company has a 20% stake in the international Sakhalin-1 project, where fields are being developed under a Production Sharing Agreement (PSA). Commercial production of oil and gas began at the end of 2005, with output expected to increase considerably within the next several years. The Sakhalin-1 project will play a key role in diversifying Rosneft's export deliveries.

Eastern Siberia is crucial to the Company's medium-term development. Rosneft has recently started development of the extensive Vankor field in the Krasnoyarsk Territory, and in cooperation with TNK-BP is also participating in the development of the Verkhnechonsk field in the north of the Irkutsk Region.

According to DeGolyer and MacNaughton, proved reserves at the Vankor field amount to 165 million tonnes of oil according to the SPE classification. Production at the Vankor field is planned to begin in 2008, with the oil destined for export via the East Siberia – Pacific Ocean (ESPO) oil pipeline, which is currently under construction.

While the Sakhalin-1 project plays a key role in Rosneft's short-term development, other offshore projects to develop the continental shelf represent some of the most promising sources for stable growth in the Company's hydrocarbon production over the long term.

Exploration at Sakhalin-3, Sakhalin-4 and Sakhalin-5 is ongoing, but the substantial potential of these projects could turn Rosneft into the key player on the Far Eastern energy market.

All these projects are being implemented on the basis of joint financing agreements, thus minimizing the Company's risks and capital expenditures.

Rosneft considers its exploration project on the West Kamchatka shelf, which it is implementing in cooperation with the Korean National Oil Company (KNOC), to be an important and integral part of its long-term development strategy. The project is based on an agreement to jointly finance geological exploration. The region's potential resources may be comparable to the resources of the entire Sakhalin Shelf.

All of the above projects also have considerable gas resources and are designed to play a key role in Rosneft's strategy to monetize its gas reserves.

Resources of the Vankor group of blocks also have substantial long-term development potential for the Company.

Increasing the Company's value by enhancing operating efficiency

Rosneft aims to optimize important performance indicators, such as upstream costs per tonne of produced reserves, upstream capital expenses per tonne of production, return on average capital employed and return on equity.

The Company has introduced an advanced Total Production Management System, which is based on geological and simulation models of our key fields. In combination with Rosneft's superior knowledge of the geological conditions at developed fields, these models enable the Company to achieve the maximum potential from each well and efficiently allocate our resources for the purpose of drilling, hydraulic fracturing and artificial lift.

Rosneft's cooperation with leading service companies, such as Schlumberger, Halliburton and Baker Hughes, also facilitates the introduction of advanced drilling and well workover technology.

The attractiveness of Rosneft's investment projects, which involve major capital expenditures, is based on an analysis of net discounted value, internal rates of return, payback period, the volume of hydrocarbon reserves and a profitability index.

Rosneft's measures to enhance operating efficiency, together with favorable geological conditions and the crude oil and gas properties at its major fields, help the Company to hold operating and capital expenses per tonne of produced oil below the industry average.

Increase in volumes and depth of crude oil refining

Rosneft plans to increase the volume and depth of oil refining and the quality of refined products. The Company is refurbishing and upgrading the Komsoolsk and Tuapse oil refineries in order to produce oil products that meet global standards. These upgrades will increase Rosneft's profits and improve the balance between our production and refining operations.

We are also looking to acquire appropriate assets in Russia and abroad in order to further increase refining capacity. In addition, the Company has plans to expand and upgrade its network of service stations and facilities and thereby significantly increase its share of oil products on the retail market.



Commitment to the highest standards of corporate governance

Rosneft is committed to the highest standards of corporate governance.

The Company's corporate governance code includes provisions for:

- at least three independent directors on the Board of Directors;
- committees of the Board of Directors, of which at least two (the Audit Committee and the HR and Remuneration Committee) are headed by independent directors;

- prohibiting the use of insider information;
- introducing internal control procedures.

In 2006, Rosneft completed its consolidation of a number of key subsidiaries, which resulted in a simplification of the Company's corporate structure, making it easier to manage. In addition, the minority shareholders of affiliated subsidiary companies can now benefit from the success of a powerful and united company.

Rosneft's management is currently drafting a new development strategy to be submitted for review to the Board of Directors at the end of 2007.



Sucker-rod pumps at the Mishkinskoye field of Udmurtneft



Performance Review

Exploration

Rosneft conducts large-scale exploration operations in Russia's traditional oil producing areas of Western Siberia, the Northern Caucasus and Timano-Pechora, as well as in new strategic areas of Eastern Siberia, Russia's Far East and the shelf of the Caspian and Black Seas and the Sea of Azov.

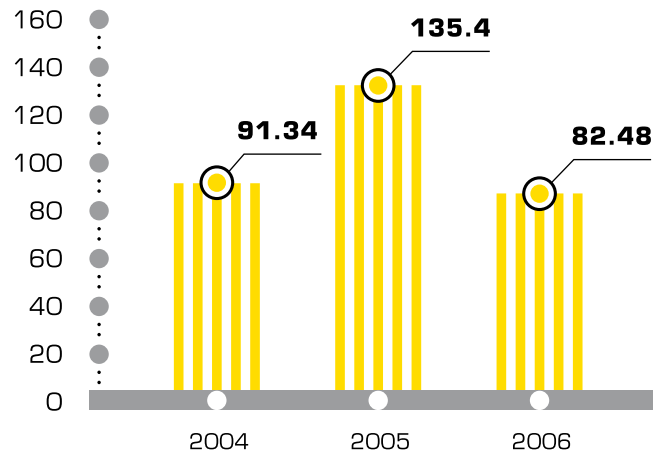
Rosneft's exploration replaces produced volumes with commercial reserves and prepares the resource base for faster production at the Company's major projects.

Every year, the Company carries out extensive exploratory drilling and seismic surveys and conducts exploration in joint projects with Russian and foreign partners.

In 2006, Rosneft spent 6.3 billion rubles on exploration, 54% more than the 4.1 billion rubles spent in 2005. The Company carried out 82,480 meters of exploratory drilling, 10,727 linear kilometers of 2D and 3,016 square kilometers of 3D seismic surveys.

Reduced seismic exploration was due to the completion of exploration projects at Sakhalin-1 and the Tupase Trough and the reallocation of capacity to the most promising regions of Eastern Siberia and the Far East. Seismic survey work is expected to increase in 2007.

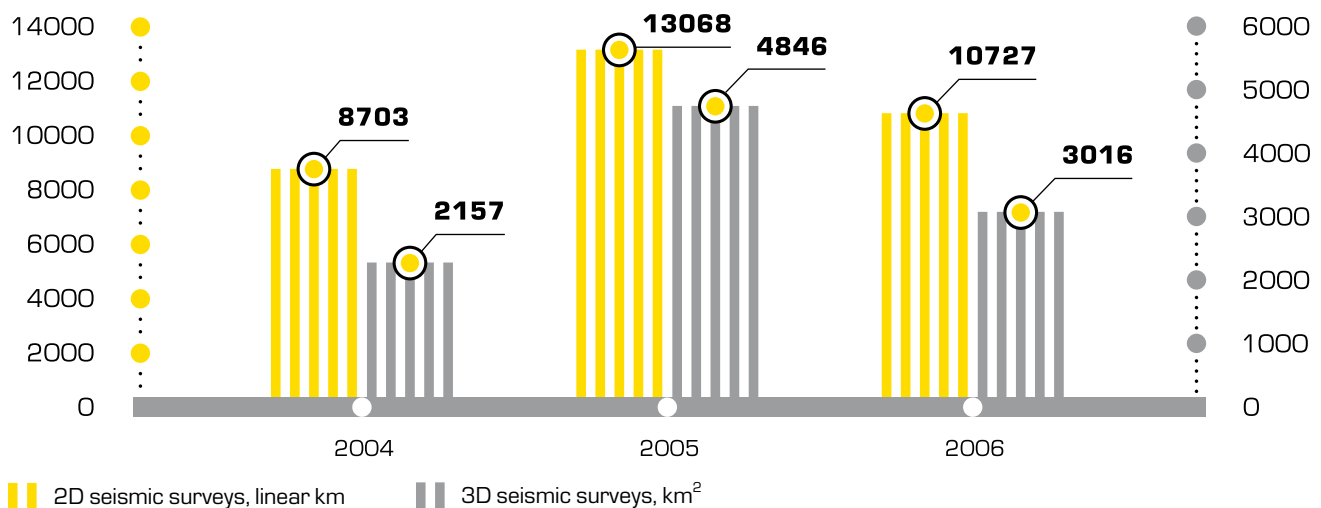
Exploration drilling (km)



In 2006, Rosneft maintained its leading positions in terms of increases in reserves per well and reserves replacement cost. Last year, the average increase in reserves per well was 1.4 million tonnes, while the reserves replacement cost did not exceed USD 16 per tonne of oil equivalent.

Industry-leading results were achieved by an optimal combination of sufficient volumes of 2D and 3D seismic surveys, professional processing, as well as the interpretation of seismic data and the proper location of exploration wells.

Seismic survey work



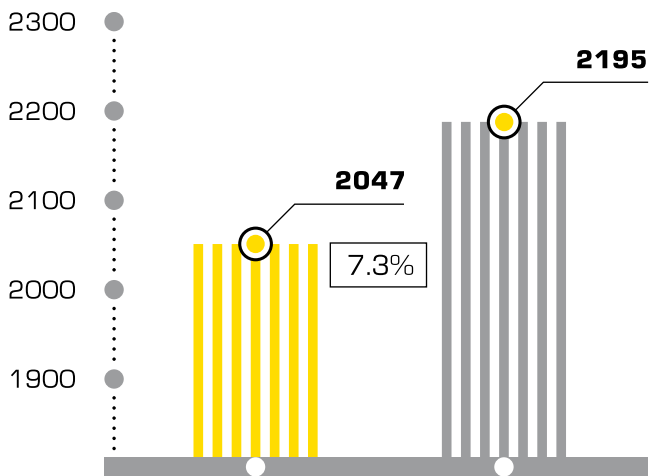


Rosneft's exploration results indicate that the Company is capable of maintaining a high reserves replacement ratio. Taking acquisitions into account, the proved hydrocarbon reserves replacement ratio was 273%, while the organic reserves replacement ratio was 224%. The hydrocarbon reserves-to-production ratio amounted to 27 years for oil and 51 years for gas.

and probable and possible oil reserves by 148.7 million tonnes. A major increase in proved reserves was achieved at the Vankor (29.5 million tonnes) and Yuganskneftegaz fields (59.2 million tonnes), as well by the purchase of an effective stake of 49.4% in Udmurtneft (45.9 million tonnes). Gas reserves increased by 10.6 billion cubic meters.

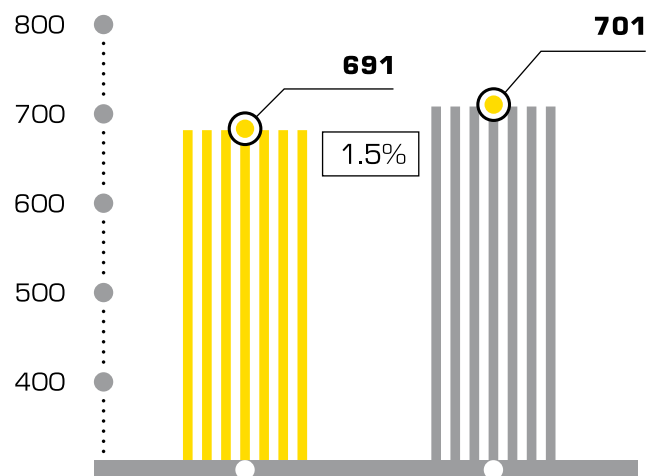
In 2006, proved reserves increased by 148.5 million tonnes according to SPE's international classification

Proved oil reserves (million tonnes)



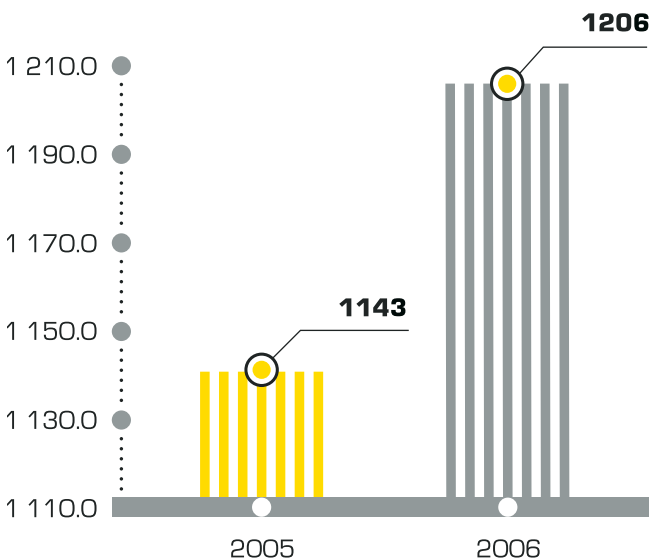
■ 2005 ■ 2006 □ Change, %

Proved gas reserves (billion cubic meters)

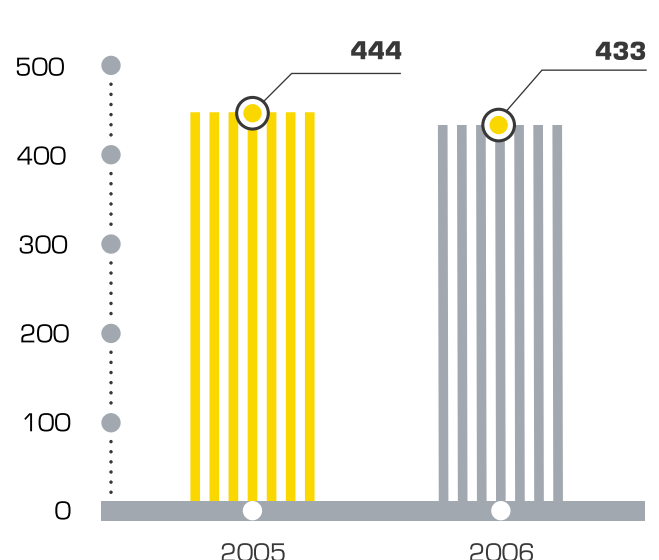


■ 2005 ■ 2006 □ Change, %

Probable oil reserves (million tonnes)

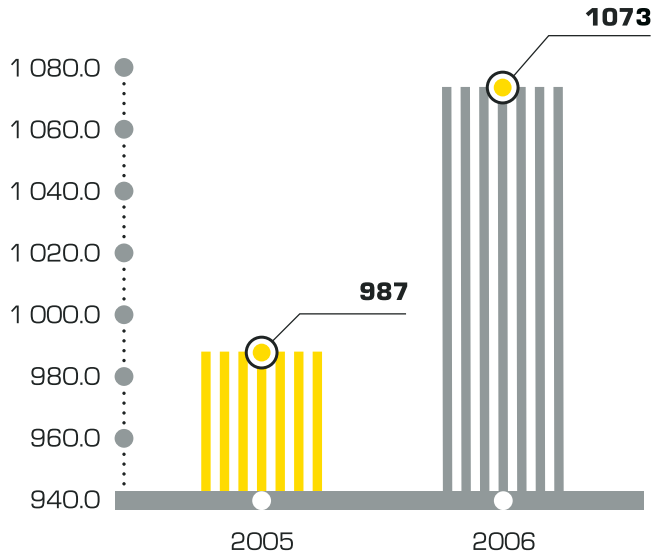


Probable gas reserves (billion cubic meters)

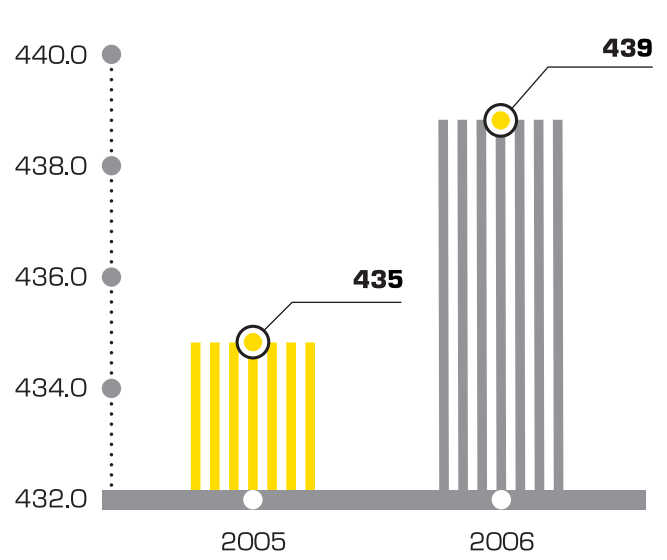




Possible oil reserves (million tonnes)



Possible gas reserves (billion cubic meters)



A drilling rig at a well cluster pad on the Priobskoye field at Yuganskneftegaz



Prospective projects

The Company expects its basic growth to come from the continued expansion of production at oilfields in Western Siberia, the further development of the Sakhalin-1 project, the commissioning of the highly promising Vankor field and the development of the Verkhnechonsk field.

Rosneft also believes further increases in commercial categories of reserves will come from exploration at several long-term projects on Sakhalin Island, the West Kamchatka shelf, in Southern Russia and Eastern Siberia.

Prospective resources may not be qualified as reserves due to the lack of commercial development or insufficient exploration. Assessing resources in promising areas takes into account the full range of geological, technological and commercial uncertainties, combined with the probabilities of geological and economic success.

Rosneft is the only company in Russia that performs an annual audit of prospective resources. DeGolyer and MacNaughton is the Company's auditor.

Vankor field and adjacent blocks

The Vankor field is in the northeast of the Western Siberian oil and gas province in the Krasnoyarsk Territory. The field is divided administratively by the border between the Turukhansk Region in the Krasnoyarsk Territory and the Dudinsk Region in the Taymyr District.

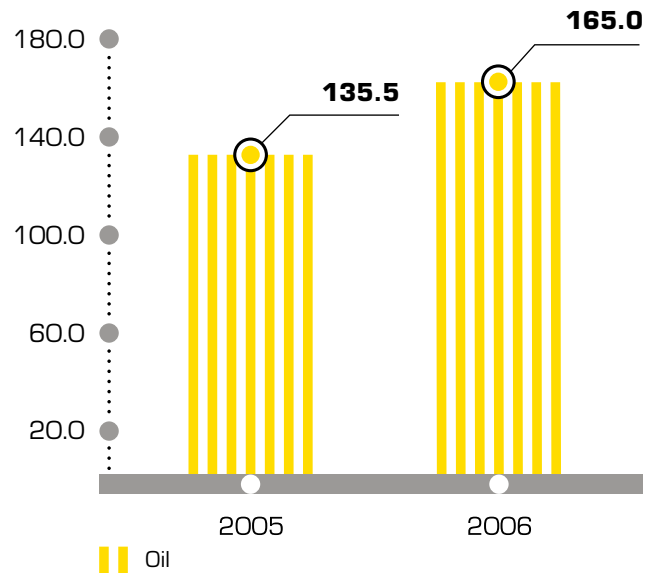
The main efforts in 2006 concentrated on constructing the facilities required to begin commercial operations at the field in 2008. Rosneft plans to develop the field primarily by drilling horizontal wells, 75% of which will be bored using the smart completion method.

Due to the absence of developed infrastructure and the severe weather conditions at the field, the project elements at the Vankor field have been designed as modules using experience gained from similar infrastructure developments in Western Siberia, Sakhalin and Alaska.

Contractors are making rapid progress in building the 543-kilometer Vankor-Purpe pipeline, which will ship oil produced at the Vankor group of fields to the East Siberia - Pacific Ocean pipeline.

In developing the Vankor field, Rosneft is strictly adhering to rigorous standards of industrial safety and environmental protection in order to meet international standards and avoid adverse ecological effects.

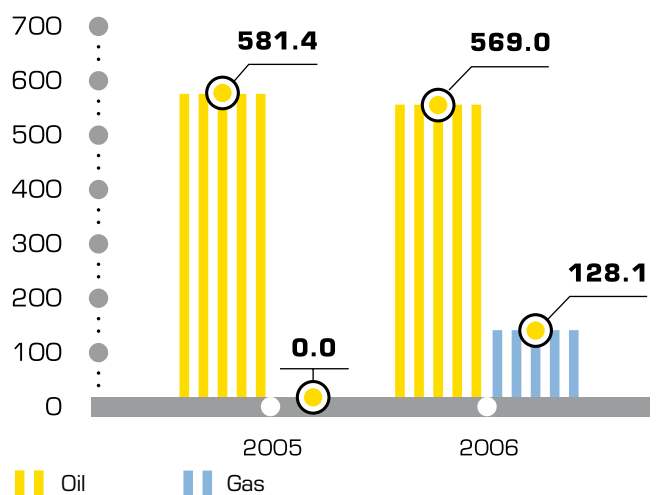
Proved reserves at the Vankor field (million tonnes)



As a result of exploration in 2006, the Company increased the proved reserves of the Vankor field by 29.5 million tonnes and probable and possible reserves by 95.8 million tonnes according to an assessment based on the SPE classification carried out DeGolyer and MacNaughton.

The Vankor group of fields includes 14 licensed blocks located close to the Vankor field. They are Soviet-

Prospective resources of Rosneft's group of blocks surrounding the Vankor field (million tonnes, billion cubic meters)





sky, Lebyazhiy, Western Lodochny, Eastern Lodochny, Nizhnebaikhsy, Polyarny, Samoedsky, Baikalovsky, Peshchany, Protochny, Vadinsky, Tukolandsky, Pendomayakhsky and Northern Charsky.

In addition to the proved, probable and possible reserves of the Vankor field itself, the total resource potential of the adjoining areas is assessed by DeGolyer and MacNaughton at 569 million tonnes.

In 2006, 2D seismic surveys of 2,600 linear kilometers and geochemical surveys were carried out in the Vankor blocks. In 2007, the Company plans to drill three exploratory wells. Rosneft expects to increase the resource base of the Vankor project by discovering commercial reserves in these blocks, which will enhance the efficiency of the entire transport and field infrastructure of the project.

Verkhnechonskneftegaz

OJSC Verkhnechonskneftegaz is carrying out exploration and development of the Verkhnechonsk field, one of the largest fields in Eastern Siberia.

Participating interests in the company are as follows:

- 25.94% - Rosneft;
- 62.71% - TNK-BP;
- 11.29% - East-Siberian Gas Company;
- 0.06% - minority shareholders.

The Verkhnechonsk oil and gas condensate field is in the Katanga district of the Irkutsk Region, approximately 420 kilometers northwest of Ust-Kut.

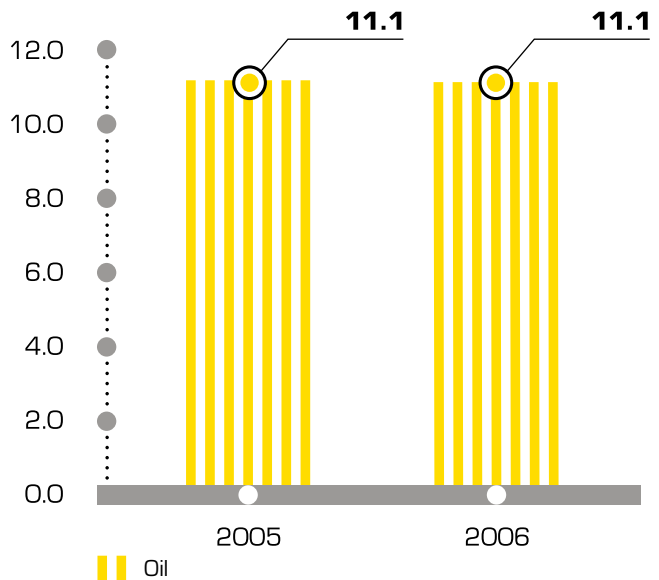
The Verkhnechonsk project is one of the priority areas for the Company in Eastern Siberia. Crude oil from the Verkhnechonsk project may be delivered into the East Siberian - Pacific Ocean pipeline system and thus meet the rapidly growing demand for energy in Asian markets. An alternative route provides for delivering crude feedstock to Russian oil refineries in Eastern Siberia.

Sakhalin-1

Participating interests in the project are as follows:

- 20% - Rosneft;
- 30% - Exxon Neftegas Limited;
- 30% - Sodeco;
- 20% - ONGC Videsh Limited.

Proved reserves at the Verkhnechonsk field (Rosneft's share, million tonnes)



Sakhalin-1 is the first large-scale shelf project implemented in the Russian Federation on the basis of a Production Sharing Agreement, which was signed in 1996.

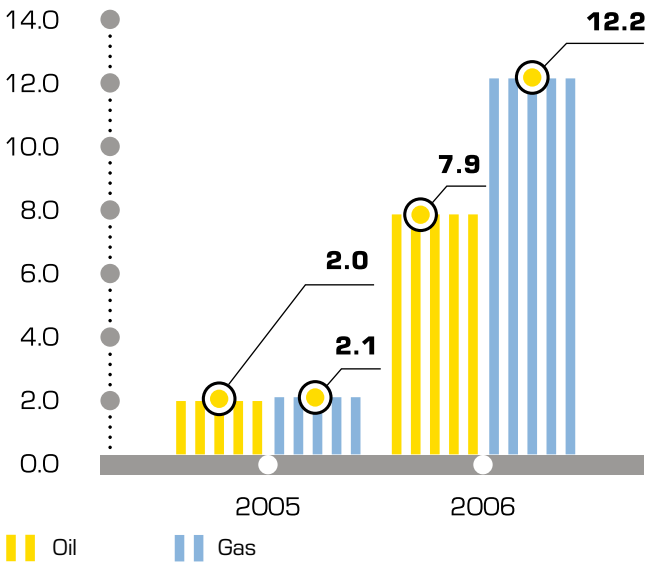
The project provides for the development of three fields - Chayvo, Odoptu and Arkutun-Dagi - which are on the northeastern shelf of Sakhalin Island in the Sea of Okhotsk. Between 1996 and 2001, exploration was carried out and the structure of the fields and their reserves volumes were quantified. Based on DeGolyer and MacNaughton's assessment, proved oil reserves at the Sakhalin-1 fields, including Rosneft's stake, amount to 7.9 million tonnes, probable reserves to 25 million tonnes, and possible reserves to 20 million tonnes.

Installation of the necessary infrastructure and development of the fields began in 2002. The fields will be developed in several stages. The first stage includes full-scale oil production at Chayvo and Odoptu, as well as limited gas production for the domestic market and the project's own requirements. The second stage envisions full-scale oil production at the Chayvo field, while the third stage includes the development of oil and gas on Arkutun-Dagi. In the fourth stage, the remaining reserves will be developed. The life cycle of the project will last through 2050-2060.

In 2006, the Company commissioned the Chayvo-De-Kastri pipeline, onshore oil treatment facilities and an



**Proved reserves at the Sakhalin-1 project
(Rosneft's share, mln. tonnes, bln. cubic meters)**



export oil terminal at the De-Kastri port, which enabled the beginning of export deliveries to Japan and South Korea. In 2006, production amounted to 2.6 million tonnes of oil and 623 million cubic meters of gas. Rosneft's share amounted to 500,000 tonnes of oil and 125 million cubic meters of gas.

In the first quarter of 2007, crude production at the Sakhalin-1 project reached design capacity. Output during the first three months was 2.7 million tonnes of oil and the demand for gas in the Khabarovsk Territory was met in full. Deliveries to regional consumers amounted to approximately 4.2 million cubic meters of gas every day.

Sakhalin-3

The Veninsky block of the Sakhalin-3 project is on the shelf of Sakhalin Island in the Sea of Okhotsk, where the depth varies from 25 meters to 150 meters. The Veninsky licensed block covers approximately 5,300 square kilometers.

Exploration has been underway in this area since the end of the 1960s, with seismic work going on since the mid-1990s. Rosneft obtained an exploration license to the Veninsky block in April 2003.

The project's current plan provides for drilling onshore exploration wells of 5,000 meters to 8,500 me-

ters using advanced technology similar to that used on the Sakhalin-1 project. If exploration proves successful, all the wells at the Veninsky block will be drilled using horizontal and controlled directional drilling from the coast and offshore platforms.

In 2006, the first exploratory well in the South-Ayashskaya area of the Veninsky block was drilled, tested and closed down. Prospective oil and gas-bearing formations were identified and tests confirmed the presence of hydrocarbons. Drilling was performed from the floating semi-submersible Kantan-3 drilling rig owned by the Shanghai Offshore Drilling Company. In the near future, the Company plans to drill a second exploratory well at the North-Veninskaya structure and a third exploratory well at one of the structures of the Ayashskaya group.

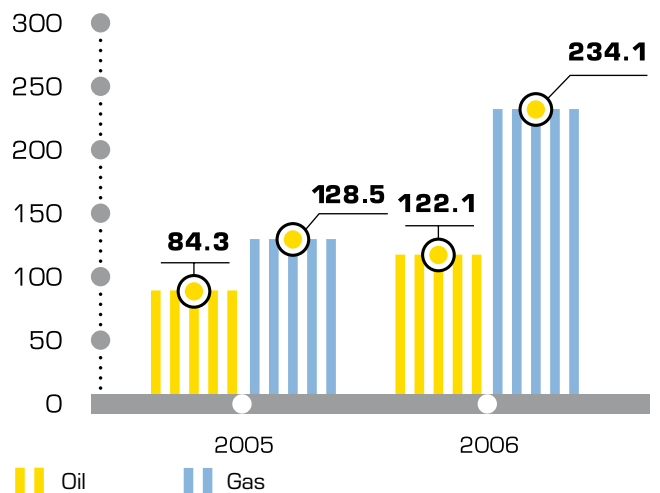
Sinopec is a partner in this project and has a stake of 25.1%.

Sakhalin-4

The West-Schmidtovsky block is in the north of the Sakhalin shelf, northwest of the Schmidt Peninsula. The area covers 11,840 square kilometers. The sea varies from a depth of 40 meters to 200 meters.

The prospects of the West-Schmidtovsky block result from of a favorable combination of factors that have contributed to the formation and accumulation of hydrocarbons. Over 10 promising structures have been discovered within the block.

**Prospective resources at the Sakhalin-3 project
(mln. tonnes, bln. cubic meters)**





The Company has performed seismic surveys on a major part of the block in previous years, as well as environmental and engineering research. In 2007, the Company plans to drill exploratory wells on two structures.

Exploration at the Sakhalin-4 project is part of a single joint program with the Sakhalin-5 project (the Kaygansko-Vasyukansky and East-Schmidtovsky blocks). In the event of successful geological exploration, these blocks will be developed as a single project with common transport and oilfield infrastructure.

BP is a partner in this project and holds a stake of 49.0%.

Sakhalin-5

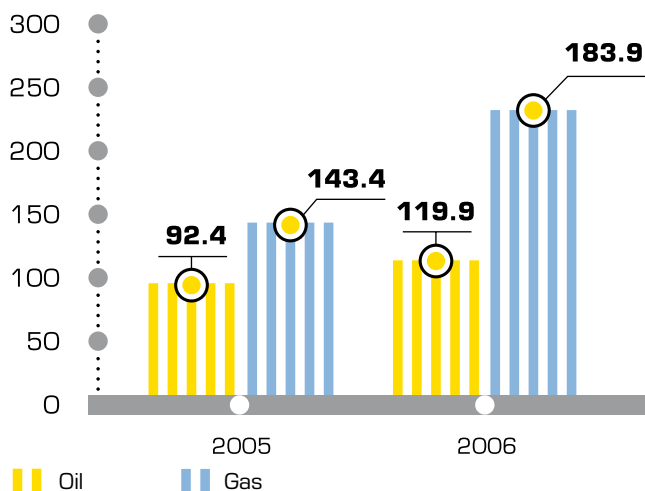
The Sakhalin-5 project includes two licensed blocks: East-Schmidtovsky and Kaygansko-Vasyukansky.

The East-Schmidtovsky block of 9,400 square kilometers is located on the Sakhalin shelf to the north of the Schmidt Peninsula.

The prospects of the East-Schmidtovsky block are based on a favorable combination of factors which led to the formation and accumulation of hydrocarbons and the formation of oil and gas reserves.

Between 2004 and 2006, the Company conducted major 2D and 3D seismic surveys and a range of engineering and environmental studies.

Prospective resources at the Sakhalin-4 project (mln. tonnes, bln. cubic meters)



The Kaygansko-Vasyukansky licensed block of 7,183 square kilometers is located in the northeastern part of the Sakhalin shelf. Within this area, the Company has discovered over 14 structures. In 2004, the Company drilled the first exploratory well, which tapped into the Pela Leich deposit. In 2005, the Company drilled the Udachnaya exploratory well, which also tapped a pay zone. The data obtained confirmed that exploration was going well and that the prospects for Kaygansko-Vasyukansky block were promising.

In 2006, the Company completed drilling an exploratory well at the structures of South Vasyukanskaya and Savitskaya. A program is being implemented to further delineate discoveries.

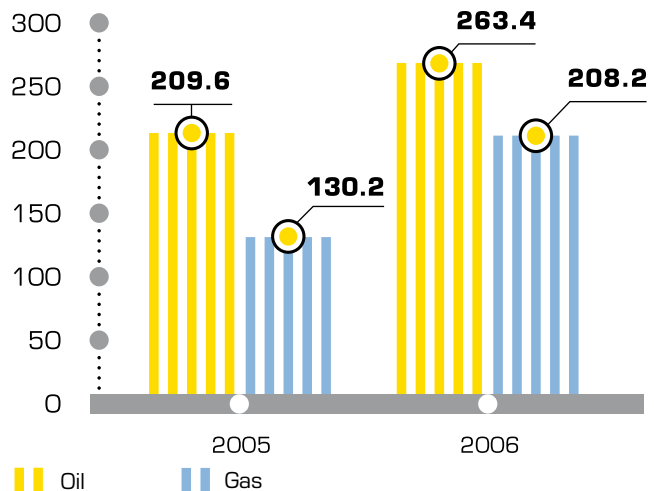
In March 2007, Rosneft obtained a certificate confirming that a discovery had been made at the Kaygansko-Vasyukansky field. The Company is continuing a geological survey of the area and is designing a strategy for the joint development of the Sakhalin-4 and Sakhalin-5 projects.

This project is being implemented in cooperation with BP, which holds a stake 49%.

West Kamchatka block

The licensed area of the West Kamchatka shelf is located in the Sea of Okhotsk near the western coast of the Kamchatka Peninsula. The total area is 62,680 square kilometers, where the depth of the sea varies from 40 meters to 150 meters in the southwestern

Prospective resources at the East-Schmidtovsky block of the Sakhalin-5 project (mln. tonnes, bln. cubic meters)





Offshore drilling platform in the port of Korsakov, Sakhalin-5 project.



part of the shelf and from 300 meters to 400 meters in the northwestern part. The 2D seismic data from 13,900 linear kilometers obtained between the end of the 1980s and the end of the 1990s confirm the presence of more than 40 local structures. Deep search and exploration drilling, as well as stratigraphic drilling, was performed in the adjacent blocks of West Kamchatka.

Exploration has now confirmed the existence of 30 potential anticline structures.

The Korean National Oil Company (KNOC) is a partner in this project and holds a 40.0% stake.

Tuapse trough

The Tuapse trough is located in the Russian part of the Black Sea shelf along the shore of Krasnodar Territory. It covers about 11,220 square kilometers, but the depth of the sea ranges from 50 to 2,200 meters, which is considered to be ultra-deep for offshore fields.

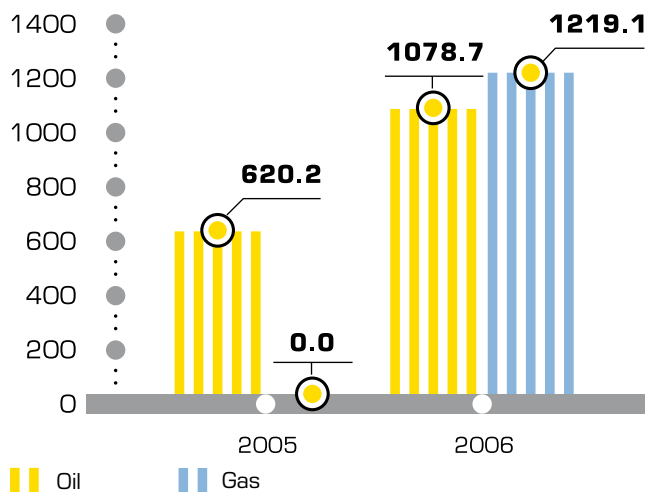
In August 2003, Rosneft obtained an exploration license to the Tuapse trough. The Company has since performed 21,000 linear kilometers of 2D seismic survey work.

In addition, Rosneft has carried out geological exploration on prospective blocks in close proximity to its existing operations, at licensed blocks in Eastern Siberia, as well as at the Aday block and the Kurmangazy structure in Kazakhstan.

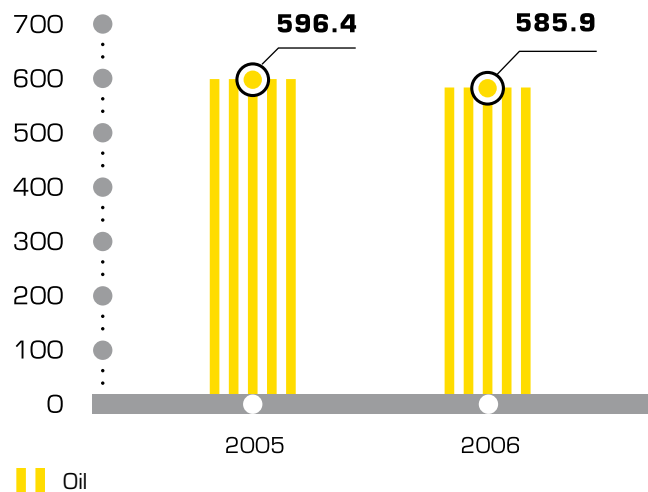
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Prospective resources at the West Kamchatka licensed block (mln. tonnes, bln. cubic meters)

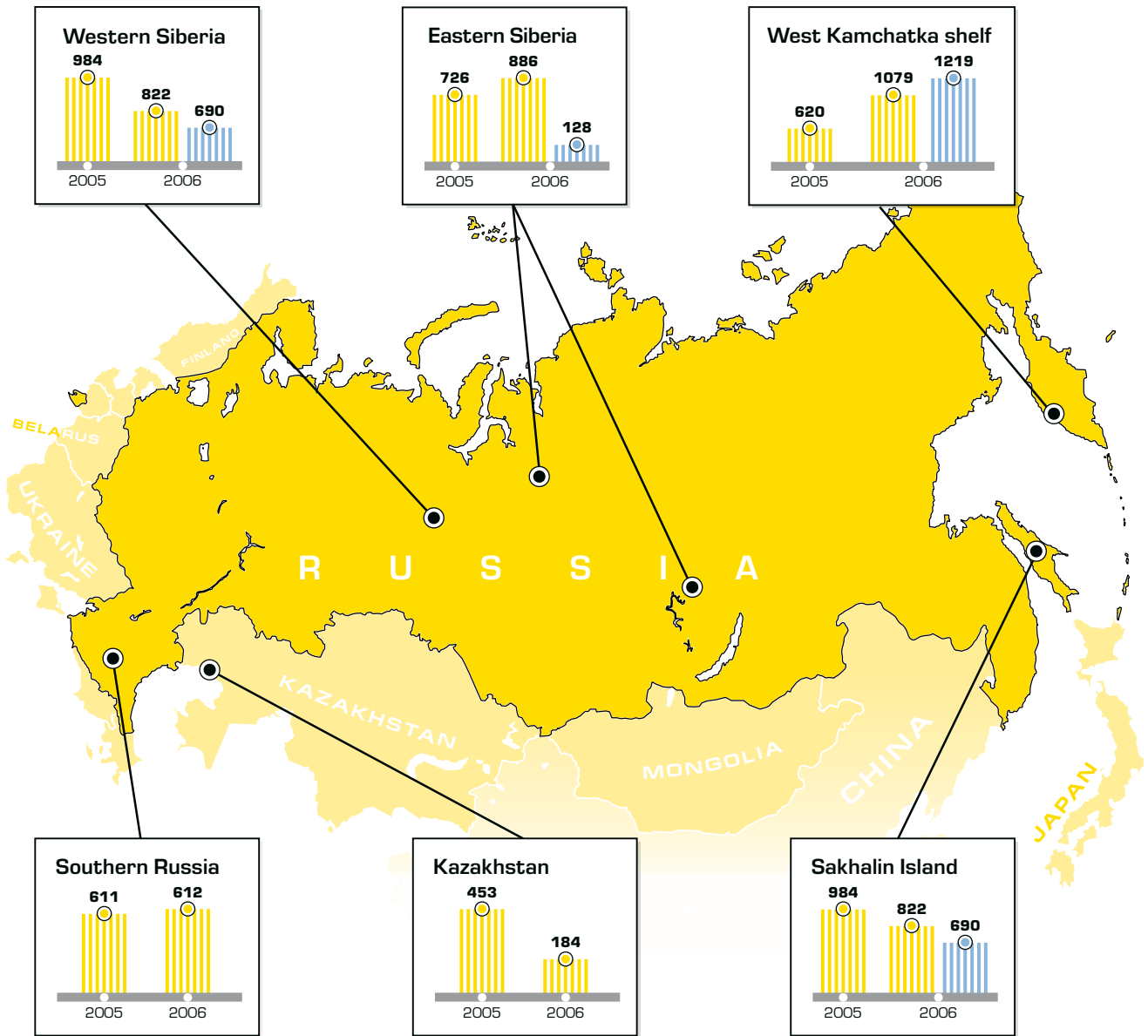


Prospective resources at the Tuapse trough (million tonnes)





Distribution of hydrocarbon resources by region of operation for Rosneft



Legend

- █ Oil
- █ Gas

Source: Best estimate of prospective resources excluding geological risks according DeGolyer and MacNaughton, as of December 31, 2006



Licensing

As of December 31, 2006, Rosneft held 345 exploration and development licenses.

The majority of the Company's production and development licenses are valid until 2013-2030. In accordance with Russia's Law on Subsurface Resources, the licenses may be extended at the initiative of the subsurface user provided there have been no violations of the license terms.

Rosneft strictly complies with its license obligations, and as of the end of 2006, the Company had no disagreements with the regulatory authorities.

Rosneft is constantly expanding its portfolio of geological exploration assets by acquiring licenses in strategically important regions where the Company operates.

In 2006, the Company acquired exploration and production licenses to the Tukolandsky, Vadinsky and Pendomayakhsky oil and gas blocks in the Krasnoyarsk Territory, as well as in the North Charskaya area on the border of Taymyr and the Yamalo-Nenets Autonomous Districts. These blocks are located in close proximity to the Vankor field.

The total resources of these blocks, including the resource potential of the Northern Vankor field, are

estimated at 61 million tonnes by DeGolyer and MacNaughton. The license will expire in 2031.

In Eastern Siberia, where the Verkhnechonsk field is being developed, the Company acquired an exploration and production license in 2006 to the East-Sugdinsky, Mogdinsky, Sanarsky and Danilovsky blocks in the Irkutsk Region, as well as to the Kulindinsky block in Evenkia.

The total resources of these blocks are assessed at 317 million tonnes according to DeGolyer and MacNaughton. The license will expire in 2031.

The Company has also reinforced its position in the Timano-Pechora region by acquiring an exploration and production license to the Osoveysky block in the Nenets Autonomous District, which is in close proximity to the Val Gamburtseva group of fields already under development.

As of January 1, 2006, the reserves of the Osoveyskoye field were estimated at 4.6 million tonnes in the C1 category and 4.3 million tonnes in the C2 category according to the Russian classification system. DeGolyer and MacNaughton performed no audit for this field in 2006. The license will expire in 2026.



Priobskoye field, Yuganskneftegaz



Production

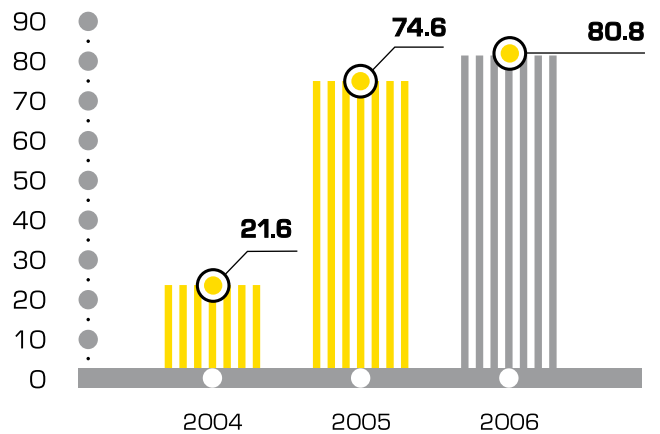
In 2006, Rosneft produced 80.8 million tonnes of oil and 13.7 billion cubic meters of natural and associated gas, exceeding the results for 2005 by 8.3% and 4.6%, respectively. In 2006, oil production, excluding the acquisition of a stake in Udmurtneft, increased by 8%.

In 2006, Rosneft actively began developing existing proved hydrocarbon reserves by commissioning new wells and expanding the current well stock, as well as by applying enhanced oil recovery techniques.

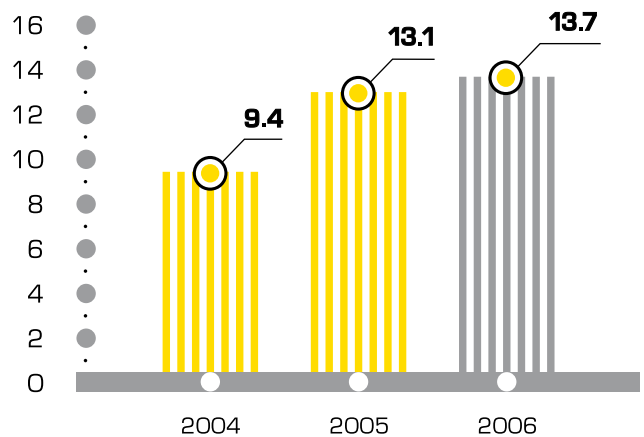


Sucker-rod pump at one of Udmurtneft's fields

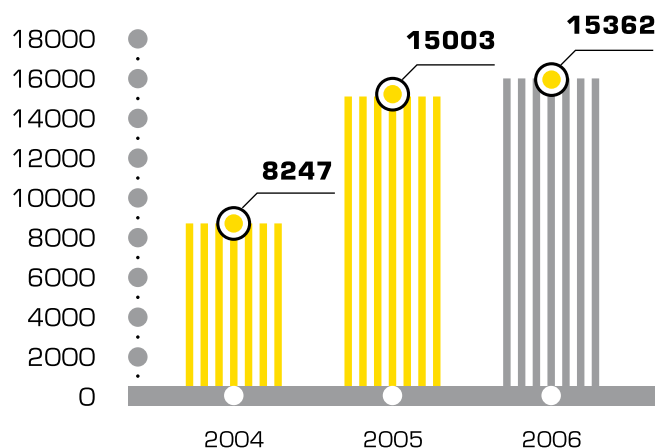
Production of oil and gas condensate (mln. tonnes)



Production of natural gas (bln. cubic meters)



Number of operating production wells

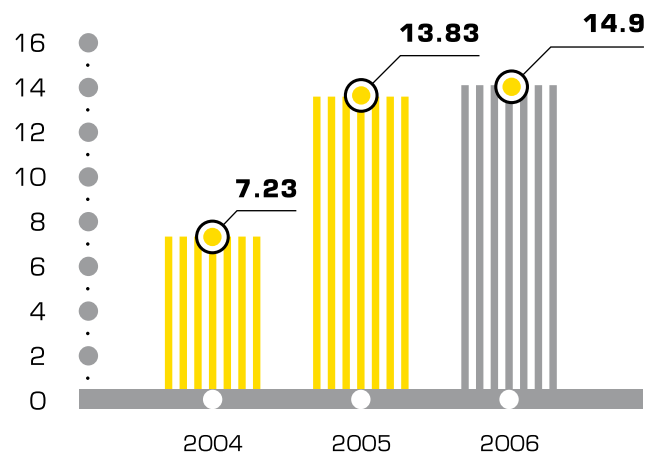




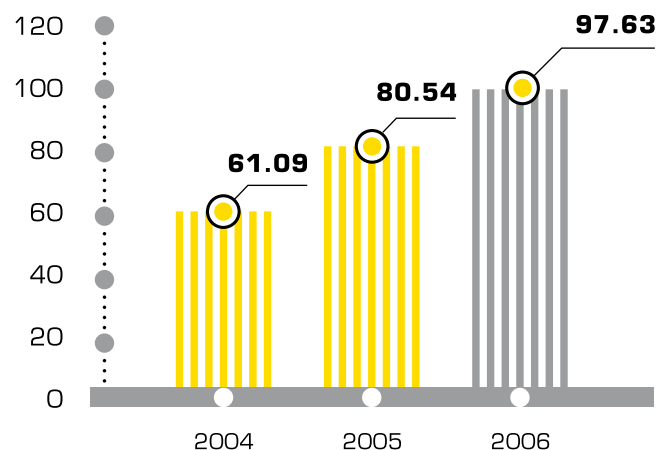
The average oil and gas condensate flow rate was 14.9 tonnes per day and increased by 7.7% compared to 2005, while the average flow rate of the new wells was 97.6 tonnes per day, an increase of 21%.

Flow rates at new wells have increased more than the Company previously envisioned, which demonstrates the significant potential of Rosneft's fields. Improved flow rates will not only contribute to production growth, but also reduce operating costs per unit of production.

Average flow of production wells (tonnes per day)



Average flow of new production wells (tonnes per day)

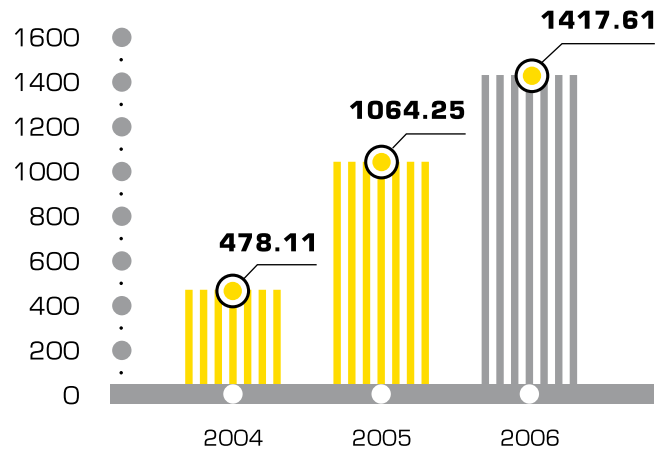


In 2006, the drilling of production wells increased by one-third in comparison with 2005 and amounted to 1,417 thousand meters. As a result, 420 new wells were drilled in 2006, an increase of 25% over 2005.

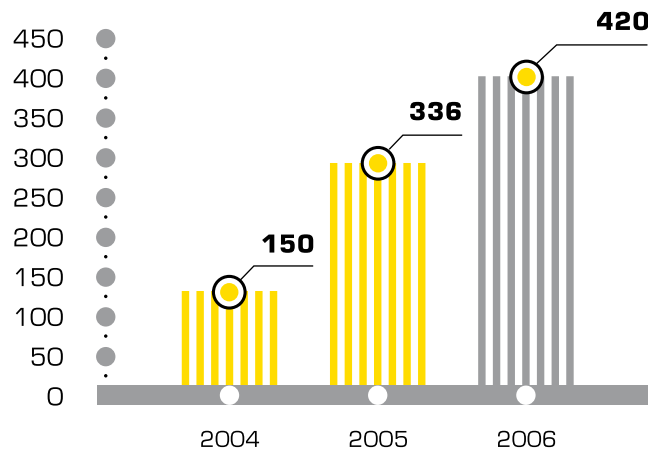
Last year, Rosneft continued to improve the planning, construction and completion of wells, which enabled the Company to exploit the maximum potential of the oil-bearing strata.



Volume of production drilling (ths. meters)

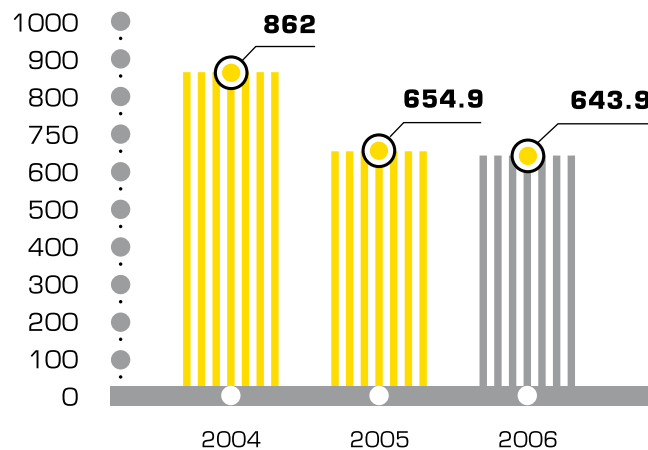


Number of newly operating wells



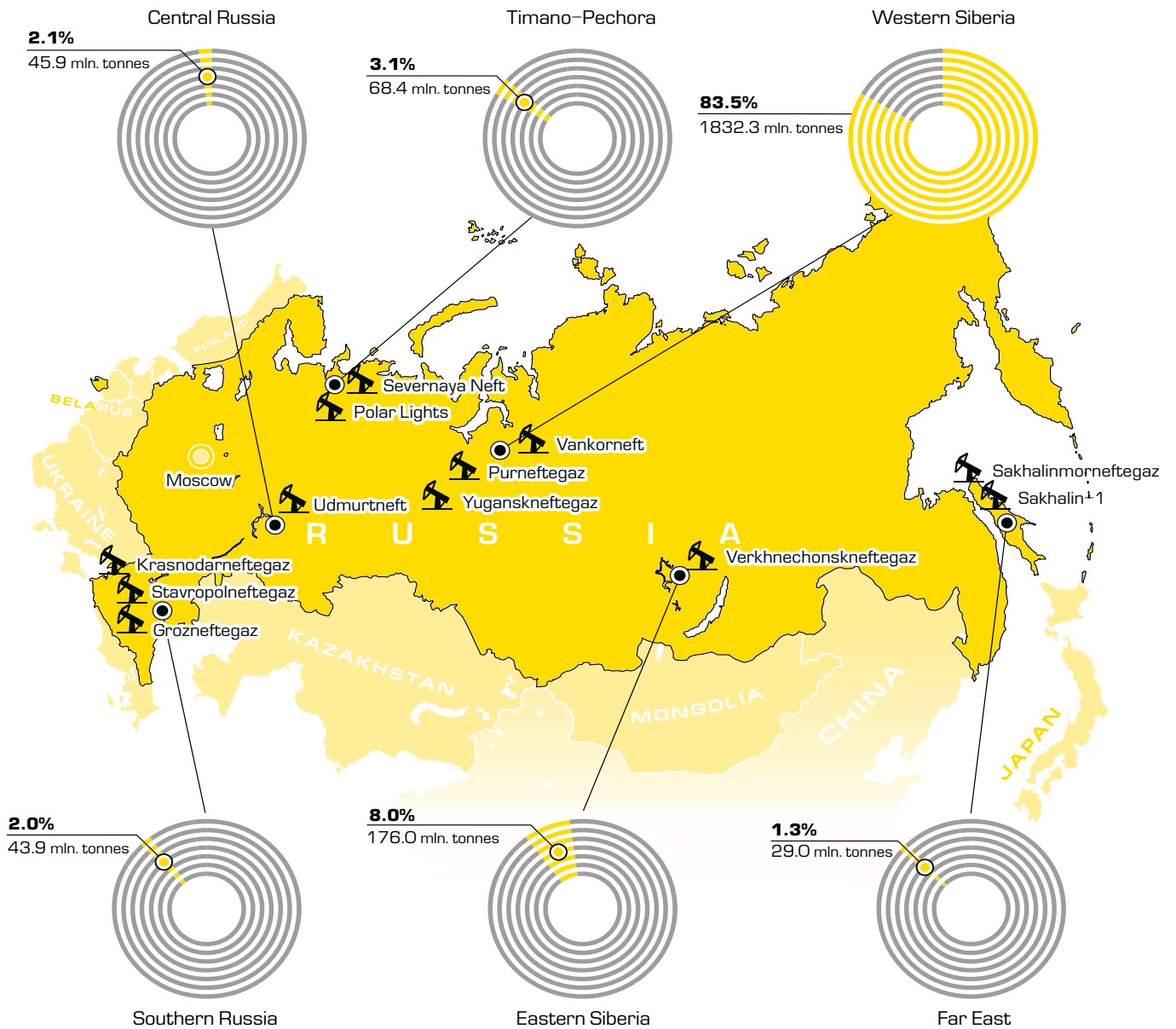
According to the Company's management reports, the average operating expenses per tonne of oil produced was 643.9 rubles, which did not exceed the figure for 2005 despite continued inflationary pressures.

Expenditures per tonne of oil produced (rubles per tonne)





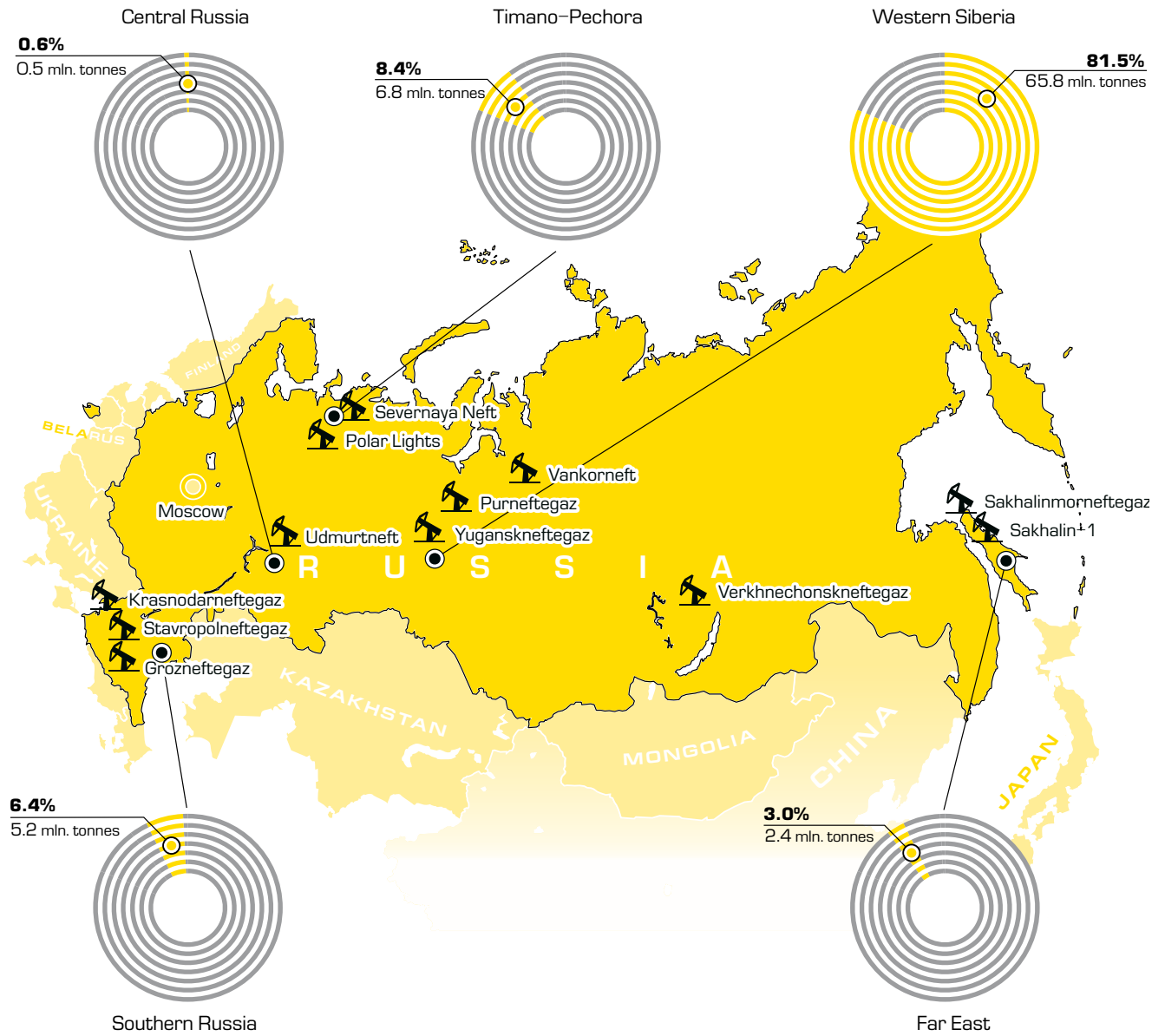
Geographic distribution of Rosneft's oil reserves



Legend

- Capital
- International border
- Production and development

Regions of oil production at Rosneft



Legend

- Capital
- International border
- Production and development
- Regional share in Rosneft's total production
- Rosneft's total production



Western Siberia

The Khanty-Mansiysk Autonomous District (KhMAD)

As of December 31, 2006, Rosneft had production licenses to 25 oil and gas fields in the Khanty-Mansiysk Autonomous District (KhMAD).

The KhMAD is Rosneft's primary resource base. Our fields in the KhMAD include over 16% of the commercial oil reserves of the largest oil and gas province in Western Siberia. The Company's reserves in the KhMAD are unique due to their very high concentration ratio, with up to 80% of reserves concentrated in the large Priobskoye, Mamontovskoye, Malobalykskoye and Prirazlomnoye fields.

In 2006, the Company drilled 1.2 million meters of production wells in the KhMAD, an increase of 47%. As a result, the Company commissioned 364 new production wells.

The average flow rate of the new wells in the KhMAD was 96.9 tonnes per day, which exceeded the industry average figure by 2.3 times.

The average flow rate of Rosneft's producing wells in the KhMAD is 21.3 tonnes per day, which exceeds the average figures for the industry more than twofold.

In 2006, Rosneft produced of 56 million tonnes of oil and 1.5 billion cubic meters of associated gas from fields in the KhMAD, up by 9.3% and 5.4%, respectively, compared to 2005.

The Yamalo-Nenets Autonomous District (YaNAD)

The Company's reserves in the Yamalo-Nenets Autonomous District are its second largest and have a high degree of concentration, with 71% of crude oil and gas condensate reserves concentrated in four fields: Komsomolskoye, North Komsomolskoye, Tarasovskoye and Barsukovskoye.

In 2006, the Company continued to optimize the location and completion of new wells and increase associated gas utilization. These measures were aimed at enhancing the exploitation of reserves in the YaNAD. As a result, the Company considerably increased the flow rates of new wells to 113 tonnes of oil per day, which is 3.9 times more than the level of 2005.

In 2006, Rosneft produced 9.8 million tonnes of crude oil and gas condensate and 7 billion cubic me-

ters of natural and associated gas in the YaNAD. In 2006, gas production increased following the completion of construction and the commissioning of gas processing facilities at the Tarasovskoye field.

Timano-Pechora

The Company produces oil in the Komi Republic and the Nenets Autonomous District (NAD), both of which are in the Timano-Pechora oil and gas province.

The Company's reserves in the Timano-Pechora are highly productive and concentrated, with 86% of the Company's proved reserves located at fields belonging to the Val Gamburtseva group (Khasireyskoye, Charpayu, and Nadeyu) and the Baganskaya group.

In 2006, the average flow rate of a producing well was 78.5 tonnes of oil per day and the average flow rate of new wells 136.9 tonnes of oil per day.

In 2006, the Company continued its dynamic production development in the region and increased oil output to 5.6 million tonnes, 15% more than in 2005.

In 2006, Rosneft won a tender to the Osoveysky licensed block, which is located in close proximity to the Val Gamburtseva group of fields and should therefore result in the expansion of the Company's proved reserves in the region in the near future. As a result, Rosneft should be able to maintain production volumes at a stable level using existing infrastructure.

Sakhalin Island

Rosneft's developments on Sakhalin Island benefit greatly from their proximity to the markets of the Asia-Pacific region and the use of the Komsomolsk Refinery's existing capacity in Russia's Far East.

In 2006, the Company produced 1.9 million tonnes of oil and 1.1 billion cubic meters of natural and associated gas, excluding its share in the Sakhalin-1 project.

Northern Caucasus

Russia's oldest oil-producing region includes Chechnya and the Krasnodar and Stavropol Territories. As of December 31, 2006, the Company held development and production licenses to 155 oil and gas fields.

The region's reserves enjoy a unique combination quality crude oil and proximity to primary export routes.



In 2006, the region produced 5.18 million tonnes of crude oil and gas condensate and 3.7 billion cubic meters of gas, exceeding the figures for 2005 by 3.4% and 7%, respectively.

Polar Lights

In the northern part of the Timano-Pechora oil and gas province, Polar Lights Company LLC, a joint venture between Rosneft and ConocoPhillips, is developing four oilfields of the Ardalinskaya group (Ardalinskoye, East Kolvinskoye, Oshkotynskoye and West Oshkotynskoye).

In 2006, the Company produced 1.2 million tonnes of oil. The wells at Polar Lights are highly efficient with an average daily flow rate in 2006 of 162 tonnes.

Rosneft has a 50% stake in the joint venture.

Udmurtneft

OJSC Udmurtneft is the largest oil-producing company in the Udmurt Republic. In August 2006, the Chinese Petrochemical Corporation of Sinopec bought 96.86% of Udmurtneft's shares from TNK-BP. On December 11, 2006, Rosneft exercised an option to purchase 51% of the stake from Sinopec.

Udmurtneft holds 57 subsurface licenses to blocks located in the Udmurt Republic. During the twenty days of December 2006 following Rosneft's purchase of Udmurtneft, the joint venture produced 500,000 tonnes of crude oil.

Udmurtneft makes full use of most recent advances in technology, including enhanced oil recovery methods and horizontal drilling.



Orlan offshore platform, Sakhalin-1



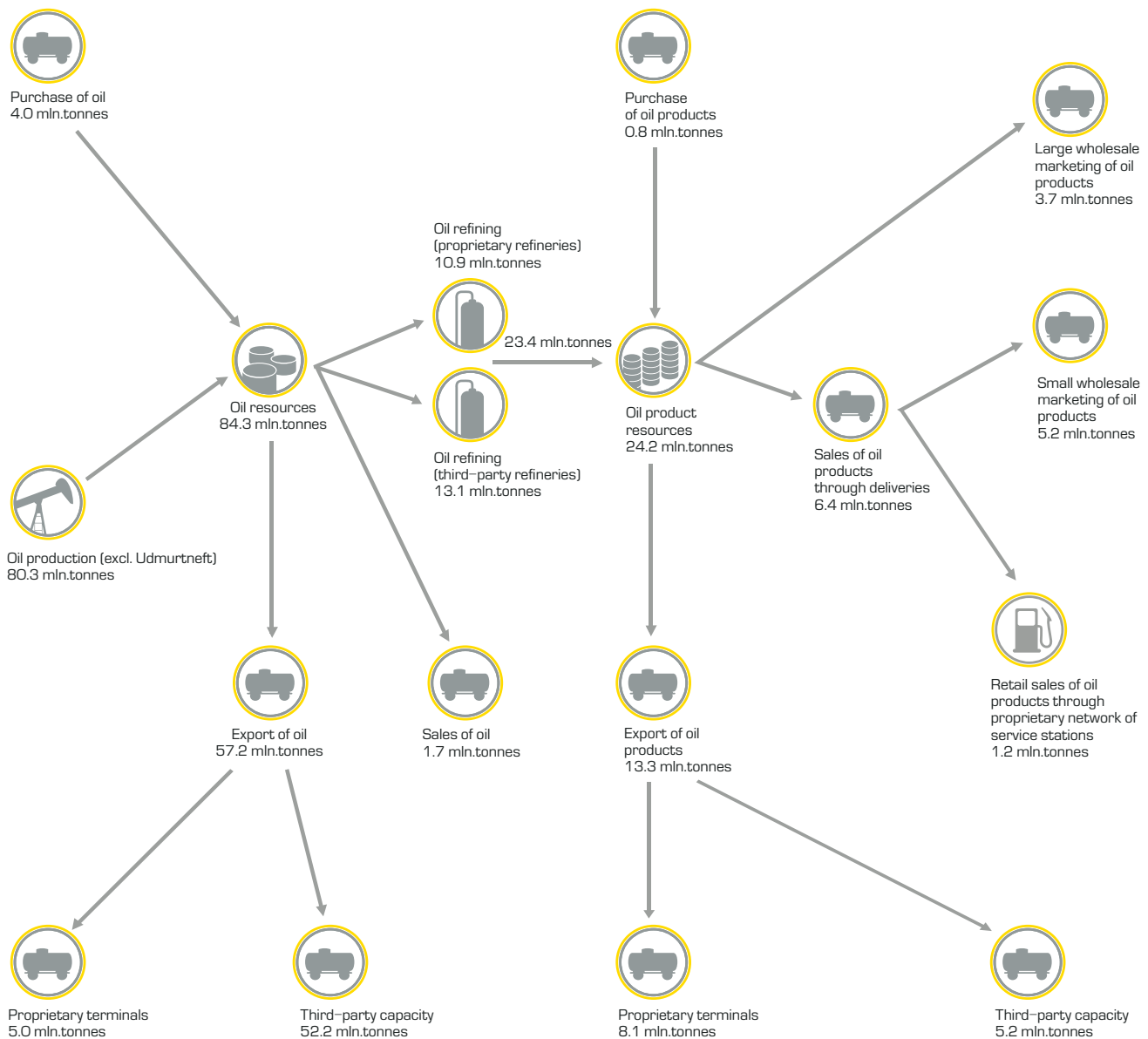
Refining and marketing

Rosneft exports produced oil and oil purchased from third-party producers, and also sends crude to proprietary and third-party refineries for subsequent refining and sale to customers on the domestic market. Exports of oil and deliveries to refineries accounted for 97.9% of the total volume of crude oil sold.

Rosneft aims to maximize the profitability of crude oil deliveries to refineries or for export and therefore re-

sponds quickly to price fluctuations. The Company uses its proprietary facilities to sell crude oil and oil products via its own ports, terminals and service stations.

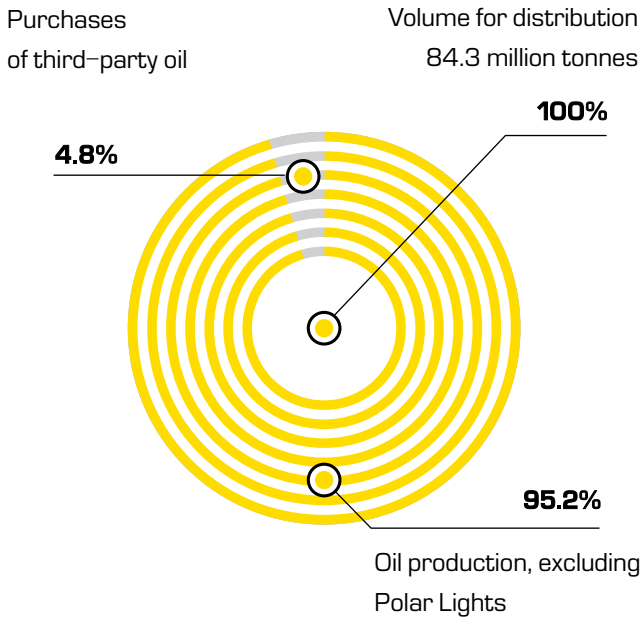
The convenient geographic location of the Company's refineries, retail networks and facilities for oil and oil products transshipment allow Rosneft to optimize flows in a timely manner and redirect the oil and oil products it sells to enhance profitability.



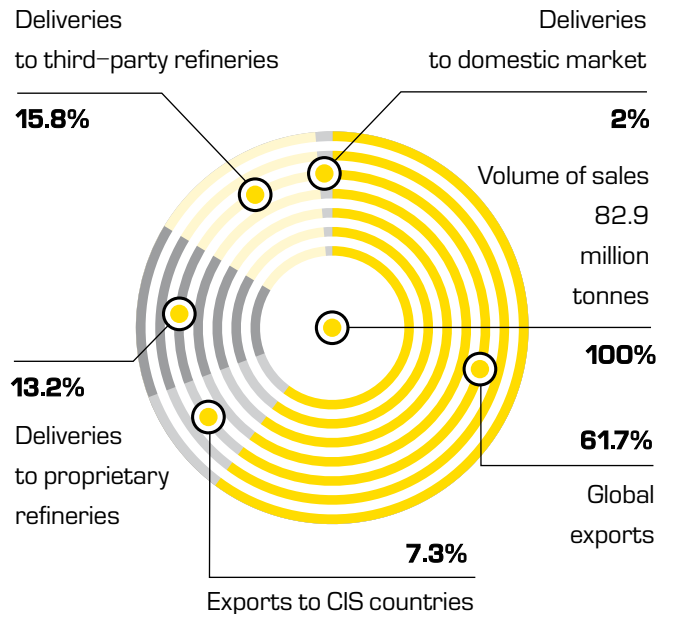
Discrepancies between the figures for the initial resources and the amount of sales by destination are due to process losses within the approved limits, transport losses during crude oil pumping through the Transneft system, the use of resources for utility purposes and variations in the balances from previous periods. Oil resources available for distribution taking into account the above factors were 82.9 million tonnes.



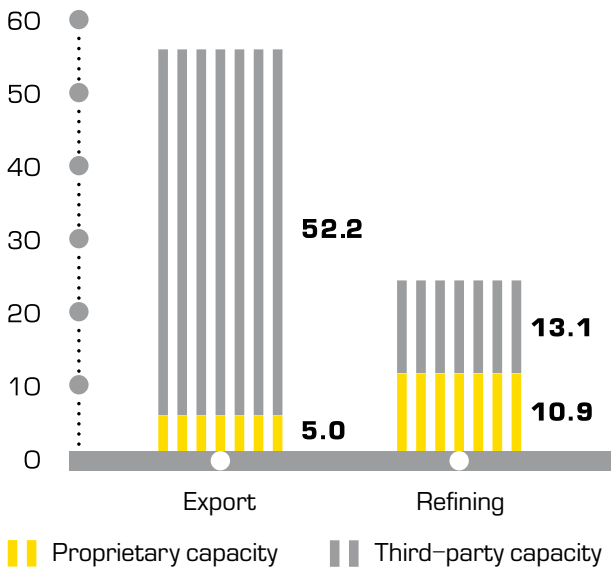
Structure of oil volume for distribution



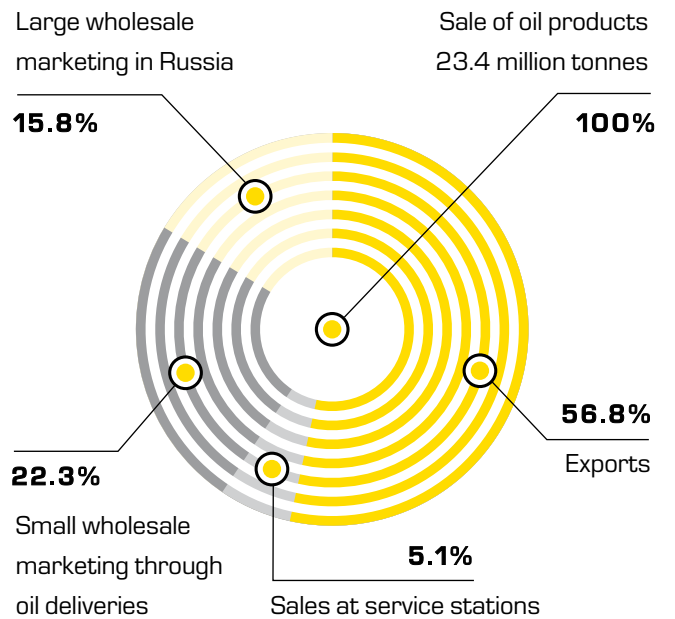
Distribution of oil sales



Use of third-party capacity for oil deliveries



Distribution of oil product sales



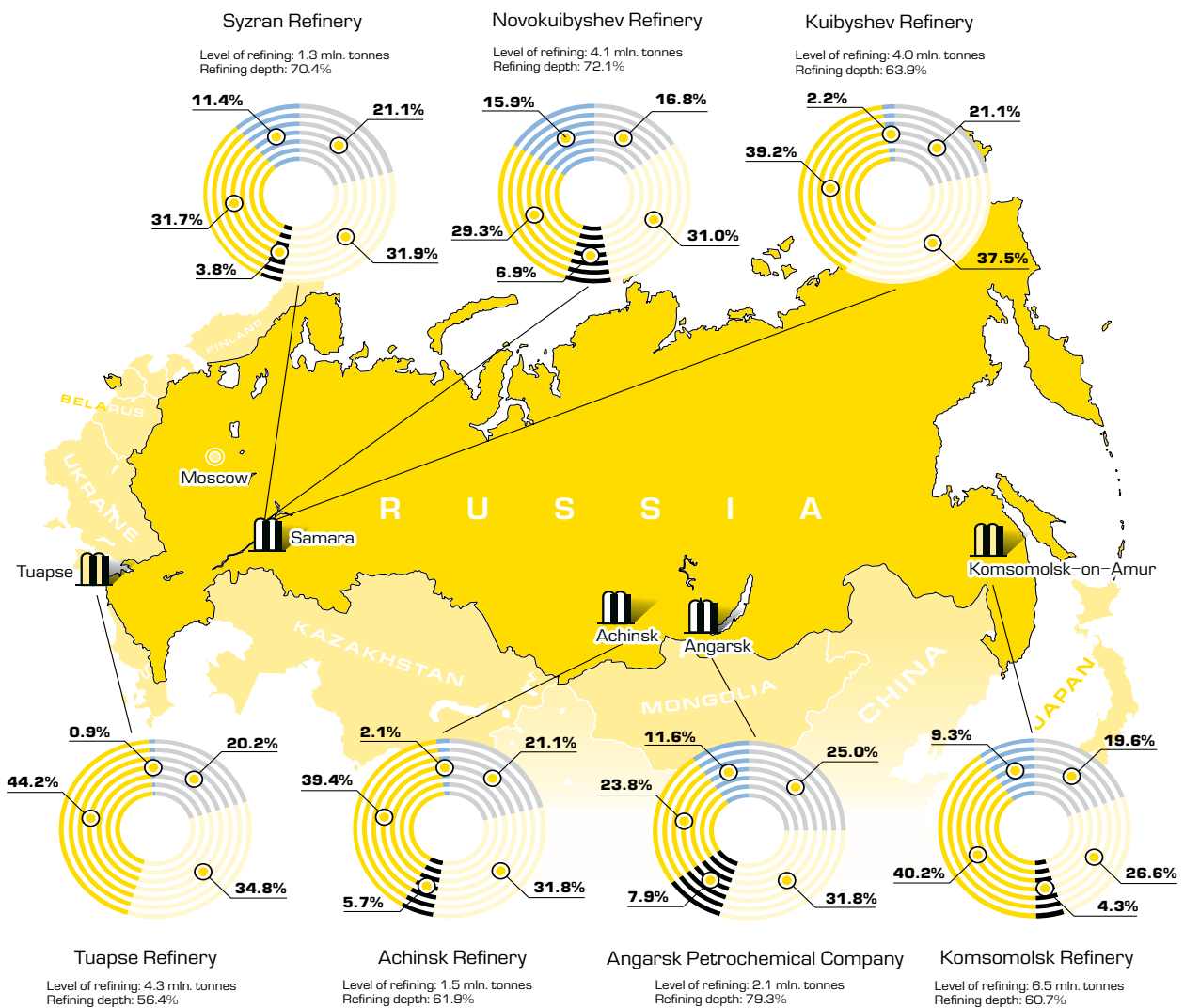


Refining

Rosneft owns two oil refineries, the Komsomolsk Refinery and the Tuapse Refinery, which have a total capacity of 10.8 million tonnes per annum. Both refineries are conveniently located, which enables the Company to

sell oil products at a profit on both domestic and foreign markets. The Komsomolsk Refinery is close to the Pacific coast in Russia's Far East, while the Tuapse Refinery is on the Black Sea coast.

Rosneft's refining operations



Legend

- Capital
- International border
- Rosneft refineries
- Rosneft refineries acquired after accounting period
- Gasoline
- Diesel fuel
- Jet fuel
- Fuel oil
- Other



Rosneft also owns the Moscow Pilot Plant MZ Nefteprodukt, which produces specialty oils and lubricants. In 2006, MZ Nefteprodukt manufactured 4.8 tonnes of oils and 22 tonnes of lubricants.

In 2006, Rosneft refineries (including three mini-refineries) processed 10.9 million tonnes.

Rosneft also refines its own crude oil at refineries owned by other Russian companies. In 2006, the Company refined 13.1 million tonnes of oil at third-party refineries, 12.1% more than in 2005.

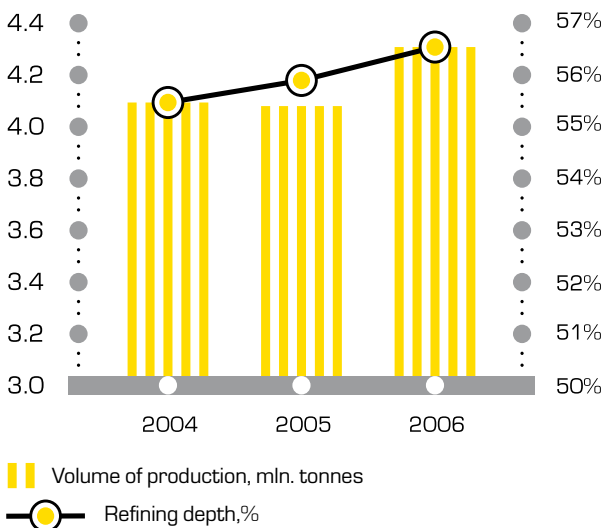
Tuapse Refinery

The Tuapse Refinery's throughput in 2006 was 4.3 million tonnes, which resulted in the output of approximately 4.2 million tonnes of oil products, 5.8% more than in 2005. Capacity utilization at the Tuapse Refinery last year was 100%.

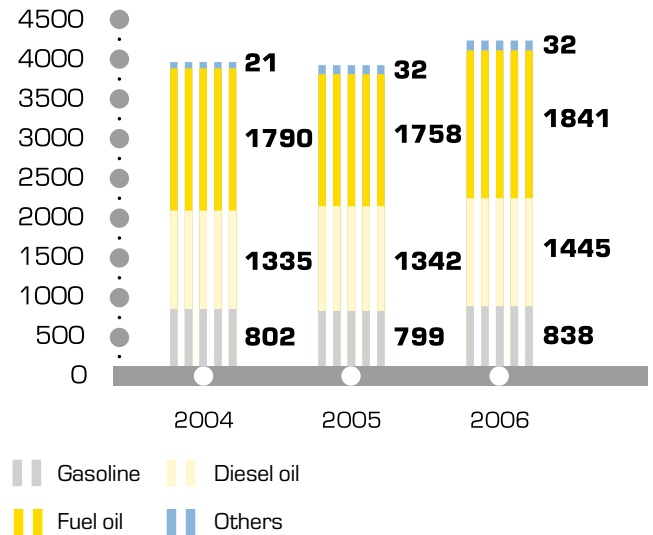
In 2006, the depth of oil refining at Tuapse was 56.4%, up from 55.8% in 2005. The greater refining depth was due to the new rectification columns at the primary processing facilities. Last year, production of top quality gasoline at the Tuapse Refinery increased by 8.9% and diesel fuel by 7.9% compared to 2005.

The Tuapse Refinery is located on the Black Sea coast in close proximity to another Rosneft subsidiary, Tuapsenefteprodukt, which owns an oil-loading terminal. As a result, the Tuapse Refinery is able to export about 80% of its production, much more than would otherwise be the case.

Production volume and refining depth at the Tuapse Refinery



Output at the Tuapse Refinery by primary product (ths. tonnes)



Petroleum products are sold on the domestic market through six marketing companies, including Kubanefteprodukt and Stavropolye, which own a network of filling stations in the region.

The principal suppliers of feedstock to the refineries are Rosneft's oil-producing companies, Purneftegaz, Stavropolneftegaz and Grozneftegaz.

In 2006, capital investment at the Tuapse Refinery increased 2.4 times and amounted to 809 million rubles.

Komsomolsk Refinery

In 2006, the Komsomolsk Refinery's throughput amounted to 6.5 million tonnes of oil, with the output of oil products amounting to approximately 6.1 million tonnes, 1% more than in 2005. Refining depth increased from 60.1% to 60.7% due to the increased volume of high quality oil feedstock from the Sakhalin-1 project.

The proportion of top quality gasoline produced increased from 46.4% to 52.2% following the commissioning of the first commercial hydrotreatment unit at the Komsomolsk Refinery in April 2006, which also produced 311,000 tonnes of diesel fuel.

In 2006, output of all basic oil products - gasoline, diesel fuel and fuel oil - increased over 2005.

Oil products are exported through the Vanino port in the Khabarovsk Territory and oil transshipment terminals

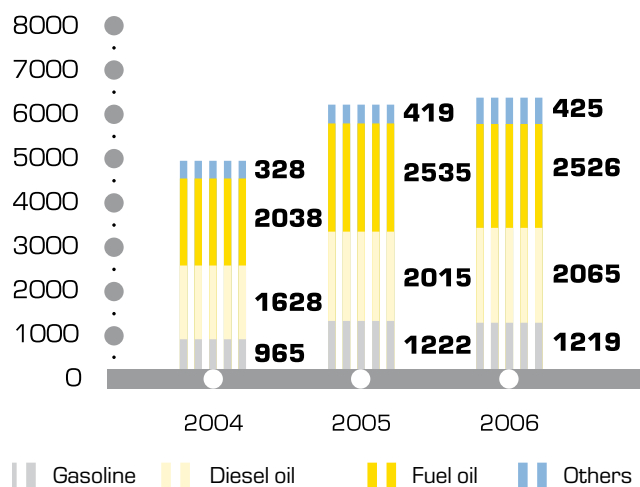


at Nakhodkanefteprodukt, which belong to Rosneft. Japan, South Korea and Vietnam are the primary markets for these products. The refinery also has an extensive sales market in the Russian Far East owing to the successful development of Vostoknefteprodukt, a Rosneft subsidiary which handles wholesale and retail sales of oil products.

Part of the crude comes from Yuganskneftegaz and Purneftegaz and is transported to the refinery by an oil pipeline to Irkutsk and then by rail. Another part goes by Rosneft's pipeline between Okha and Komsomolsk-on-Amur and includes the feedstock produced by Sakhalinmorneftegaz.

In 2006, capital investments at the Komsomolsk Refinery were 1.821 billion rubles, an increase of 34%.

Output at the Komsomolsk Refinery by primary products (ths. tonnes)



Modernization of refineries

Since 1999, the Company has been implementing investment programs to upgrade the Komsomolsk and Tuapse refineries and increase their efficiency and refining depth.

Upon completion of the programs, the aggregate capacity of the Komsomolsk and Tuapse refineries will increase to 19 million tonnes per annum. The production process will meet the very latest international safety and environmental requirements.

After upgrading the Komsomolsk and Tuapse refineries, Rosneft's manufactured products will comply

with strict international standards, allowing the Company to increase the cost efficiency of oil product sales and strengthen its position on international markets.

By 2011, the total capacity of the Company's refineries will nearly double.

Modernization of the Tuapse refinery

In 2006, the Company continued to upgrade the refinery in order to:

- increase oil throughput from 4.3 million tonnes to 12 million tonnes;
- increase oil refining depth from 56% to 95%;
- manufacture products meeting Euro-4 and Euro-5 standards;
- form a single technological and production process, thereby saving on capital expenses and power resources and reducing the production area;
- equip processing plants with control and management systems which meet the latest international safety and environmental requirements;
- create the flexibility to change the volumes and quality of manufactured oil products in response to changing market demand and seasonal fluctuations.

By upgrading the refinery, the Company will be able to provide Russia's rapidly developing Southern Federal District with high quality fuel.

The Company will achieve a dominant position on the domestic market and a major increase in its export volumes of oil products after refurbishing the terminal owned by Tuapseneftprodukt. Upon completion of the upgrade, the export transshipment of oil products through Tuapse port will increase from 10 million to 17 million tonnes. Other oil companies may use the refinery's surplus capacity.

Modernization of the Komsomolsk refinery

The refinery is currently implementing a program that runs to 2011 to expand and upgrade production.

The upgrade of the refinery is meant to:

- increase oil throughput from 6.5 million tonnes to 7 million tonnes;
- increase oil refining depth from 61% to 95%;
- manufacture products meeting Euro-4 and Euro-5 standards;
- equip processing plants with control and management systems which meet the latest international safety and environmental protection requirements;



- create the flexibility to change the volumes and quality of manufactured oil products in response to changing market demand and seasonal fluctuations.

In the first quarter of 2006, the Company commissioned a diesel hydrotreatment unit and for the first time in Russia produced diesel fuel meeting the Euro-5

standard set for sulfur content and other properties.

In 2007, the Company will continue to build a deep oil refining facility within the structure of the delayed coking, vacuum gas oil hydrocracking and hydrogen generation units.



Komsomolsk Refinery



Export of crude oil and gas condensate

In 2006, Rosneft exported 57.2 million tonnes of crude oil and gas condensate, which includes 4 million tonnes of crude oil purchased from third parties.

The geographical distribution of deliveries was as follows:

- 23.3 million tonnes (40.7%) were delivered to Western and Central Europe;
- 15.4 million tonnes (30%) were delivered to the Mediterranean;
- 11.1 million tonnes (19.4%) were delivered to the Asia-Pacific region;
- 6.2 million tonnes (10.8%) were delivered to CIS countries;
- 1.2 million tonnes (2.1%) were delivered to Baltic States.

China was the largest importer after purchasing 8.9 million tonnes of oil. China bought 15.5% of the total crude oil and gas condensate exported by the Company.

Export terminals at Rosneft



Legend

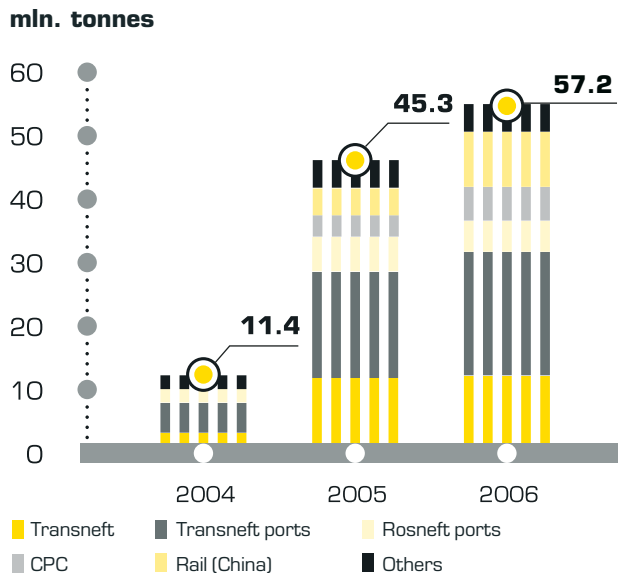
- Capital
- International border
- Marine export terminals



In 2006, export deliveries of crude oil and gas condensate were as follows:

- 34.9 million tonnes (61.1%) were delivered through marine terminals (Primorsk, Novorossiysk, Belokamenka floating storage and offloading facility, De-Kastri, Butinge, Yuzhny, Odessa);
- 9.7 million tonnes (17%) were delivered by rail to China and Belarus, including by combined transport using oil pipelines and rail;
- 12.5 million tonnes (21.9%) were delivered to Belarus, Poland, Lithuania, the Czech Republic, Slovakia, Kazakhstan and Ukraine by oil pipelines.

Distribution of oil deliveries by destination (mln. tonnes)



Rosneft exports 7.7% of its produced oil to the CIS and over 62% further abroad.

Export deliveries are made through Transneft's facilities, including its network of export pipelines and ports such as Butinge, Novorossiysk and Tuapse.

Rosneft's own export capacity includes, in particular the transshipment terminal of its subsidiary Arkhangelsknefteprodukt, which exports the oil from Rosneft's subsidiary Severnaya Neft. The Company also makes extensive use of the De-Kastri port to export oil from Sakhalinmorneftegaz and the Sakhalin-1 project in Russia's Far East.

De-Kastri

De-Kastri in the Khabarovsk Territory exports crude oil from its two terminals, one of which belongs to Rosneft's subsidiary Sakhalinmorneftegaz, while the Sakhalin-1 project consortium owns the second.

In 2006, 2.2 million tonnes of Rosneft's oil were shipped through De-Kastri.

Due to production increases expected from Sakhalin-1 and other offshore projects around the island, we forecast a considerable rise in crude export deliveries, with De-Kastri becoming a link between the Company's large production capacity in Russia's Far East and the Asian crude oil market.

Arkhangelsknefteprodukt and Belokamenka

Rosneft's crude oil produced in Timano-Pechora is exported via the transshipment facilities of our subsidiary Arkhangelsknefteprodukt on Russia's north-western coast.

Oil produced by Severnaya Neft, our other subsidiary in Northern Russia, is transshipped via the railway oil loading complex at Privodino in Northwest Russia from the Transneft pipeline onto rail tankers and delivered to the Arkhangelsk tanker port, where it is reloaded onto shuttle tankers.

The Belokamenka floating storage reservoir is the terminal point in the transport chain. Oil is transshipped from there onto tankers for export. Belokamenka is a stationary floating oil-loading storage tanker and is berthed in a cove in the ice-free Kola Bay. In 2006, the Company exported 2.8 million tonnes of oil through Belokamenka.



Caspian Pipeline Consortium

The Caspian Pipeline Consortium (CPC) was established in 1992 to build a pipeline to pump Kazakh oil through Russia. The pipeline is 1,510 kilometers long and runs from the Tengiz oilfield in Western Kazakhstan to the port of Novorossiysk.

Rosneft participates in the CPC project through the joint venture of Rosneft Shell Caspian Ventures Ltd., which holds a 7.5% stake in the project.

Rosneft holds a 51% stake in the joint venture, with Shell holding 49%.

Rosneft has been delivering oil and gas condensate through the Caspian Pipeline Consortium since December 2004.

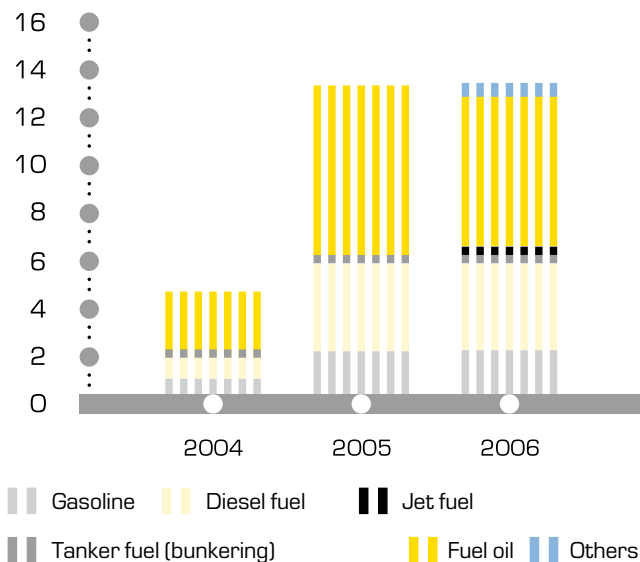
In 2006, the Company delivered 4.7 million tonnes of oil and 700,000 tonnes of gas condensate through the Caspian Pipeline Consortium.

Export of oil products

In 2006, Rosneft exported 13.3 million tonnes of oil products, including deliveries to global markets and the CIS.

The Company enjoys significant competitive advantages over other Russian oil companies in exporting oil and oil products given the proximity of its two major refineries to export markets.

Distribution of oil product exports by product type (mln. tonnes)



The Tuapse Refinery is on the Black Sea coast, and the Komsomolsk Refinery is near Russia's Pacific coast in the Far East.

Rosneft also has its own transshipment facilities in Tuapse and Nakhodka, thereby enabling the Company to export oil products almost directly from the production areas.

Domestic sales of oil products

Rosneft has developed a powerful infrastructure to sell oil products on the Russian domestic market. The Company has 15 regional marketing and sales companies involved in the wholesaling and retailing of oil products and their storage, transport and transshipment.

The Company's retail business reaches right across Russia, from Murmansk in the north to the Northern Caucasus in the south, and from Smolensk in the west to Sakhalin Island in the Far East.

In 2006, the Company sold 9.5 million tonnes of oil products on the domestic market, including 6.4 million tonnes through sales subsidiaries, of which 1.2 million tonnes of oil products were sold through the Company's own network of service stations, up 23.2% over 2005. Fuel sales per service station increased by 25.1% and reached 1,819 tonnes.

Major end consumers and independent distributors, as well as organizations in the public sector, including the Ministry of Defense, community services and agricultural enterprises, are wholesale purchasers of Rosneft's oil products. For the most part, wholesale purchasers take delivery of heating fuel, diesel and jet fuel.

As of December 31, 2006, Rosneft's marketing subsidiaries owned 98 operating tank farms with a total capacity of 1,952,000 cubic meters, including 511,000 cubic meters for storing light oil products.

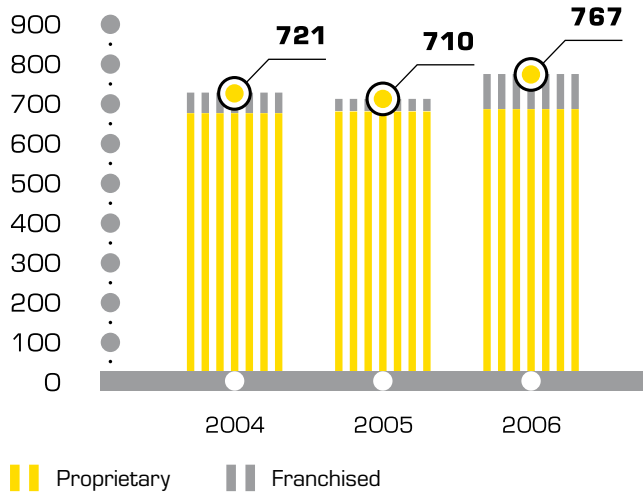
As of December 31, 2006, Rosneft had a retail network consisting of 684 proprietary and leased service stations and 83 service stations operating as franchises under the Rosneft brand.

As of December 31, 2006, the Company's proprietary and leased service stations operated 51 car washes, 105 stores (which also sold packed lubricants) and 42 cafes.

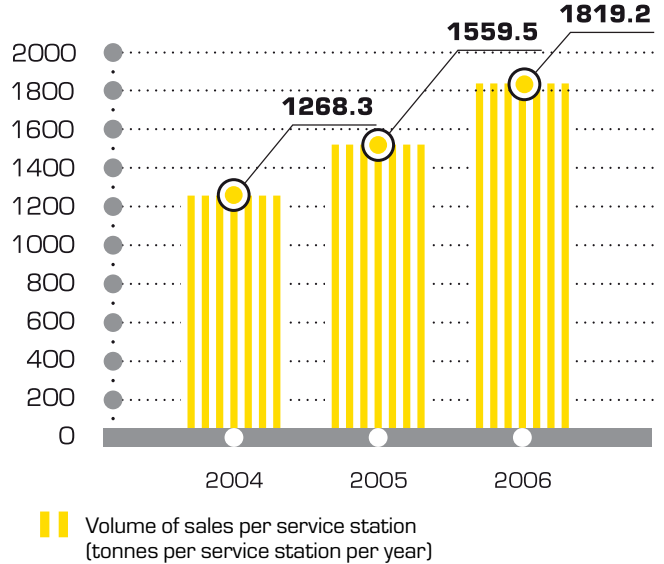
Eighty-two proprietary and leased service stations had garages for minor repairs and servicing of motor vehicles.



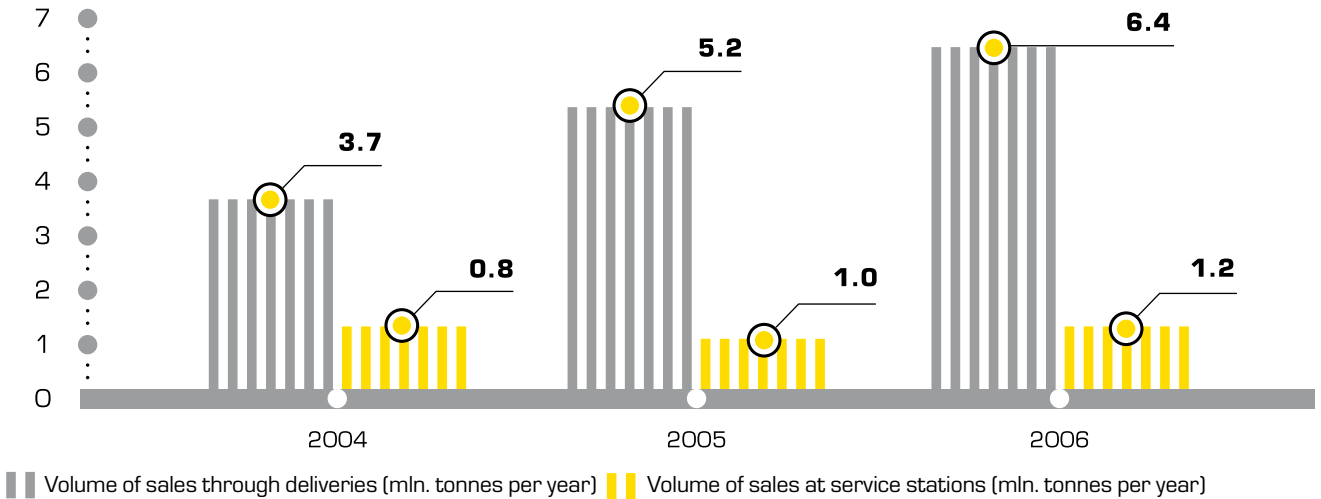
Changes in the number of Rosneft's service stations



Volume of sales per service station (tonnes per service station per year)



Volume of direct oil product sales



Rosneft plans to continue developing its chain of service stations in areas close to its refineries and tank farms.

In the Far East, these areas include the Khabarovsk Territory, Primorsky Territory and Sakhalin Island. In Southern Russia, they include the Krasnodar and Stavropol Territories.

The Company also plans to strengthen its presence on rapidly developing markets such as Moscow and St. Petersburg.

Nakhodkanefteprodukt

The Nakhodka oil-loading terminal in the Primorsky Territory is the largest oil exporting port in the Russian Far East. The facility is part Nakhodkanefteprodukt, a Rosneft subsidiary.

In 2006, Rosneft exported 2.7 million tonnes of oil products through Nakhodkanefteprodukt, 20.3% of the Company's total export deliveries.



Tuapsenefteprodukt

The Tuapse oil-loading terminal is in Krasnodar Territory and close to the Tuapse Refinery on the Black Sea coast. The terminal is a part of Tuapsenefteprodukt and the sales network of Rosneft.

The terminal's annual capacity is 10.2 million tonnes. In 2006, Rosneft exported 5.36 million tonnes of oil products through Tuapsenefteprodukt, 40.5% of the Company's total exports.

Tuapsenefteprodukt is being refurbished in line with the Company's strategy of developing, expanding and upgrading its production capacity.

By 2010, its capacity will increase to 17 million tonnes, making it possible to service exports from the Tuapse Refinery, whose capacity will also increase considerably after its own upgrade.

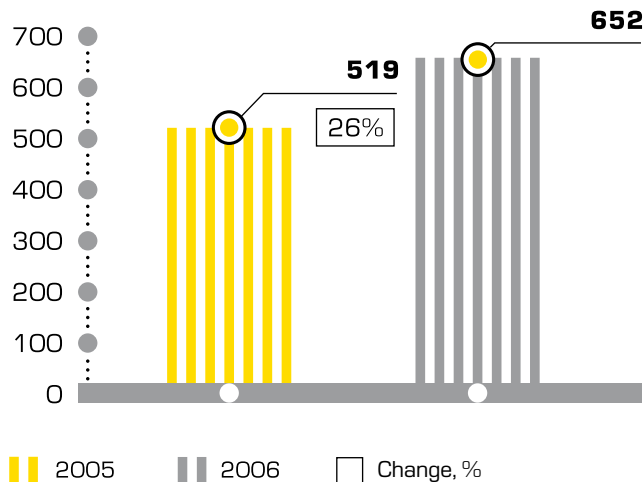


A Tuapsenefteprodukt service station

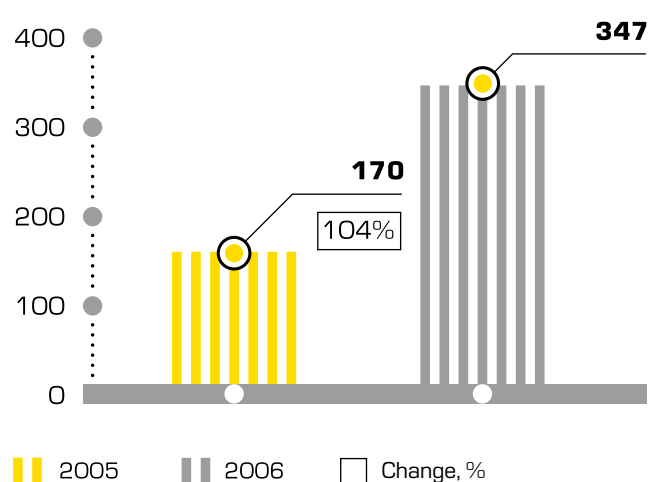


Key financial results

Earnings (bln. rubles)



Profits before taxation (bln. rubles)



Based on its consolidated statements for 2006, prepared in accordance with Russian Accounting Standards, Rosneft's revenues amounted to 652 billion rubles, exceeding the figure for 2005 by 134 billion rubles. Earnings before taxation in 2006 amounted to 347 billion rubles compared to 170 billion rubles in 2005. The profit margin before taxation was affected by the balance of other income and expenditures. The improvement in the results of 173 billion rubles compared to 2005 was caused, among other things, by:

- penalties, fines, forfeits awarded in the court case against YUKOS – 141 billion rubles;
- interests on transfer of rights awarded in the court case against YUKOS – 700,000 million rubles;
- foreign exchange gain- 33.3 billion rubles;
- reduction of other income over other expenditures – (-2.9) billion rubles.

Rosneft's net profits for 2006 amounted to 261 billion rubles, exceeding the figure for 2005 by 136%, which was 110 billion rubles.

Based on Rosneft's financial statements for 2006, prepared in accordance with Russian Accounting Standards, the income of the Company was 589 billion rubles, exceeding the figure for 2005 by 102 billion rubles. Earnings before taxation for 2006 amounted to 259 billion rubles against 76 billion rubles in 2005. Rosneft's net profits in 2006 were 213 billion rubles, exceeding the figure for 2005 (57 billion rubles) by 274%.

The Company's net income margin adjusted for minority interest, and non-adjusted for fines and penalties of YUKOS, increased by 4% to reach 25.3% in 2005.

In 2006, Rosneft has considerably reduced interest rates on its credit portfolio: on average the Company paid 0.74% above LIBOR in 2006, compared with 2.68% in 2005 and 3.6% in 2004.

Rosneft's financial solvency ratios have, starting from the beginning of 2006, had an up-trend and complied with normal levels.

The absolute liquidity ratio as of January 1, 2007 was 0.3 (standard equal to 0.2). Rosneft's quick ratio (solvency) demonstrated a good level of coverage of the Company's current liabilities to sum of cash and marketable securities.

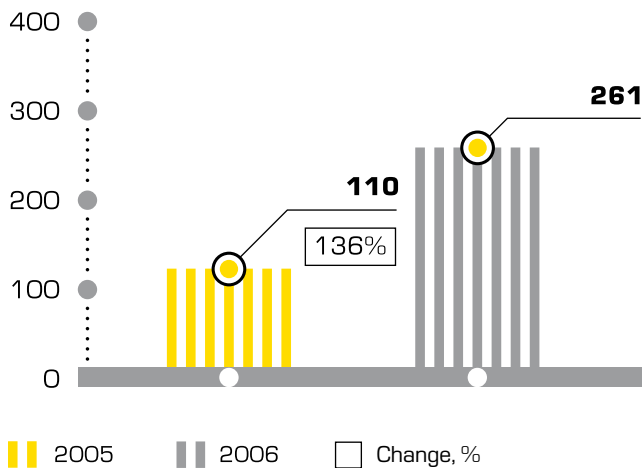
The current liquidity ratio as of January 1, 2007 was 2.87 against 1.7 as of beginning of 2006, which demonstrates improvement in forecast ability to meet payments in the long run through the rise in current assets/current liabilities ratio.

The solvency recovery ratio increased from 1.13 as of January 1, 2006 to 1.73 as of the end of the year (with the standard exceeding 1).

Financial creditworthiness was 0.82 as of the end of 2006 (with the standard exceeding 0.8), having increased



Net profits (bln. rubles)



by 0.02 since the beginning of the year, which indicates increase in assets, financed through solid sources of capital (equity value, provisions and long-term debts).

Prime factors that determined the results of Rosneft's financial performance within the period under consideration, which may considerably affect the Company's performance in the future, are as follows:

- Growth in performance figures;
- Changes in prices for oil and oil products;
- RUR- USD exchange rate and inflation rates;
- Changes in mineral extraction tax (MET) and export duties;
- Changes in transport tariffs.

Changes in oil, oil products and gas prices and transport tariffs

Selling prices for oil and oil products are the most important factor determining Rosneft's financial performance. They are directly dependant on global prices and Russia's commodity markets. The global price for oil is subject to serious fluctuations conditioned by supply and demand balance.

In 2006, growth in price for URALS oil - from \$50.5 per bbl to \$61.3 per bbl (by 21.4%) had a positive effect on Rosneft's financial performance.

It is difficult to determine market prices for crude oil in the domestic market, since the majority of operations

are performed within large vertically integrated groups comprising the companies in the areas of production, processing and sale of oil and oil products. As a result, in view of this large organized market, crude oil market prices in Russia sometimes can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances.

The dynamics of prices for oil products on the Russian and international markets are determined by a number of factors. The most important of them are the level of global oil prices, balance of supply and demand for oil products, competition on various markets and their remoteness from regions where oil is refined and oil products are manufactured.

Changes in prices, customs duties and transport tariffs may significantly influence the Company's choice of product range and export supply routes providing for the maximum prices for oil produced by Rosneft, subject to established prices for oil products.

RUR-USD exchange rate and inflation rates

The RUR-USD exchange rate and inflation rates in the Russian Federation have significant influence upon the Company's performance due to the fact that much of the proceeds from sales of oil and oil products are denominated in USD, while a major part of expenses is denominated in RUR. The real ruble appreciation adversely affects operational profits and any other operational indicators of Rosneft. Within the period under consideration, the ruble has appreciated against the USD both in real terms and nominally. At the present time, Rosneft does not use any currency hedging mechanisms. Changes in real exchange rate is a function of nominal exchange rate and inflation rate.

Decline in inflation against the planned level from 10% to 9% had the positive effect on financial performance for 2006, while the fall in the exchange rate of 28.3 rubles/dollar to 27.2 rubles/dollar had a negative effect. The profit margin before taxation of Rosneft was positively effected by the revenues from improvement of exchange rate difference in the amount of 31.9 billion rubles.

Changes in mineral extraction tax (MET) and export duties

A share of payments of MET and export duties varied from 43% to 52% of the total amount of Rosneft's



revenues. If volumes of hydrocarbon deliveries are not changed, then the level of MET and export duties will significantly reduce the effect of variations in export prices upon the Company's net profits.

The following factors had a negative effect on Rosneft's financial performance for 2006:

- growth in the average rate of export duties for oil by 51%;
- growth in the average rate of export duties for light oil products – 57%, for heavy oil products – 48%;
- MET calculated rate increase from 1,882.9 rubles/tonne to 2,281.5 rubles/tonne (by 21%).



Nitrogen/oxygen unit of the Komsomolsk Refinery



Research and innovation

Among a company's key competitive advantages are technological innovation, production efficiency and a highly professional workforce.

Rosneft is tightly focused on all these areas, quickly applying and implementing new technology, adopting global best practice and providing continuous training to our specialists and employees to ensure that they constantly develop their key competences. Only this approach can ensure the Company's continuous development.

Rosneft's technology development trends

Rosneft introduces new technology at each stage of the value chain: exploration, development and production.

Exploration

Rosneft has developed proprietary basin modeling techniques, which simulate the natural environment and the formation of hydrocarbons. Applying these methods enables the Company to minimize geological risks and determine more precisely the principal prospective structures in the studied regions.

In 2006, the Company's enterprises used cutting edge technology to interpret data and make reliable studies of reservoir characteristics. As a result, the accuracy of geological models and well flow rates after drilling reached 96% – an excellent result both by Russian and international standards.

Rosneft also uses its own patented technology when interpreting seismic data.

Development

To introduce new technology at the field development stage, Rosneft established a Project Center, which employs specialists at the parent company and its subsidiaries and corporate institutes, as well as outside international experts. In 2006, the Project Center carried out a number of key field development projects at Rosneft: Vankor, Priobskoye, Val Gamburtseva, Odoptu-More, fields at other Sakhalin projects and at Kurmangazy.

Horizontal drilling at the Vankor field, for example, reduced the planned well stock more than threefold and simultaneously increased the forecast initial well flow rate more than sixfold.

The application of "smart well" systems in the zone under the gas cap, which comprises 30% of the well

stock, will enable the Company to produce an additional 14 million tonnes of crude oil. Drilling costs at the Vankor field will be reduced by 40%, and the planned oil recovery factor (ORF) will increase from 0.34 to 0.41.

Yuganskneftegaz increased the ORF from 0.26 to 0.32 at its new Priobskoye field project by optimizing the water flood and changing the drilling strategy. This change equals an increase in recoverable reserves of 153.5 million tonnes of oil and resulted in a 13% rise in oil output in 2006.

To enhance drilling efficiency, Rosneft has developed **Real-Time Drilling Monitoring**. By applying this technology, the Company will be able to change the trajectory of horizontal wells in response to changes in geological conditions. The drilling process is managed in real-time from a remote support center, which can be several thousand kilometers away from the actual well.

Application of cutting edge drilling techniques considerably enhanced the operating efficiency of complex fields.

In 2006, for example, Purneftegaz switched from drilling traditional vertical wells to horizontal drilling. Between 600-700 meters of horizontal wells were drilled, which not only increased the average flow rate of new wells to over 100 tonnes per day, but also brought the undeveloped formations of the Komsomolskoye field into production.

The average flow rate from horizontal wells drilled at the Lempinskaya area of the Salymskoye field at Yuganskneftegaz was 324 tonnes per day, ten times above the level of the current average well flow rates at this field.

The Company also achieved strong drilling results at its offshore projects last year. At the Odoptu-More field belonging to Sakhalinmorneftegaz, the Company drilled wells with a deviation of 5 kilometers from the



vertical and over 500 meters long in formations less than 4 meters thick. The flow rate of the last such well amounted to 900 tonnes, eight times higher than the flow rate of wells drilled previously.

Production

Rosneft has established Total Production Management (TPM), an electronic system for well and formation management which stores all information on the properties of the strata and the operation of all the Company's wells.

This system is based on software developed at the Company's research and technology divisions and ena-

bles specialists and managers at all levels to analyze the state of development and make optimal joint decisions on production rate increases and well efficiency.

In 2006, TPM was used at all our subsidiaries and increased the efficiency of workover programs by an average of 10% compared to 2005. An additional 9 million tonnes of reserves were brought to production due to application of TPM at the Priobskoye field.

TPM is also successfully being applied in the regions that have been under development for 50 years or more, for example, in Southern Russia and in Udmurtia. As a result, daily production increased by 9% at Krasnodarneftegaz and by 15% at Stavropolneftegaz in 2006.



A flask of oil with the complex gas processing unit in the background – Tarasovskoye field, Purneftegaz



Management of Rosneft's scientific and technical development

Rosneft believes in the centralized management of its scientific and technical development at its scientific research institutes, successfully introducing new technology and best practices, thorough and ongoing training in technology for personnel and accumulating and disseminating knowledge throughout the Company.

In order to integrate science and production completely, ensure the successful introduction of new technology and facilitate the dissemination and accumulation of knowledge throughout the entire the Company, Rosneft has established the **Corporate Scientific Research and Production Complex (CSRPC)**

The CSRPC employs over 100 researchers with postgraduate degrees and comprises four scientific research institutes in various regions of Russia - Krasnodar, Ufa, Izhevsk and Sakhalin Island, thus covering every geographic region where Rosneft operates. It also

includes the Corporate Scientific and Technical Center (CSTC), which manages these institutes.

In 2006, 1,500 employees were involved in scientific research and project development.

The **New Technologies System (NTS)** manages innovative development and is responsible for problem analysis, determining key areas for research, developing efficient solutions, testing and introducing new technology and disseminating new experience throughout the Company.

Working groups dedicated to identifying the most important areas in the short and long-term ensure the functioning of NTS.

Experts working at Rosneft and its oil producing subsidiaries, corporate scientific research and project



Research, Development and Design Institute for Thermal Production Methods (RosNIPIthermneft) in Krasnodar.



institutes, as well as outside Russian and foreign experts, are all involved in this joint effort. All activities of the working groups are based on the project principle and are directed by CSTC managers.

Innovations are stored in the Technology Data Base, which is continuously updated and includes the Technology Matrix, a set of simple and clear guidelines establishing where and how any technology should be applied.

One of the priorities of the NTS is the introduction of new hydraulic fracturing technologies (HF). In 2006, pilot projects involving four new HF technologies were implemented under the management of an NTS working group: in conditions of thin shale barriers, HF in horizontal wells, selective HF in conditions of highly stratified reservoirs and complex studies of HF fracture geometry.

In 2006, NTS developments were applied at Yuganskneftegaz and Purneftegaz and led to the flow rate from horizontal wells drilled in severe geological conditions rising by a factor of three to five. The average period for HF payback in horizontal wells is 2.2 months. HF methods at new wells were optimized, which reduced related expenses by more than RUR 1.5 billion at Yuganskneftegaz alone, with the growth of production capacity and flow rates at new wells standing at 5%.

Testing of OptiStim and IsoFrac HF technology was conducted at the Priobskoye field for highly stratified reservoirs. In the future, the Company will be able to reduce the HF time and cost by a factor of 1.5–2.

The optimal HF technology, which limits the vertical fracture length, was used at several fields at Purneftegaz and increased the average well flow rate from 11 tonnes per day in the first half of 2005 to 25-30 tonnes per day in 2006.

Significant improvements were made in cementing technology. Upon application, the average increase in the flow rate per well in 2006 rose from three to ten tonnes per day, but the potential production growth from this technology is 2,000 tonnes per day.

An NTS working group carries out tests on the unique AKM-80 pump. A unique program for the pump's auto-adjustment was developed after successful cooperation with the manufacturers. The AKM-80 resulted in an average increase in the well flow rate of 15% in 2006. The large-scale use of these pumps will enable the Company to increase production by 365,000 tonnes per annum.

Fields at Purneftegaz are test sites for the development of artificial lift technology to increase flow rates at wells with a high gas factor.

In 2006, the Company tested high-tech pumping equipment capable of stable operation even with high gas content at pump intake.

Purneftegaz specialists were able to operate electric submersible pumps with a gas content of up to 55% at pump intake – much higher than the usual technology, which only achieves between 20-30% – and increase production per well by 10 tonnes per day. The potential increase in production due to application of this technology for the Company as a whole amounts to 2,500 tonnes per day.

Specialists involved in the work of the NTS gain valuable experience and rapid career development. They also represent the Company's technological and management potential.

In 2006, Rosneft held two large seminars within the framework of NTS to exchange production experience and organized over 25 field visits for the Company's specialists to various Russian and foreign companies.

Rosneft is also establishing an integrated information environment that includes the RN-Expert Knowledge Management System (KMS), which is intended to standardize and automate the collection, accumulation, storage and dissemination of knowledge and best practice throughout Rosneft.

KMS includes four blocks that represent the entire knowledge management cycle:

- Planning and managing research, development and new technology to accumulate knowledge;
- Project Zones for applying the knowledge obtained to particular projects, such as new technology systems, design and production documentation for field development, research and development activities;
- Exchange of knowledge to swap and disseminate the knowledge obtained to using the Expert System, Innovation Data Base and the Technology Data Base, which is updated in real time and includes the Technology Matrix that defines the procedures and areas for applying technology;
- Informational storage for the structured storage of knowledge.

KMS also provides access to electronic libraries, such as that of Society of Petroleum Engineers and ScienceDirect, Elsevier, DIGITAL ANALOGS Database.



In order to efficiently utilize the potential of new technology, Rosneft has established the System of Production Training to develop the key competences of Company specialists.

In 2006, Rosneft conducted 61 courses devoted to exploration, development and production, attracting the best lecturers from leading Russian and foreign universities, such as Moscow State University, Russian State University of Oil and Gas, Stanford University, the University of Tulsa, the Colorado School of Mines, Texas A&M University, the University of Calgary, the University of Houston, the Institut Francais du Petrole and the Ecole Nationale Supérieure de Géologie).

The continuous flow of new technology is enhanced by cooperation with the world's leading research centers.

Rosneft is interested in the whole range of knowledge and experience in developing and introducing new technology, as well as in managing the innovation process. Utilizing associated gas is one of the highest priorities in current research, while other promising areas of research include the development of difficult oil reserves, for example offshore fields and high viscosity oilfields.

Scientific exchange occurs through all forms of interaction. This includes inviting leading international specialists to give lectures and provide consulting services, as well as organizing academic and practical conferences with foreign experts on issues crucial to the Company.

One example of close cooperation is the introduction of a method to calculate the multiphase flow, which was developed by the TUFFP International Consortium at the University of Tulsa, Rosneft and others. This method is currently the most precise and universal means of making calculations for wells of any configuration, from vertical to horizontal. Rosneft was the first oil company in the world to apply (in its Production Management System) these developments for its calculations throughout the entire Company.

Based on the results of the University of Tulsa Consortium on Artificial Lift Performance (TUALP), the Company was able to analyze the operational efficiency of equipment on fields with a high gas factor and to develop recommendations for the use of loading equipment under conditions of high dissolved gas content.

As a result of its activities in innovation, Rosneft, its subsidiaries and scientific research institutes have registered 75 items of intellectual property.



Sustainable development

Personnel

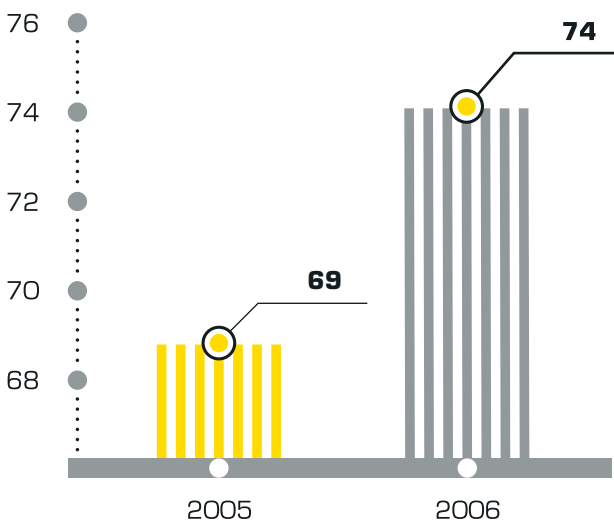
In 2006, Rosneft employed an average of 74,200 people, including 57,600 at subsidiaries and 16,500 at companies controlled by subsidiaries.

Rosneft employees work in practically every region across Russia. Company subsidiaries employ 19,900

people in Western and Eastern Siberia, 8,800 in Russia's Far East and 17,800 people in Southern Russia.

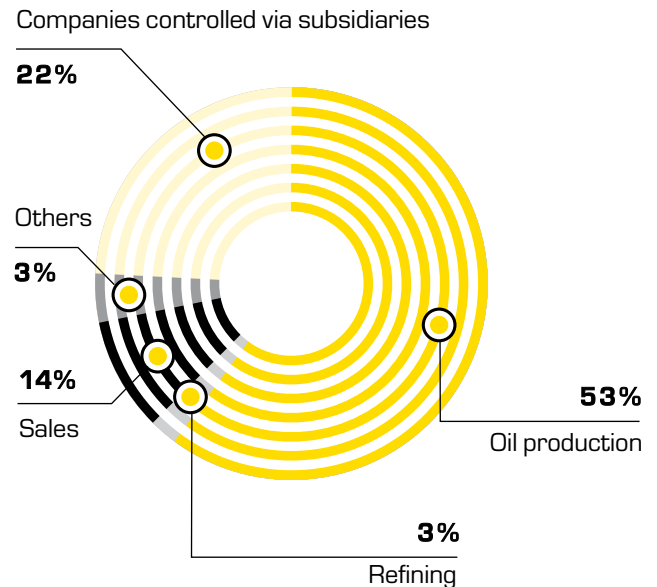
In 2006, the average age of employees was 41. The Company employs 6,800 in executive positions and hired 13,533 new staff in 2006.

Number of employees at Rosneft (ths. individuals)



In 2006, 20,963 employees underwent professional training, 21.1% more than in 2005, and 15,027 had received higher education, 2,113 more than in 2005.

Distribution of personnel by areas of activity



In 2007, the Company plans to provide training to about 30,000 employees to further improve their skills.

The Future is Today

Rosneft seeks to attract talented young employees as it prepares for the future and is already now supporting the people who will join its ranks in five or ten years.

The Company has established a program of pre-higher education for future specialists at specialized Rosneft classes to give them a solid foundation in essential subjects and orient them toward future employment at the Company.

Students are offered vocation-oriented education, including visits to enterprises, meetings with well-known oilmen and young specialists. They also become familiar with the business processes used in oil production.

Rosneft's carries out this work in regions of particular importance to the Company, in Western and Eastern Siberia, the Northern Caucasus and Central Rus-



Young employees at Yuganskneftegaz

sia, operating 13 classes which provide training to 320 students. In 2007, the Company plans to introduce five more classes.

The Company also collaborates with teachers and organizes training for teachers of specialized subjects and school psychologists working in Rosneft classes.

The knowledge obtained in these classes is subsequently reinforced at institutions of higher education.

Rosneft cooperates closely with the Gubkin Russian State University of Oil and Gas, Ufa State Oil Technical University, Tyumen State Oil and Gas University, St. Petersburg Mining University, Kuban State Technical University, Moscow State University, MFTI, MGIMO (University) and other leading educational institutions in Russia.

The Company is constantly improving the educational, methodical, material and technical equipment of its partners in accordance with modern requirements.

Rosneft also provides sponsorships, organizes training for partner institutions' teaching staff at the Company's enterprises and offers corporate grants to teachers on a competitive basis.

In 2006, Rosneft expanded its cooperation with MIEP MGIMO by establishing a Department for Global Energy Policy and Energy Security.

Practical training and internships, business games, master classes and presentations are organized for students.

Rosneft has developed a corporate and social scholarship program, which will ultimately provide a pool of future specialists. In 2006, 13 students received these scholarships. The most promising students and graduates are offered an internship and then the possibility of full-time employment.

The Company devotes special attention to young specialists. It has set up councils for the 1,113 young specialists it currently employs, as well as a mentoring system, which help them to adjust to work at the Company.

The Company has also organized training sessions and created the right conditions for career growth for its young specialists. In addition, it holds competitions and training sessions, as well as regional and inter-regional scientific research conferences.



Training and development of personnel

Rosneft offers equal opportunities to all of its employees to steadily improve their capabilities and skills. A key aspect of the Company's policy regarding individual training and development is its personal growth strategy. Rosneft believes that it can reach a high level of personnel development by educating the best specialists and managers.

The growth strategy is based on corporate training programs aimed at increasing the educational level of employees and reinforcing their personal motivation.

In addition, the Company is constantly improving the system that assesses the potential and appropriate remuneration of its employees. Corporate training programs developed jointly with Russian and foreign institutes and business schools are open to all categories of employees.

In 2006, the Company successfully began an MBA program (International Business in the Oil and Gas Industry) organized in cooperation with Norway's Bodo Graduate School of Business and MGIMO (Universi-

ty). nineteen employees took part, while four Rosneft managers underwent training in the MBA program at the Stockholm School of Economics (SSE).

In 2006, the Company successfully implemented development programs for its employees, including individual training and strategic management programs.

Rosneft is interested in the successful professional development of its employees and provides all the necessary conditions for managers and specialists to ensure their self-improvement.

Rosneft plans to achieve its strategic objectives by applying new technology in active cooperation with leading industry scientific research centers, including those at such companies as Schlumberger, Halliburton and Baker Hughes.

These measures enable the Company to motivate and retain professionals and help achieve maximum labor efficiency.

Health, Safety and Environmental Protection

Rosneft adheres strictly to the highest international standards and the requirements of Russian and international legislation on labor safety, health and environmental protection.

In 2006, Rosneft adopted a Company-wide policy on industrial safety, labor and environmental protection which provides for:

- steadily improving industrial safety, labor and environmental protection; monitoring the performance of these obligations;
- gradually reducing industrial injuries, accidents and the adverse impact of production on the environment;
- improving industrial and environmental safety at the Company's production facilities to levels matching those at global oil companies;
- establishing and maintaining an efficient corporate management system for industrial safety, labor and environmental protection;
- reducing industrial risks from newly commissioned facilities.

The Company has developed systems for environmental management, monitoring and audit in accord-

ance with ISO 14000 standards. Currently, Rosneft and all of its subsidiaries are being certified in accordance with ISO 14000 and OHSAS 18000.

Since 2006, Rosneft has been operating an integrated management system for industrial safety, labor and environmental protection in accordance with ISO 14001:2004, OHSAS 18001:1999 and ISO 19011:2002.

Rosneft applies cutting edge technology and production methods to create a safe and healthy working environment for its employees and to minimize the risk of accidents and other emergency situations.

In 2006, spending on occupational and industrial safety at Rosneft and its subsidiaries amounted to 710 million rubles, an increase of 3% over 2005.

Employees at Rosneft regularly participate in training programs to exchange experience on labor safety and environmental protection.

The Company also develops complex programs of health protection. Rosneft's social package includes



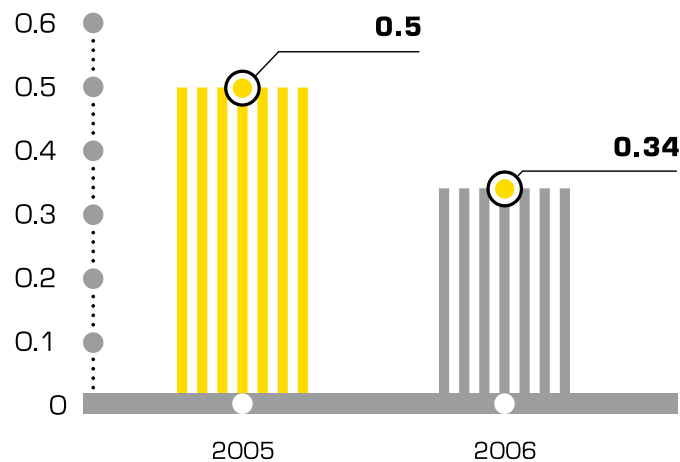
medical insurance, disease prevention and treatment at sanatoria.

In 2006, Rosneft spent 97 million rubles on medical insurance for over 21,000 employees. Subsidiaries of Rosneft also render assistance to employees and pay for their treatment at sanatoria. In 2006, 7,300 employees received health and resort treatment at a cost of 158 million rubles. In 2006, a program to reduce the sickness rate by at least 30% by 2011 was made a priority in the area of health care.

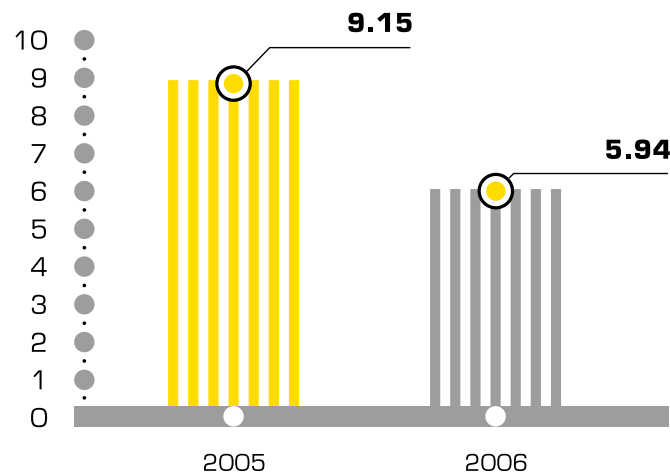
Rosneft pays considerable attention to reducing the rate of accidents and in 2006 reduced the overall accident rate per one million man-hours at the Company and its subsidiaries to 0.34, a drop of 32% compared to 2005.

In 2006, nine incidents occurred at production facilities, compared to 11 incidents and two accidents in 2005. The Company reduced the total number of incidents and breakdowns in 2006 by 30.8% compared to the previous year.

Level of workplace accident occurrence (per 1 million hours worked)



Level of fatal workplace accident occurrence (per 100 million hours worked)

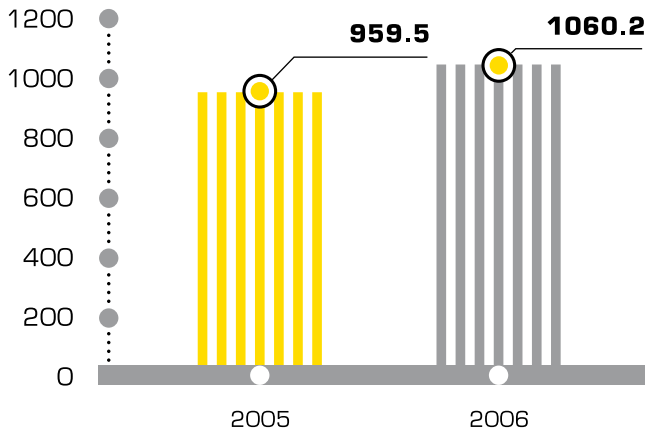




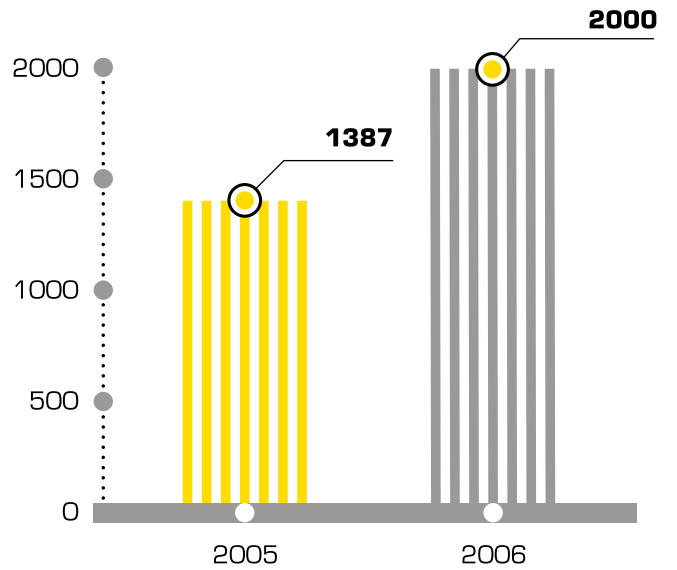
In 2006, Rosneft developed a plan for environmental and labor protection programs to run until 2009. The Company's units began implementing a Dedicated Environmental Program, which provides for the construction

of landfills and sewage disposal plants and the establishment of posts for clean-up in case of accidental spills of oil or oil products, as well as for the equipment required by these units.

Gross emission of harmful elements in the atmosphere (ths. tonnes)



Expenditures on environmental protection (mln. rubles)



Sucker-rod pump at a Krasnodarneftegaz field



Social responsibility

The Company's well-being is not only a function of its solid production and financial performance, but also of its position in society and its contribution to the development and prosperity of the country.

In the interests of its shareholders, Rosneft therefore pursues a policy of high social responsibility to its employees and their families, the people in the regions where it operates and to society at large.

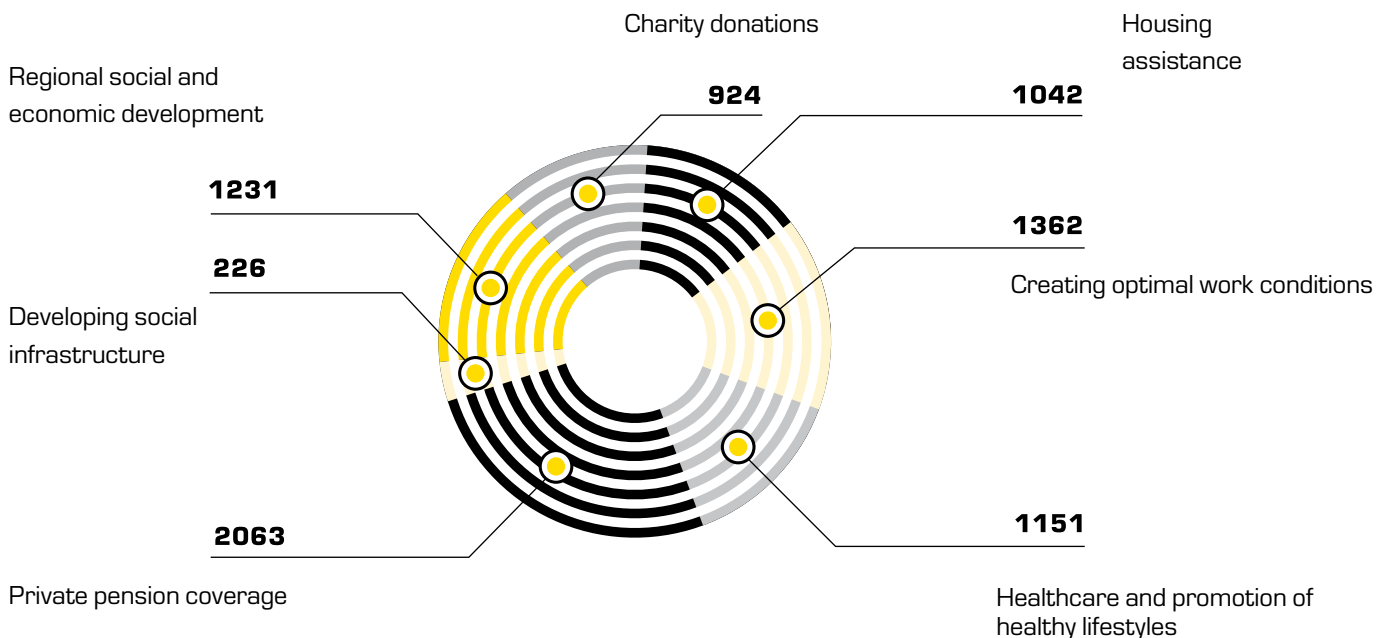
Basic directions of our social policy

Rosneft's social policy is part of its corporate strategy and is aimed at providing the most comfortable and safest labor conditions for its employees and improving the quality of life of their families.

The Company's policy therefore envisions:

- housing assistance;
- optimal conditions for labor and recreation;
- protection of health and support for a healthy lifestyle;
- private pension insurance;
- maintenance of social infrastructure;
- participation in regional social and economic development;
- charitable contributions.

Expenditures on core social programs (mln. rubles)



Social programs and charity

Social programs are implemented by Rosneft in many areas and affect the interests of tens of thousands of people in various regions across the country. Rosneft is involved in extensive housing construction, mortgage

lending, construction of educational and medical institutions, cultural centers and sports and other facilities, infrastructure development and the improvement of various population centers.



The Company also renders material assistance to educational institutions, creative and sports collectives, veterans and retirees.

In 2006, Rosneft and its subsidiaries were nominated in recognition of its achievements in several categories

at the V All-Russian Competition of High Social Efficiency, which is sponsored by the Russian Government.

In 2006, the Company allocated 7.5 billion rubles to social programs which in terms of their scope are on par with those of the world's largest corporations.

Housing programs and mortgage lending

Rosneft has developed housing construction and mortgage lending programs to improve its employees' accommodation, especially where the Company operates.

In 2006, Rosneft provided its employees with 47,500 square meters of housing, twice the amount achieved in 2005.

A substantial proportion of the construction in which Rosneft is involved is in the remote regions of Siberia and the Far East, where 8,100 square meters of housing were built in 2006. The Company plans to build a further 32,500 square meters by 2009.

Rosneft is also actively involved in housing construction in Chechnya, Dagestan and the Stavropol Territory, where construction last year amounted to 6,600 square meters.

In 2006, Rosneft purchased 3,900 square meters of company apartments, 39% more than in 2005, for skilled specialists who came to the Company from all over Russia.

Last year, 645 employees took part in Rosneft's long-term mortgage lending program, three times more than in 2005. Between 2007 and 2011, the Company plans to spend more than 4.5 billion rubles to purchase 171,000 square meters of housing. This program may improve the housing conditions of 3,111 employees.

The most promising long-term employees of the Company are granted interest-free loans to finance the down payments on their new apartments. A beneficial lending system is also offered to the youngest employees of the Company.



A new apartment block built for Groznetgaz employees



Support for education, culture and sports

Rosneft pays considerable attention to construction and renovation of schools and cultural institutions as part of its social programs.

In 2006, the Company participated in the construction and renovation of seven schools, four kindergartens, five sports facilities and four cultural centers.

Rosneft sponsors an annual Sports Tournament for its employees. Games include football, volley-

ball, basketball, table tennis, chess and many other sports.

In 2006, regional competitions were held in several cities. Over 1,000 people took part in the preliminary events. The finalists met in Krasnodar, where the winners were announced.

Last year, Rosneft spent a total of 78.1 million rubles on education, culture and sport, 27.6 million rubles more than in 2005.



Native residents of Kharampur

Support for local infrastructure development

Rosneft subsidiaries are the dominant enterprises in many of Russia's population centers, such as Nefteyugansk, Gubkinsky, Okha and Usinsk. The Company's management has always paid special attention to the needs of these and many other cities.

In most regions where Rosneft operates, the Company supports the development of local infrastructure, including medical facilities, libraries, sports and health-improvement facilities, pharmacies and other establishments.

In 2006, Rosneft provided financial support to five hospitals and clinics that lacked medicines and equipment and built roads and overhead crossings in Stavropol. In Chechnya, the Company not only rebuilt the oil and gas

industry, but also upgraded the water supply system in several communities.

In the Khanty-Mansiysk Autonomous District, the Company repaired a gas pipeline and heating systems.

Since 2006, the Company has been participating in a program to develop the social sphere of the Turukhan District as part of an agreement with the authorities of Krasnoyarsk Territory. Total spending during 2006 and 2007 will be 185 million rubles.

In 2006, Rosneft invested over 1.2 billion rubles in developing local infrastructure, which is 788.9 million rubles more than in 2005.



Private pension insurance

Private pension insurance programs and corporate pension reforms have been developed for the Company's employees.

As part of the private pension insurance program, Rosneft pays out corporate pensions, which are subject to regular indexation. Retirees also receive state pensions.

Between 2007 and 2010, the Company plans to complete its corporate pension reform to provide additional pension support to every employee upon his or her retirement.

In the near future, an employee's pension will consist of the following three complementary parts:

- state pension;
- corporate cumulative pension contributed by Rosneft;
- pension from employees' voluntary contributions into a private pension fund managed by Neftegarant.

Rosneft believes that it has a duty to support veterans and retirees through supplementary private pensions and material aid as part of its policy of social responsibility.

In 2006, together with the funding of the supplementary pension insurance for veterans and pensioners, Rosneft allocated 66 million rubles to payments for medical aid and health resort vouchers.

Charities

Rosneft participates actively in charitable activities and supports regional projects through material funding.

The Company spent 924 million rubles in 2006 on charitable activities.



A church in Nogliki, Sakhalin Island



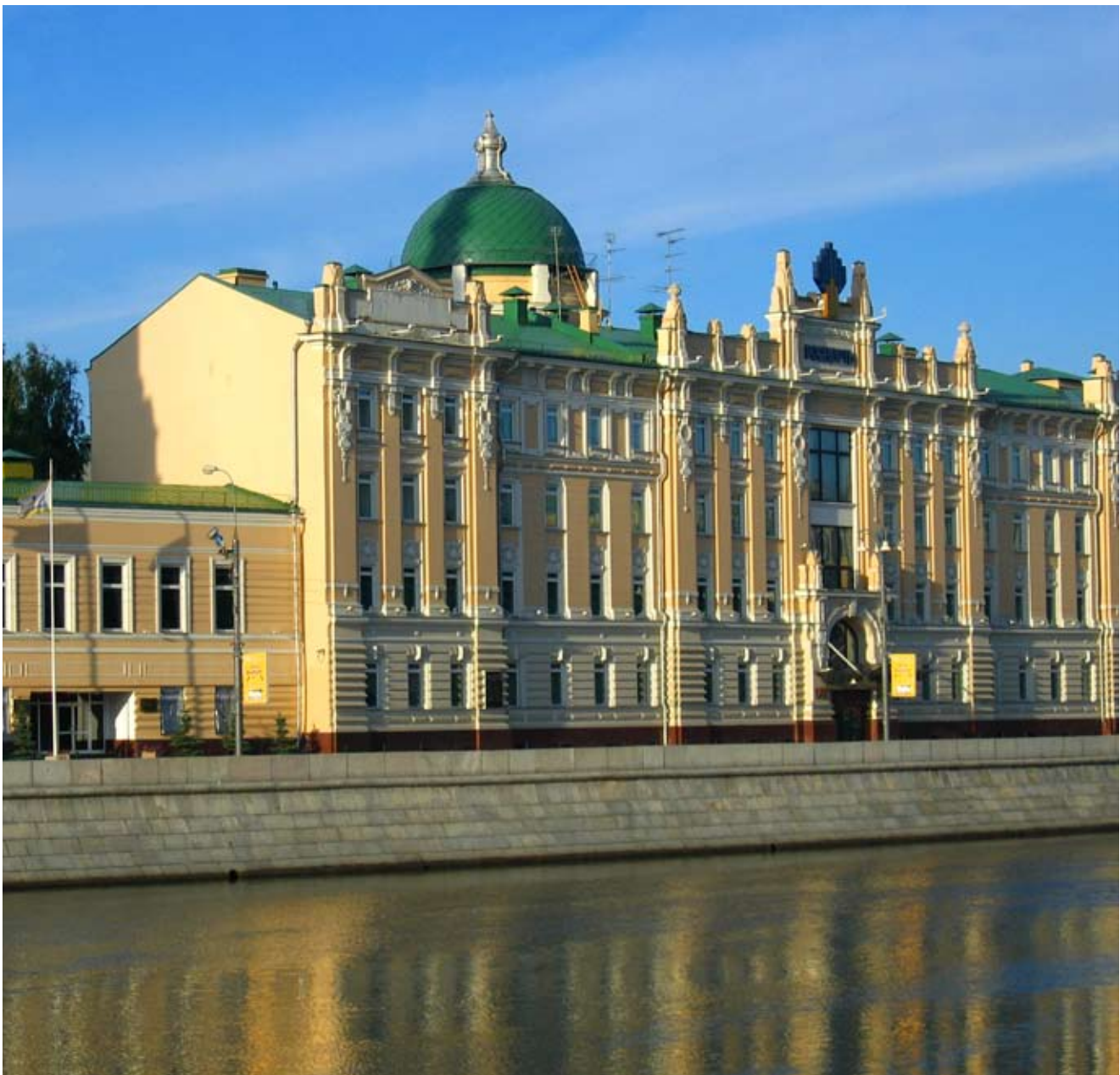
Corporate Governance

Rosneft has developed a system of corporate governance to enhance the Company's efficiency. Rosneft believes that this system ensures the transparency and investment attractiveness of the Company and protects the rights and interests of its shareholders.

In 2006, Rosneft's Board of Directors voted to adopt a Company Code of Corporate Conduct, which

was developed in accordance with the requirements of Russian legislation and best practice in the area of corporate governance.

In addition, three committees of the Board of Directors were established in 2006: the Audit Committee, the HR and Remuneration Committee and the Strategic Planning Committee. They were headed by the Board's independent non-executive directors.



Rosneft headquarters in Moscow



Board of Directors

The Board of Directors of Rosneft consists of nine members, three of whom are independent directors.

The Board of Directors as of December 31, 2006



Igor Sechin

Chairman of the Board of Directors of Rosneft Oil Company

Born in 1960. In 1984, graduated from Leningrad State University. PhD (Economics).
From 2002 to 2004 – deputy head of the Administration of the President of the Russian Federation.
From 2004 – deputy head of the Administration of the President of the Russian Federation – aide to the President of the Russian Federation.
From 2004 – member of the Board of Directors of Rosneft.



Sergey Bogdanchikov

Member of the Board of Directors, President of Rosneft

Born in 1957. In 1981, graduated from the Ufa Petroleum Institute with honors.
From 1993 – general director of Sakhalinmorneftegaz.
From 1997 – vice president of Rosneft.
On October 14, 1998, appointed president of Rosneft by Russian Government decree.
Doctor of Engineering Sciences and an author of several academic works.



Hans-Joerg Rudloff

Independent member of the Board of Directors of Rosneft, Chairman of the Audit Committee, member of the HR and Remuneration Committee.

Born in 1940. In 1965, graduated from Berne University (Economics).
From 2002 – chairman of the Management Board of Barclays Capital Bank.
From 2006 – member of the Board of Directors of Rosneft.



Andrey Kostin

Independent member of the Board of Directors of Rosneft, Chairman of the HR and Remuneration Committee, member of the Audit Committee

Born in 1956. In 1978, graduated from Moscow State University (Economics) with honors. PhD (Economics).
From 2002 – president – chairman of the Management Board of VTB.
From 2006 – member of the Board of Directors of Rosneft.



Alexander Nekipelov

Independent member of the Board of Directors of Rosneft, Chairman of the Strategic Planning Committee

Born in 1951. In 1973, graduated from the Moscow State University (Economics). Doctor of Economics.
From 2002 – vice president of the Russian Academy of Sciences.
From 2006 - member of the Board of Directors of Rosneft.



There were some changes in the composition of Rosneft's Board of Directors in 2006. Igor Artyemyev, Oleg Gordeev, Yuri Medvedev and Sergey Oganessian terminated their tenure. Alexander Nekipelov, Gleb Nikitin, Andrey Kostin and Hans-Joerg Rudloff were elected to the Company's new Board of Directors.



Kirill Androsov

Member of the Board of Directors of Rosneft, member of the Audit Committee.

Born in 1972. In 1994, graduated from the St. Petersburg Naval Technical University (Engineering, Economics). PhD (Economics).

In 2005, received an MBA from the University of Chicago.

From 2002 to 2004 – first deputy general director of Lenenergo.

From 2004 to 2005 - director of the department of state regulation of tariffs and infrastructure of reforms of Russia's Ministry of Economic Development.

From 2005 – Deputy Minister of Economic Development and Trade of Russia.

From 2004 - member of the Board of Directors of Rosneft.



Sergey Naryshkin

Deputy Chairman of the Board of Directors of Rosneft, member of HR and Remuneration Committee

Born in 1954. In 1978, graduated from the Leningrad Mechanical Institute. He received his second higher education at the St. Petersburg International Institute of Management (Economics). PhD (Economics).

From 2002 to 2004 - chairman of the Foreign Economic and International Relations Committee of the Leningrad Region government.

In 2004 – deputy chief of the President's Economic Department

In 2004 – chief of staff for the Cabinet of Ministers.

From 2004 – member of the Board of Directors of Rosneft.

From 2007 – Deputy Prime Minister of Russia



Gleb Nikitin

Deputy Chairman of the Board of Directors of Rosneft, member of the Strategic Planning Committee

Born in 1977. Graduated from the St. Petersburg University of Economics and Finance In 1999. In 2004, graduated from St. Petersburg State University (Law).

From 2002 to 2004 - chief of the state property management division at the Department for the Management of State Property in St. Petersburg's Municipal Property Management Committee.

From 2004 - head of the Russian Agency for the Management of Federal Property.

From 2006 – member of the Board of Directors of Rosneft.



Andrey Reus

Member of the Board of Directors of Rosneft, member of the Strategic Planning Committee

Born in 1960. In 1983, graduated from the Moscow State University. PhD (Economics).

From 2002 to 2004 – chief of staff to the Deputy Prime Minister of the Russian Federation.

From 2004 – Deputy Minister of Industry and Energy of the Russian Federation.

From 2004 – member of the Board of Directors of Rosneft.

The activity of the Board of Directors of Rosneft in 2006

Activity of the Board of Directors and committees of the Board of Directors

Attendance at meetings				
Name	Board of Directors	Audit Committee	HR and Remuneration Committee	Strategic Planning Committee
Igor Sechin	12/12			
Sergey Oganessian	5/6			
Oleg Gordeev	6/6			
Yuri Medvedev	6/6			
Igor Artemyev	6/6			
Sergey Naryshkin	12/12		4/5	
Gleb Nikitin	6/6			3/3
Sergey Bogdanchikov	11/12			
Hans-Joerg Rudloff	6/6	5/5	5/5	
Andrey Kostin	6/6	4/5	5/5	
Kirill Androsov	12/12	5/5		
Alexander Nekipelov	4/6			3/3
Andrey Reus	12/12			3/3

Note: the first figure shows the number of meetings which the member of the Board of Directors attended; the second one shows the total number of meetings which he might have attended (from the date of appointment).

In 2006, the Board of Directors of Rosneft issued seven instructions to the Company's Management Board. All of them were carried out.

In 2006, the Board of Directors held a total of 12 meetings during which the following key issues were considered and respective decisions made:

Improvement of the corporate governance system

The Board of Directors adopted the Code of Corporate Conduct and internal documents regulating the procedure to establish and operate the Committees of the Board of Directors, internal control as well as the dividend and information policies. The Board of Directors proposed to the General Meeting of Shareholders of Rosneft to adopt the new versions of the Charter and

regulations on the General Meeting of Shareholders, on the Board of Directors, on the Management Board, the President and the Internal Audit Committee. A recommendation was made to the Board of Directors to decide upon remuneration of the independent members of the Company's Board of Directors and compensation to the members of the Board of Directors for expenses incurred in relation to the performance of their functions as members of the Board of Directors.

Enhancement of subsidiaries' management efficiency and establishment of an optimal institutional and management structure

In 2006, Rosneft completed a consolidation program, whereby 12 subsidiaries joined the Company. Within the framework of this activity, the Board of Directors made decisions to validate the conditions and procedures of



Rosneft's restructuring and the adoption of the schedule for the Company's consolidation.

Financial and economic performance of Rosneft

Rosneft's Board of Directors adopted a business plan for 2007. In order to prepare the Initial Public Offering (IPO) of shares on the London Stock Exchange, the Board

of Directors approved the Prospectus. The Board of Directors also confirmed the Company's preliminary production and economic performance results for the first quarter, first half of the year and nine months of 2006; submitted recommendations to the General Meeting of Shareholders on the amount of annual dividends to be paid on Rosneft shares and approved dividend payment procedures. In the process of organizing loans, the Board of Directors approved the respective transactions.



Management Board

The Management Board of Rosneft consists of eight members.

The Management Board as of 31.12.2006



Sergey Bogdanchikov

President of Rosneft, Chairman of Management Board of Rosneft

Born in 1957. In 1981, graduated from the Ufa Petroleum Institute with honors.

From 1993 – general director of Sakhalinmorneftegaz.

From 1997 – vice president of Rosneft.

On October 14, 1998, appointed president of Rosneft by Russian Government decree.

Doctor of Engineering Sciences and an author of several academic works.



Nikolay Borisenko

First Vice President, Deputy Chairman of the Management Board of Rosneft

Born in 1956. In 1980, graduated from the Siberian Iron and Steel Institute.

From 2002 - first vice president of Rosneft, responsible for corporate affairs.



Sergey Kudryashov

First Vice President of Rosneft

Born in 1967. In 1991, graduated from the Kuibyshev Polytechnics Institute.

In 2006, received an Executive MBA from the Stockholm School of Economics.

From 2002 to 2003 – deputy general director of Tomskneft VNK – head of oil and gas production department of Strezhevoineft.

From 2003 to 2005 – general director of Yuganskneftegaz, vice president of YUKOS.

From 2005 - first vice president of Rosneft, supervises the Company's production sector.



Anatoly Baranovsky

Vice President of Rosneft

Born in 1942. In 1967, graduated from the Bauman Moscow State Technical University. PhD (Economics).

From 2002 – vice president of Rosneft, responsible for treasury and budgetary issues, current assets and fiscal regulation.



There were some changes in the membership of Rosneft's Management Board in 2006. Alexey Kuznetsov and Sergey Alexeev terminated their tenure. Peter O'Brien and Kim Sun Ne were elected to the Company's new Management Board.



Stepan Zemlyuk

Vice President of Rosneft

Born in 1959. In 1984, graduated from the Lvov Polytechnic Institute.

From 2002 to 2003 – vice president of Rosneft – general director of Sakhalinmorneftegaz.

From 2003 to 2004 – vice president of Rosneft – general director of Purneftegaz.

From 2004 – vice president of Rosneft, responsible for the Company's construction projects.



Sun Ne Kim

Chief Accountant of Rosneft

Born in 1951. In 1973, graduated from the Irkutsk Institute of Economics.

From 2002 – chief accountant of Rosneft.



Peter O'Brien

Head of the Group of Financial Advisers to the President of Rosneft in the capacity of Vice President

Born in 1969. In 1991, received a bachelor's degree from Duke University.

In 2000, received an MBA in Columbia University.

From 2002 to 2005 – vice president of Morgan Stanley (Moscow).

From 2005 to 2006 – executive director, co-head of investment banking in Russia, head of group of the Fuel and Energy Complex at CIS Morgan Stanley (Moscow).

From 2006 – vice president of Rosneft, responsible for strategic investment projects, debt and equity raising.



Riso Tursunov

Vice President of Rosneft

Born in 1947. In 1970, graduated from the Moscow Electrotechnical Institute

From 2002 – vice president of Rosneft.

Information on the shares held by the members of the Board of Directors and the Management Board of Rosneft (as of December 31, 2006)

Members of the Board of Directors and the Management Board of Rosneft	Number of ordinary shares	Share in authorized capital. %
Igor Sechin	—	—
Sergey Bordanchikov	126 672	0.0012%
Hans-Joerg Rudloff	662 500	0.0063%
Andrey Kostin	—	—
Alexander Nekipelov	—	—
Kirill Androsof	—	—
Sergey Naryshkin	—	—
Gleb Nikitin	—	—
Andrey Reus	—	—
Nikolay Borisenko	295 216	0.0028%
Sergey Kudryashov	132 847	0.0013%
Anatoly Baranovsky	265 695	0.0025%
Stepan Zemlyuk	137 768	0.0013%
Sun Ne Kim	66 423	0.0006%
Peter O'Brien	50 000 (Global Depositary Receipts)	—
Riso Tursunov	—	—

Shares of Rosneft were purchased by the members of the Board of Directors and the Management Board in 2006 during the process of the Company's Initial Public Offering (IPO).

Committees of Rosneft's Board of Directors

Audit Committee of the Board of Directors

The Audit Committee was founded by order of the Board of Directors of Rosneft in June 2006 and is headed by an independent director. It comprises only non-executive members of the Board of Directors and the Committee.

Members of the Audit Committee:

Hans-Joerg Rudloff – Chairman of the Committee;
Kirill Androsof;
Andrey Kostin.

The Committee's functions include the preparation of recommendations to the Board of Directors on exercising control over Rosneft's financial and economic performance.

In addition, the Committee evaluates the performance of Rosneft's nominee auditors, the audit report and the efficiency of internal control procedures. It also drafts proposals on their improvement.

The Audit Committee assists the Board of Directors in exercising control over the integrity and accuracy of fiscal and management accounting and financial statements



at the Company and makes recommendations on profit and loss distribution procedures at Rosneft, based on performance in the given fiscal year.

The Audit Committee also reviews the Company's internal procedures in terms of risk management, as well as reviews and monitors the efficiency of such procedures and their implementation.

HR and Remuneration Committee of the Board of Directors

The HR and Remuneration Committee was founded in June 2006. It also consists of non-executive members of the Board of Directors and is headed by an independent director. The Committee members cannot take part in the evaluation of their own performance and decision-making regarding their remuneration.

Members of the HR and Remuneration Committee:

Andrey Kostin – Chairman of the Committee;
Sergey Naryshkin;
Hans-Joerg Rudloff.

The HR and Remuneration Committee helps attract qualified specialists to the Company's management and ensures that the necessary incentives are available for their successful work.

The main functions of the HR and Remuneration Committee are the development of personnel strategy, resolving of issues linked to remuneration and incentives for the employees of Rosneft, development of principles

and criteria of establishing the size of the remuneration and compensation to the members of the Board of Directors, the Management Board and management of Rosneft, and the development of long-term remuneration programs for the Company's employees (bonuses and optional forms of remuneration).

Strategic Planning Committee of the Board of Directors

The Strategic Planning Committee was founded in June 2006 and consists only of non-executive members of the Board of Directors. It is headed by an independent director.

Members of the Strategic Planning Committee:

Alexander Nekipelov – Chairman of the Committee;
Gleb Nikitin;
Andrey Reus.

The Strategic Planning Committee determines the strategic objectives and goals for Rosneft.

The main functions of the Strategic Planning Committee are business planning and the development of budgets and plans for the Company's short-term and long-term financial and economic performance.

The Strategic Planning Committee develops policies aimed at enhancing the Company's capitalization, establishes its investment, dividend and credit policies and evaluates coordination between Rosneft and its investors.

Activities of the Committees of the Board of Directors of Rosneft in 2006

Audit Committee

The Audit Committee is operating according to a plan for 2006-2007.

In 2006, the Audit Committee held five meetings during which the following issues were discussed:

The Committee made recommendations on adopting the consolidated financial reports of Rosneft for 2006, prepared by Ernst & Young in accordance with US GAAP standards, as well as on the fee for the performed audit services. The Committee took actions aimed at improving cooperation with the Company's external auditor; appointed Accenture as the principal consultant of Rosneft

with respect to the project of "fast close" of consolidated financial reports under US GAAP. The Audit Committee also reviewed the Company's internal control system.

HR and Remuneration Committee

The HR and Remuneration Committee operates according to a plan for the second half-year of 2006 and the first half-year of 2007.

In 2006, the HR and Remuneration Committee held five meetings during which the following issues were discussed: recommendations made to the Board of Directors to adopt remuneration procedures and compensation of expenses of the members of the Board

of Directors of Rosneft; approved the compensation package for the President, the First Vice Presidents and other top managers based on the Company's performance in the first and second half-years of 2006 in accordance with the terms of individual contracts and in view of the successful completion of Rosneft's IPO. The Committee also adopted a program to develop (corporate) retirement insurance for employees of Rosneft for 2006 and subsequent years.

Strategic Planning Committee

The Strategic Planning Committee operates in accordance with a plan for the second half-year of 2006 and the first half-year of 2007.

In 2006, the Strategic Planning Committee held three meetings. The key decision was to recommend that the Board of Directors adopts the business plan for 2007.

Authorized capital

The authorized capital of Rosneft as of December 31, 2006 is 105,981,778.17 rubles and it is divided into 10,598,177,817 ordinary shares with a nominal value of 0.01 rubles each.

The state registration number of issue of ordinary shares of the Company is: 1-02-00122-A.

The date of state registration of issue of ordinary shares of the Company: September 29, 2005.

The number of shareholders registered in the register of shareholders of Rosneft as of December 31, 2006 is: 36,723 (including 20 nominal holders).

Structure of Rosneft's equity

List of Rosneft major shareholders

Shareholders	as of December 31, 2005		as of December 31, 2006	
	Number of shares	Share in the stock capital, %	Number of shares	Share in the stock capital, %
OJSC ROSNEFTEGAZ	9 092 173 999	99.999999989	7 965 816 383	75.16
OJSC YUKOS Oil Company	—	—	1 000 000 000	9.44
Sberbank of Russia (nominee shareholder)	—	—	1 034 133 827	9.76
Vneshekonombank (nominee shareholder)	—	—	332 119 664	3.13
Other entities holding less than 1% of shares	—	—	197 126 186	1.86
Individuals	—	—	68 981 757	0.65

In 2005-2006, the government's share in the equity of Rosneft was 0.000000011% and 0.000000009%, respectively.

In 2006, additional shares of Rosneft were issued and distributed:

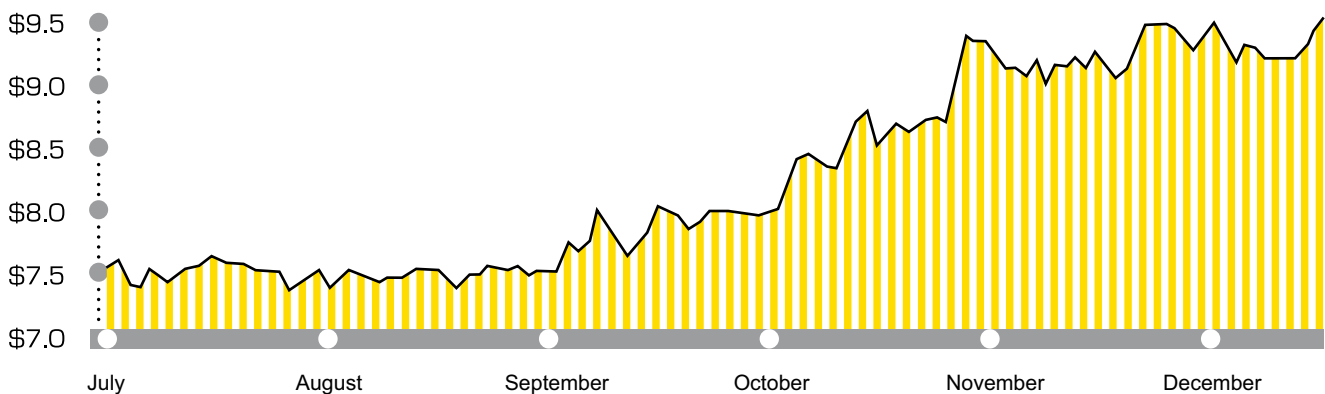


1) by private offering in favor of J.P. Morgan Europe Limited for subsequent share placement and circulation outside the Russian Federation through distribution of securities of a foreign issuer - the Depository Receipts certifying the rights with respect to the shares of Rosneft;

2) through conversion of subsidiaries' shares into shares of Rosneft.

In July 2006, the shares of Rosneft were floated on the NP Russian Trade System Stock Exchange, MICEX Stock Exchange and the London Stock Exchange.

Dynamics of Rosneft share quotes during 2006 (USD per share)



Consolidation of Rosneft

Rosneft completed the consolidation its subsidiaries on October 2, 2006. This program was aimed at establishing an optimal organizational and management structure for the Company.

As a result of this consolidation, 12 subsidiaries joined the Company:

- Seven oil-producing companies:
 - Rosneft-Krasnodarneftegaz
 - Rosneft-Purneftegaz
 - Rosneft-Sakhalinmorneftegaz
 - Rosneft-Stavropolneftegaz
 - Yuganskneftegaz
 - Severnaya Neft
 - Selkupneftegaz
- 2 oil-refining companies:
 - Rosneft-Komsomolsk Refinery
 - Rosneft-Tuapse Refinery
- 3 oil product companies:
 - Rosneft-Arkhangelsknefteprodukt
 - Rosneft-Nakhodkanefteprodukt
 - Rosneft-Tuapsenefteprodukt

Twelve enterprises, which are involved in hydrocarbon production, refining and oil product sales, were established in the regions where the Company's affiliated subsidiaries operate. As a result of the consolidation, Rosneft's corporate structure was streamlined and its administration was substantially improved. Its levels of responsibility were more clearly defined, and the accountability of its production units was enhanced. Additionally, the consolidation of Rosneft made it easier for the Company to gain access to capital markets, which enabled it to secure financing for new capital-intensive projects and simplify the process of loan structuring.

After converting their shares into securities of the parent company, minority shareholders in Rosneft's subsidiaries became holders of highly liquid financial instruments, which are traded on leading stock exchanges in Russia and abroad.



Rosneft management attending the ceremony of the Company's Global Depository Receipts trading session opening at the London Stock Exchange

Public offering of Rosneft shares

In 2006, Rosneft publicly offered its shares and on July 19, 2006, the free float of securities started on both the London Stock Exchange (LSE) and Russian stock markets.

Investors demand for the stock met expectations. The share placement was especially successful among individuals, and more than 115,000 people purchased the Company's shares. For the first time in the privatization of a Russian oil company, all citizens of Russia were able to participate. Total individual investments in the Company's shares exceeded USD 750 million.

Large international institutional and strategic investors, which invested billions of dollars in the Company's shares, valued the Company's and Russia's potential highly.

As a result of the IPO, the parent company of Rosneft, Rosneftegaz as well as Rosneft itself, earned USD 10.7 billion, which was the largest public offering among Russian companies to date and the fifth largest in global financial history. The public offering has confirmed the strengthening of Russia's positions in global markets. At the time of the offering, the Company's capitalization was USD 79.8 billion, which ranked Rosneft as the second largest Russian company in terms of market capitalization.

Dividend policy

In May 2006, Rosneft's Board of Directors voted to adopt a Dividend Policy Statute. This statute was developed in accordance with Russian legislation, the Company's Charter and the Code of Corporate Conduct. The statute sets out the main principles of Rosneft's dividend policy, decision-making on payment (announcement) of dividends and calculation of their amount.

Rosneft will pursue a strategy aimed at systematically increasing the absolute and relative values of its dividend payments.

When establishing the amount of dividend payments, the following should be taken into consideration: the size and of the investment program and current operations, the need to enhance the Company's investment



attractiveness and increase capitalization and strict adherence to shareholders' rights as specified in applicable legislation of the Russian Federation.

The Board of Directors recommends the amount of dividend payments to the General Meeting of Shareholders on the basis of Rosneft's annual financial results

and is calculated in accordance with Russian Accounting Standards (RAS).

Rosneft informs shareholders of its dividend policy by placing information for download on the Company's website: www.rosneft.ru (Russian version) and www.rosneft.com (English version).

Dividend history of Rosneft

Year	Total dividends (announced and paid), million rubles	Dividends per share, rubles	Dividend payout ratio, RAS
1999	200	2.21	3.4%
2000	800	8.87	5.3%
2001	1 100	12.19	11.0%
2002	1 500	16.63	16.8%
2003	1 500	16.50	8.1%
2004	1 755	19.31	10.0%
2005	11 336	1.25	20.0%

Information disclosure

With respect to information disclosure, Rosneft is governed by requirements of the Federal Law on Securities, the Federal Law on Joint Stock Companies, the regulation on information disclosure by issuers of securities as approved by the Order of the Federal Service for the Financial Markets (FSFM) dated October 10, 2006 No 06-117/pz-n and other statutory acts.

Rosneft's policy regarding information disclosure is based on the principles of regularity, efficiency, accessibility, integrity and meaningfulness.

In May 2006, Rosneft's Board of Directors adopted an Information Policy Statute, based on which information is accessible to shareholders and individuals concerned, regardless of the reasons for obtaining such information, by following a procedure guaranteeing that it is made available.

The main source for disclosure is Rosneft's website, which contains relevant information on sub-

stantial facts, events, management structure and the Company's financial and operational results.

Rosneft's website contains the Company's Charter and internal regulations, annual and quarterly reports, financial statements (consolidated and interim), information on affiliates and other data that may affect the value of the Company's securities.

Rosneft also provides information in the form of brochures, booklets, press conferences, meetings with shareholders and other concerned individuals.

The company strictly complies with legislative requirements concerning shareholders' access to necessary information.



Code of Corporate Conduct

In May 2006, Rosneft's Board of Directors voted to adopt a Code of Corporate Conduct. It was developed in accordance with the Federal Law on Joint Stock Companies, the sample Code of Corporate Conduct recommended by the FSFM of Russia, the Principles of Corporate Governance of the Organization for Economic Cooperation and Development (OECD) and the Charter of Rosneft.

The Code determines the principles of the Company's corporate governance system. Provisions of this

document reflect the main principles of best practice in this area, including the protection of rights and equal treatment of all shareholders; timely disclosure of information, including the Company's financial status, economic parameters, ownership structure and governance; strategic management of the Company and efficient control over the activity of the Company's executive bodies and the accountability of the Board of Directors to the General Meeting of Shareholders.

Internal control

Control over Rosneft's financial and economic performance is exercised by the Company's organization departments – the Internal Audit Committee, the Audit Department and the Audit Committee.

Internal Audit Committee

Structure and competence of the Internal Audit Committee

Control over Rosneft's financial and economic performance is exercised by the Internal Audit Committee, which is elected by the General Meeting of Shareholders for a period of one year. It consists of at least three members. Members of the Internal Audit Committee cannot be members of the Board of Directors at the same time and cannot hold other positions in the Company's management bodies. The audit of Rosneft's financial and economic performance is exercised on mandatory

grounds, based on the results of its activity within the year and additionally, at the initiative of the Internal Audit Committee, by decision of the General Meeting of Shareholders, the Board of Directors or at the request of shareholders holding at least 10% of the voting shares. The authority of the Internal Audit Committee on the issues not stipulated by the Charter is determined by the Regulation on the Internal Audit Committee, which was approved by the General Meeting of Shareholders of Rosneft on June 7, 2006. The Internal Audit Committee shall exercise the annual audit of the Company's operations within 60 days after the end of the fiscal year.

Audit Committee

The Audit Committee ensures the actual participation of the Board of Directors in exercising control over the financial and economic performance of Rosneft.

Within the authority delegated by the Board of Directors, the Audit Committee:

- ensures a permanent liaison of the Board of Directors with an auditor, an independent assessor, the Internal Audit Committee, the Audit Department, executive bodies and the financial management;
- determines the amount of payment for auditor's services, evaluates the quality of the auditor's services

to be performed and compliance with the requirements of auditor independence;

- exercises control over the integrity and accuracy of fiscal, management accounting and financial statements of Rosneft;
- makes recommendations to the General Meeting of Shareholders with respect to the amount of dividends on shares and their payment procedures; distribution of profit and losses based on the results of the fiscal year;
- evaluates the property of Rosneft, distribution and repurchase of issued securities as provided by the Federal Law on Joint Stock Companies;



- approves material transactions as provided by Chapters X and XI of the Federal Law on Joint Stock Companies;
- develops and adopts internal control procedures along with executive bodies and organization departments exercising internal control functions;

- reviews results of comprehensive and thematic audits, inspections and examinations of the financial and economic performance of the Company;
- considers proposals and recommendations on management of crisis situations.

Audit Department

Structure and authority of the Audit Department:

The Audit Department (AD) is responsible for:

- establishment of an integrated system of general control over the financial and economic activity of the Company's subdivisions, offices and subsidiaries;
- performance of comprehensive and selective audits of production and financial activity of the Company's subdivisions, offices and subsidiaries with the participation of relevant specialists, members of the Internal Audit Committees and audit subdivisions;
- quality and timely execution of decisions made by the Board of Directors, the Management Board and the President of the Company, review of applications from subsidiaries and organization departments on issues within the authority of the Audit Department and control over implementation of the decisions made;
- evaluation, classification and minimization of potential risks arising in the course of Rosneft's operation;
- cooperation with the Audit Committee and procurement of information on the state of the Company's internal control;
- methodological support of the Internal Audit Committees and the activities of subsidiaries' audit subdivisions.

The Audit Department reports to the Audit Committee of the Board of Directors of Rosneft. It allows the Audit Department to ensure its independence for execution of assigned tasks.

The audit results are submitted to the Company's President, who is also the Chairman of the Management Board and a member of the Board of Directors. Jointly with the heads of organizational departments, decisions are prepared to eliminate detected irregularities and shortcomings, and relevant measures are developed for the prevention of risks.

The Management Board annually hears the report of the Audit Department on the results of the department's activity and measures taken for enhancement of internal control efficiency.

The head of the Audit Department participates in all meetings of the Audit Committee, reports to the Audit Committee on a quarterly basis on the issues of the Audit Department's activities and the state of the Company's internal control.

The Audit Department actively cooperates with the independent auditors to enhance the efficiency of audit and control procedures.

The existing procedure of the Audit Department reporting to the Audit Committee and the executive management of the Company ensures its independence in order to exercise the functions assigned to the Department and the procedure is in compliance with best practice and international standards related to internal audit.



Principle risk factors

Legal risks

Legal risks arising from amendments to currency regulations:

OJSC Rosneft Oil Company is a party in foreign trade and economic relations; some of the Company's assets and liabilities are denominated in foreign currency and amendments to currency regulations may therefore affect the financial and economic performance of the Company.

At the same time, during 2006, the Russian Federation legislation on currency was significantly liberalized in line with the Government's policy to make the ruble fully convertible.

As a result of amendments to Federal Law dated 10.12.2003 No 173-FZ "On currency regulation and currency control", the following provisions were rescinded:

- a regulation by the Government and the Central Bank of the Russian Federation on capital movement transactions;
- the Central Bank's right to demand the establishment of cash reserves during currency transactions;
- the Central Bank's right to establish a procedure for writing off and/or accruing cash funds and internal/external securities from and to a special resident or non-resident account;
- the Central Bank's right to establish a procedure for the purchase and sale of foreign currency and cheques (including Travelers' Cheques) by residents (legal entities, not individuals) and non-residents with the nominal value denominated in foreign currency;
- the requirement for the preliminary registration of an account (deposit) opened in a bank outside the Russian Federation;
- the requirement for the mandatory sale of part of the currency earnings of residents – individual entrepreneurs and legal entities.

In the opinion of OJSC Rosneft Oil Company, the clear trend of liberalization with respect to currency regulations reduces the risks of adverse effects on Company activity related to subsequent amendments of currency legislation.

Legal risks arising from amendments to tax legislation:

During 2006, a number of amendments (effective from 01.01.2007) were made to the Tax Code of the Russian

Federation (TCRF) which substantially influenced the calculation and payment procedures applied to mandatory payments.

Among the most significant amendments that directly affect the operations of OJSC Rosneft Oil Company, the following are worth mentioning:

Amendments to the mineral extraction tax (MET):

- For organizations producing oil at fields located wholly or partly within the boundaries of the Republic of Sakha (Yakutia) and Irkutsk Region, Krasnoyarsk Territory, legislation established a so-called "tax holiday", i.e. an opportunity to apply zero MET on the oil extracted from those fields - the zero rate was introduced for extremely viscous oil. Overall, this amendment will reduce the total tax burden on OJSC Rosneft Oil Company since the Company is now involved in the active development and production at the "privileged" fields.
- The TCRF allows taxpayers to take the maturity of fields into account when calculating the MET rate. As a result, the tax burden on production ventures varies, with the amount of MET reduced for companies operating on more mature fields.
- Additional guarantees were established for taxpayers against the consequences of wrongful omissions by Governmental bodies. Accordingly, the TCRF allows taxpayers to apply a zero MET rate with respect to losses from mineral deposits within previously approved standards unless a Governmental agency has adopted new standards of losses for the current year before the 25 February of the year in question.

Amendments to income tax:

- Limitations were fully canceled with respect to the reduction of the tax base of the income tax on losses of prior years which can be taken into account fully and in time (in 2006 there was a 50% limitation of the reduction of the tax base).
- The period for recognizing expenses for scientific, research and experimental development works for the purpose of income tax was reduced to one year.

Amendments to value added tax:

- The procedure for preparing and submitting tax returns was simplified. A special procedure for reimbursing



VAT with respect to export transactions was cancelled. As from January 2007, taxpayers record VAT deductions on internal and external transactions in a single tax return.

- The VAT payment procedure in offset and barter transactions was changed. Effective from 01.01.2007, the tax on such transactions should in any case be transferred by the parties to each other for subsequent transfer of funds to the budget.

- Terms of VAT refunds in the event that tax deductions exceed the tax amount payable to the budget were reduced. A decision on a tax refund should be made within 7 days after the completion of a desk audit and the refundable tax amount transferred to a taxpayer within another 5 days.

Excise duties:

- Parties engaged in the sale of their oil products are recognized as payers of excise duties on oil products. Certification of transactions on oil products was rescinded. Exports of oil products are exempt from excise duties.

Generally, the amendments to the Russian Federation's tax legislation, as outlined in the amendments listed above, are regarded by OJSC Rosneft Oil Company as positive.

The Company monitors amendments to tax legislation, evaluates their potential effect on Company activity and takes them into consideration. Rosneft therefore regards the possibility of risks arising from subsequent amendments to tax legislation and a deterioration in the position of taxpayers as insignificant.

Legal risks relating to amendments to customs regulations and duties:

The Company regards Russia's customs legislation since the introduction of the Russian Federation's Tax Code on January 1, 2004 as stable, which in turn minimizes legal risks arising from amendments to customs regulations and to tax payment procedures, including customs duties.

The most significant amendments to the law "On customs tariffs" made by the Federal Law dated 08.11.2005 No 144-FZ and effective since July 1, 2006, concern adjustments to customs clearance procedures and calculation methods for customs duties.

The above amendments concern mainly imports of goods, while the foreign economic performance of OJSC Rosneft Oil Company is mostly related to exports of crude oil and only partly with the purchase of imported equipment and materials.

OJSC Rosneft Oil Company engages professional organizations, i.e. customs brokers operating on behalf of and under the instructions of the Company, to carry out functions related to the registration of customs transactions, the payment of customs duties and other actions necessary to comply with the customs treatment of the Company's oil exports and to represent the Company's interests vis-à-vis customs control.

Subcontracting customs transactions to customhouse brokers does not relieve OJSC Rosneft Oil Company from the risk of administrative liability in the event of any breaches of tax legislation. OJSC Rosneft Oil Company exercises operational cooperation and control over the customhouse brokers to prevent such risks.

A potential amendment of customs duty rates by the Government of the Russian Federation (both import and export duties) on individual commodities traded by the Company internationally represents an economic risk incurring increased expenses.

Thus, the Russian Government Decree "On applying export customs duties on crude oil exported from the territory of the Russian Federation to the Republic of Belarus" dated 08.12.2006 No 753 has imposed export duties on Russian crude oil and individual commodities made of oil exported to the Republic of Belarus since 01.01. 2007, although previously, under international agreements signed by Russia, no duties on the exports of oil and petroleum products to the CIS (except Ukraine) were paid.

In addition, according to the latest amendments to the Russian law dated 21.05.1993, No 5003-1, "On customs tariffs" (see Federal Law dated 27.07.2006 No 145-FZ "On the Amendment to Article 3 of the Law of the Russian Federation "On customs tariffs"), the procedure for imposing export duties on crude oil was also applied to individual commodities composed of oil and included in the list specified by the Government of the Russian Federation. Meanwhile, the export duty rates are subject to change every two months.

Notwithstanding the possible amendments to customs duty rates applied to individual commodities, this risk is common to all participants trading in the respective commodity and cannot be regarded as substantial for OJSC Rosneft Oil Company.

OJSC Rosneft Oil Company monitors amendments to applicable legislation of the Russian Federation and takes them into consideration in its activity, which enables the Company to regard the risks arising from such legislative changes as insignificant.



Legal risks arising from amendments to licensing requirements

OJSC Rosneft Oil Company performs its operations in license areas in accordance with the requirements of Russian subsurface legislation.

Contemporary Russian subsurface legislation is based on the detailed government regulation of subsurface use, the need to enhance the rational use of the subsurface and strict compliance with legislation on environment protection.

The latest amendments to subsurface legislation enable us to make the following conclusions in evaluating the risks to the Company in this area:

The Russian law "On the subsurface" has been supplemented by a list of grounds for transferring subsurface rights and the re-registration of subsurface licenses. Subsurface rights may now be transferred from a principal organization to a subsidiary, from a subsidiary to a principal organization and between subsidiaries of the same parent company. Meanwhile, an entity to which subsurface rights are transferred should meet the requirements of the legislation of the Russian Federation applicable to subsurface users.

The foregoing amendments may be regarded as positive, since provisions were included in Russian legislation on the transfer of licenses within a group, which gives OJSC Rosneft Oil Company additional opportunities to optimize the license monitoring system.

Modern subsurface legislation encourages exploration at the expense of a subsurface user. In view of the Company's subsurface exploration projects, it seems important that subsurface licenses should be obtained without contest or tender by a subsurface user who has carried out exploration on such fields on land and offshore in the Russian Federation. Further development of these institutions based on by-laws will allow the Company to optimize the acquisition of licenses to extract hydrocarbons.

During the fourth quarter of 2006, the Federal Law dated 08.08.2001 No128-FZ "On licensing of certain types of activity" was amended. The changes concern the abolition of licensing for certain types of activity and new licensing requirements for defined types of activity. With respect to a number of activities, the new provisions amended the public license requirements and conditions. OJSC Rosneft Oil Company ensures compliance with such requirements in performing the activity subject to licensing.

Legal risks related to amendments of subsurface legislation and licensing requirements for separate types of activity are not substantial for the Company, since the foregoing amendments generally serve the interests of OJSC Rosneft Oil Company with regard to license control over subsurface rights and are unable to affect adversely the requirements on industrial safety and environment protection.

OJSC Rosneft Oil Company reviews and evaluates legislative initiatives of ministries and agencies responsible for subsurface legislation and the licensing of certain types of activity. According to the Company, the proposed amendments to the applicable legislation will overall exert a favorable influence on treatment of subsurface use and the implementation of activity requiring licensing in the Russian Federation.

Legal risks arising from amendments of judicial practice

Decisions of the Constitutional Court of the Russian Federation and decrees of the Plenary sessions of the Supreme Arbitration Court of the RF are gaining increasing importance in dispute resolution.

Decisions of the Constitutional Court of the Russian Federation are binding upon all law enforcement agencies in accordance with Section 5, Article 125 of the Constitution of the Russian Federation and Articles 6, 79, 87, 100 of the Federal Constitutional Law dated 21.07.1994 "On the Constitutional Court of the Russian Federation".

The mandatory nature of the decrees of the Plenary sessions of the RF Supreme Arbitration Court for arbitration courts arises from their obligation to comply with the Constitution of the RF and the law in discharging their functions, and also from the constitutional authorities of the Supreme Arbitration Court of the RF to exercise judicial supervision over arbitration courts in the respective procedural form and judgments applying in judicial practice (Articles 120, 127 of the Constitution of the RF).

OJSC Rosneft Oil Company monitors the decisions taken by supreme courts and trends in law enforcement practice as formed by district courts, and actively applies and uses them not only to defend its rights and rightful interests in judicial proceedings, but also to resolve legal issues arising during the Company's operations. The risks arising from amendments of the judicial practice are therefore regarded as insignificant.



Financial risks

Inflation risk

Changes in the consumer price index affect the financial position of the Company. However, the existing and expected inflation rates are far from critical for the industry and the Company. Rosneft pursues a balanced policy in using its own and borrowed funds.

The company has favorable ratings:

Moody's (Baa/Positive),
Fitch (BB+/ Positive),
Standard & Poor's (BB+/Developing/-).

The Company's increasing creditworthiness has improved its credit ratings, which, in conjunction with Russia's improved sovereign ratings, are important in reducing the cost of borrowing for the Company going forward.

Interest rate risk

As a major borrower, Rosneft is exposed to interest rate risk. The main source of borrowing is the international bond market. A greater part of the Company's

debt portfolio consists of bonds denominated in US dollars. The interest rate on a greater part of these bonds is based on LIBOR/EURIBOR. Increases in these interest rates may lead to higher costs of debt servicing. An increase in the cost of borrowing will adversely affect solvency and liquidity. The Company does not hedge these risks, but in each case uses the loans against security of resources and controls reserves of financial risks, which enables it to guarantee the performance of obligations.

Currency risk

Most of OJSC Rosneft Oil Company's gross proceeds come from the export of oil and the sale of petroleum products. Fluctuations of exchange rates against the ruble therefore affect the Company's financial and economic performance. Currency risk declines significantly when expenditures are made in a foreign currency. Rosneft is a major borrower on the international bond market. A greater part of the bonds is denominated in US dollars. Current liabilities for servicing these bonds are also denominated in US dollars. The currency structure of proceeds and liabilities acts as a hedging tool, whereby the alternate factors compensate for each other. A balanced structure of currency claims and liabilities enables the Company to minimize currency risk.

Industry-related risks

Industry-related risks are determined by prices of products, services and raw materials on domestic and international markets, the degree of competition in the industry, the position of OJSC Rosneft Oil Company and the trends of the above factors.

Price risks from crude oil, natural gas and petroleum products

The main determinant of OJSC Rosneft Oil Company's financial and, indirectly, operational performance is the price of crude oil, natural gas and petroleum products. The Company is unable to control the prices of its products, which depend mainly on global markets and demand and supply in certain regions of Russia. Over the past few years, prices for crude oil and petroleum products have remained at high levels. Rosneft has sufficient resources to reallocate its products when significant price differentials between foreign and domestic markets arise. The Company also has a program of reducing capital and operational costs,

enabling it to perform its obligations even in the event of a sharp decline in oil and gas prices.

Risks from changes in prices for services and materials

The price the Company pays for services and materials substantially influences its financial performance. Rosneft constantly monitors proposals from suppliers, including from suppliers of transportation services, and has a transparent tender procedure, allowing it to acquire the necessary materials and services at optimal prices. The Company uses its own sources of heat and energy whenever the cost of its in-house generation is lower than prices from independent suppliers. Rosneft performs a monthly review of all cost items to optimize spending.

Competition risk

Rosneft occupies one of the leading positions in the Russia and global industry, significantly improving



its competitive position. The Company has a substantial portfolio of new projects to maintain and improve its position in the future.

Rosneft faces the risk of increased competition when selling its products in domestic and international markets. In order to minimize the risks when selling petroleum products on the highly competitive domestic market, the Company takes the following steps:

- the workload of the Company's refineries is based on the anticipated market situation in order to avoid over-supplying separate categories of petroleum products;
- Rosneft switches products from one market to another, both within Russia and between the domestic and export markets, taking into account the current structure of crude oil refining, the production of petroleum products and the availability of proprietary oil product enterprises and counterparts covering practically all regions of the Russian Federation;
- in urgent cases, our 4 proprietary marine transshipment terminals facilitate the rapid switch of our manufactured petroleum products from the domestic market to export;
- Rosneft is modernizing its refineries to increase refining volume and depth and satisfy the growing de-

mand for high-grade gasoline and petroleum products with low-sulfur content;

- Rosneft is devoting much attention to developing a network of Company-owned fuel stations and facilities which meet the highest European standards as the most stable sector of petroleum products sales on the domestic market, since it is less affected by spontaneous price changes and declining demand.
- Rosneft attracts corporate customers in particular by its system of oil product sales at its proprietary fuel stations using its own loyalty and other electronic cards.

Geographical diversification enables the Company to reallocate products from one region to another and mitigate the risk of heavy competition in the international crude oil and petroleum product market. For example, Rosneft can adjust its export flow by shipping crude oil to China by rail or from Arkhangelsk and Murmansk. This will access the markets of the Far East, South-East Asia and the USA by reducing traditional exports via the ports of the Black and the Baltic Seas and Transneft's Friendship Pipeline, which are oriented towards Europe. With the growth of oil transshipment capacity and the subsequent construction of ESPO pipeline system, these opportunities will increase.



This Annual Report has undergone preliminary approval by the decision of the Board of Directors dated 22.05.2007.

President of OJSC Rosneft Oil Company

A handwritten signature in blue ink, appearing to be 'S. Bogdanchikov'.

S. Bogdanchikov

Chief Accountant of OJSC Rosneft Oil Company

A handwritten signature in blue ink, appearing to be 'S. Kim'.

S. Kim



Contact Information

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Open joint stock company Rosneft Oil Company

Abbreviated name:

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Information on the Company and the results of its activ-
ity on the website:
Russian version: www.rosneft.ru
English version: www.rosneft.com



Schedules

LIST OF RELATED-PARTY TRANSACTIONS

PERFORMED BY **ROSNEFT**

IN 2006

Major transactions

Rosneft performed one major transaction in 2006:

An Underwriting Agreement between Rosneft, Rosneftegaz, ABN AMRO Bank NV, and NM Rothschild and Sons Limited, Dresdner Bank AG (London office), J.P. Morgan Securities Ltd., Morgan Stanley & Co. International Limited, Sberbank and other financial institutions indicated in the Underwriting Agreement (hereinafter the Underwriters). The agreement stipulated that Rosneft would guarantee the placement of its ordinary

shares on a closed subscription basis in accordance with the decision on the share issue, make a number of warranties and representations, and also assumed obligations to reimburse any losses (Indemnity) to Underwriters with respect to information disclosure and other issues related to the placement of Rosneft shares under the closed subscription and sale of shares in Rosneft to Rosneftegaz, which may be worth up to USD 14 billion.

The transaction was approved by the general meeting of shareholders of Rosneft on July 7, 2006.

List of related-party transactions performed by Rosneft in 2006

Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party
Transactions approved by the Board of Directors of Rosneft (hereinafter the Company) on May 17, 2006:			
Rosneft -Purneftegaz	1. Acquisition by the Company of 550,930 tonnes of gas condensate from Rosneft-Purneftegaz for RUR 2 724 568 090 (0.43% of the book value of Company assets as of 1 January 2006).	1. Acquisition price to be paid by the Company for the gas condensate - RUR 2 724 568 090.	S.M. Bogdanchikov – member of the Board of Directors, Chairman of the Management Board, President of Rosneft, Chairman of the Board of Directors of Rosneft-Purneftegaz. S.V. Zemlyuk – Member of the Management Board of Rosneft, member of the Board of Directors of Rosneft-Purneftegaz
	2. Sale by the Company of 3 267 million cubic metres of natural gas belonging to Rosneft-Purneftegaz for RUR 1 350 976 690 (0.21% of the book value of Company assets as of 1 January 2006).	2. Fee received by the Company – RUR 1 350 976 690	
	3. Assignment by Rosneft-Purneftegaz to the Company of access rights to the main oil pipeline system of OJSC Transneft on a gratuitous basis for supplies of 4 800 000 tonnes of oil for export.	3. The Company did not pay any compensation	
	4. Receipt by the Company of RUR 1 024 000 000 in interest-free loans from Rosneft-Purneftegaz for the redistribution of resources for investing activities and repayment of financial obligations (0.16% of the book value of Company assets as of 1 January 2006).	4. Value of the interest-free loans received from Rosneft-Purneftegaz – RUR 1 024 000 000	
	5. Implementation by Rosneft-Purneftegaz (as the agent) of RUR 173 000 000 in capital investments of the Company (as the principal) on the construction of production facilities for an agency fee of RUR 3 477 300 (0.0005% of the book value of Company assets as of 1 January 2006).	5. Agency fee paid by the Company – RUR 3 477 300.	
	6. Transfer by the Company to Rosneft-Purneftegaz of fixed assets under lease for RUR 2 590 489 870 in rent (0.41% of the book value of Company assets as of 1 January 2006).	6. Rent received by the Company – RUR 2 590 489 870	



Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party
Rosneft -Purneftegaz	7. Sale by the Company to Rosneft-Purneftegaz of material and technical assets for RUR 2 552 200 000 (0.41% of the book value of Company assets as of 1 January 2006).	7. The Company sold material and technical assets for RUR 2 552 200 000	<p>S.M. Bogdanchikov – member of the Board of Directors, Chairman of the Management Board, President of Rosneft, Chairman of the Board of Directors of Rosneft-Purneftegaz.</p> <p>S.V. Zemlyuk – Member of the Management Board of Rosneft, member of the Board of Directors of Rosneft-Purneftegaz</p>



Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party
Rosneft-Sakhalin-morneftegaz	1. Acquisition by the Company of 1 887 000 tonnes of crude oil from Rosneft-Sakhalin-morneftegaz for RUR 10 910 634 000 (1.74% of the book value of Company assets as of 1 January 2006).	1. Acquisition price to be paid by the Company for the oil – RUR 10 910 634 000	S.M. Bogdanchikov – member of the Board of Directors, Chairman of the Management Board, President of Rosneft, Chairman of the Board of Directors of Rosneft-Sakhalinmorneftegaz
	2. Acquisition by the Company of 889.37 million cubic metres of gas from Rosneft-Sakhalin-morneftegaz for RUR 731 652 200 (0.12% of the book value of Company assets as of 1 January 2006)	2. Acquisition price to be paid by the Company for the gas – RUR 731 652 200	
	3. Provision by Rosneft-Sakhalinmorneftegaz to the Company of services related to the transportation and transshipment of 1 527 000 tonnes of oil by tankers at the port of De-Kastri for RUR 642 363 000 (0.10% of the book value of Company assets as of 1 January 2006).	3. Fee payable by the Company – RUR 642 363 000	
	4. Receipt by the Company of RUR 300 000 000 in interest-free loans from Rosneft-Sakhalin-morneftegaz for the redistribution of resources for investing activities and settlement of financial obligations (0.05% of the book value of Company assets as of 1 January 2006).	4. Value of the interest-free loans received from Rosneft-Sakhalin-morneftegaz – RUR 300 000 000	
	5. Transfer by the Company to Rosneft-Sakhalin-morneftegaz of fixed assets under lease for RUR 194 133 210 in rent (0.03% of the book value of Company assets as of 1 January 2006).	5. Rent to be received by the Company – RUR 194 133 210	
	6. Sale by the Company to Sakhalinmorneftegaz of material and technical assets for RUR 429 600 000 (0.07% of the book value of Company assets as of 1 January 2006).	6. Company sale price of material and technical assets – RUR 429 600 000	



Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party
Rosneft-Komsomolsky NPZ [Oil Refinery]	1. Refining by Rosneft-Komsomolsky NPZ for the Company of 6 500 000 tonnes of crude oil belonging to the Company for RUR 2 458 235 000 (0.39% of the book value of Company assets as of 1 January 2006).	1. Cost of the refining of oil payable by the Company – RUR 2 458 235 000	S.M. Bogdanchikov – member of the Board of Directors, Chairman of the Management Board, President of Rosneft, Chairman of the Board of Directors of Rosneft-Komsomolsky NPZ
	2. Registration services provided by the Company related to export rail bills of lading for 3 963 000 tonnes of oil products developed by Rosneft-Komsomolsky NPZ for a fee of RUR 13 400 000 (0.002% of the book value of Company assets as of 1 January 2006).	2. Fee to be received by the Company – RUR 13 400 000	
	3. Granting of RUR 256 200 000 in interest-free loans by the Company to Rosneft-Komsomolsky NPZ for the financing of investing activities (0.04% of the book value of Company assets as of 1 January 2006).	3. Value of interest-free loans provided by the Company – RUR 256 200 000	
	4. Receipt by the Company of RUR 18 861 600 in interest-free loans from Rosneft-Komsomolsky NPZ for the redistribution of resources for investing activities and settlement of financial obligations (0.003% of the book value of Company assets as of 1 January 2006).	4. Value of interest-free loans received from Rosneft-Komsomolsky NPZ – RUR 18 861 600	
	5. Implementation by Rosneft-Komsomolsky NPZ (as the agent) of RUR 1 220 280 000 in capital investments of the Company (as the principal) on the construction of production facilities for an agency fee of RUR 9 762 240 (0.001% of the book value of Company assets as of 1 January 2006).	5. Value of the agency fee payable by the Company – RUR 9 762 240	
	6. Transfer by the Company to Rosneft-Komsomolsky NPZ of fixed assets under lease for RUR 735 401 200 in rent (0.12% of the book value of Company assets as of 1 January 2006).	6. Rent to be received by the Company – RUR 735 401 200	
	7. Sale by the Company to Rosneft-Komsomolsky NPZ of material and technical assets for RUR 502 300 000 (0.08% of the book value of Company assets as of 1 January 2006).	7. The Company sold the material and technical assets for – RUR 502 300 000	
Rosneft-Nakhodkanefteprodukt	1. Sale by the Company to Rosneft-Nakhodkanefteprodukt of 120 000 tonnes of oil products for RUR 1 560 000 000 (0.25% of the book value of Company assets as of 1 January 2006).	1. Acquisition price paid for the oil products by the Company – RUR 1 560 000 000	S.M. Bogdanchikov – member of the Board of Directors, Chairman of the Management Board, President of Rosneft, Chairman of the Board of Directors of OJSC Rosneft-Nakhodkanefteprodukt
	2. Transfer by the Company to Rosneft-Nakhodkanefteprodukt of fixed assets under lease for RUR 1 922 200 in rent (0.0003% of the book value of Company assets as of 1 January 2006).	2. Rent to be received by the Company – RUR 1 922 200	



Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party
Russian Regional Development Bank	1. Performance by the Company of RUR 5 600 000 000 in foreign exchange transactions with the Russian Regional Development Bank at an exchange rate agreed between the parties (0.89% of the book value of Company assets as of 1 January 2006).	1. Value of the foreign currency with which the Company conducts transactions – RUR 5 600 000 000	S.M. Bogdanchikov – member of the Board of Directors, Chairman of the Management Board, President of Rosneft, Chairman of the Supervisory Board of Russian Regional Development Bank A.I. Baranovsky – member of the Management Board of Rosneft, member of the Supervisory Board of Russian Regional Development Bank
	2. Placement by the Company of RUR 101 829 120 in deposits at the Russian Regional Development Bank (0.02% of the book value of Company assets as of 1 January 2006) maturing in five years at 8% annual interest.	2. Value of the deposits placed by the Company – RUR 101 829 120	
Rosneft-CSTC	1. Provision by Rosneft- CSTC of R&D services for the Company for RUR 4 000 000 (0.0006% of the book value of Company assets as of 1 January 2006).	1. Value of the work paid by the Company – RUR 4 000 000	S.M. Bogdanchikov – member of the Board of Directors, Chairman of the Management Board, President of Rosneft, Chairman of the Board of Directors of Rosneft-SCTC A.M. Kuznetsov, S.V. Zemlyuk – members of the Management Board of Rosneft, members of the Board of Directors of Rosneft-CSTC
	2. Provision by the Company of RUR 8 400 000 in interest-free loans to Rosneft- CSTC to finance operating and investing activities (0.001% of the book value of Company assets as of 1 January 2006).	2. Value of interest-free loans provided by the Company – RUR 8 400 000	
	3. Transfer by the Company to Rosneft- CSTC of fixed assets under lease for RUR 8 579 090 in rent (0.001% of the book value of Company assets as of 1 January 2006).	3. Rent received by the Company – RUR 8 579 090	
Insurance company “Neftepolis “	1. Provision by Neftepolis of property and personal insurance and liability insurance services to the Company, including the payment by the Company to Neftepolis of an insurance premium of RUR 1 279 567 110 (0.2% of the book value of Company assets as of 1 January 2006).	1. Value of the insurance premium to be disbursed by the Company – RUR 1 279 567 110	S.M. Bogdanchikov – member of the Board of Directors, Chairman of the Management Board, President of Rosneft, Chairman of the Board of Directors of Insurance company “Neftepolis”
	2. Transfer by the Company to Neftepolis of fixed assets under lease for RUR 2 400 in rent (0.0000004% of the book value of Company assets as of 1 January 2006).	2. Rent received by the Company – RUR 2 400	



Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party
Non-State Pension Fund Neftegarant	1. Remittance by the Company to Neftegarant of RUR 15 000 000 in cash to provide pensions for long-standing employees of the Company (0.002% of the book value of Company assets as of 1 January 2006)	1. Total cash remitted by the Company - RUR 15 000 000	<p>S.M. Bogdanchikov – member of the Board of Directors, Chairman of the Management Board, President of Rosneft, Chairman of the Board of the Non-State Pension Fund Neftegarant</p> <p>N.A. Borisenko, A.I. Baranovsky – members of the Management Board of Rosneft, Members of the Board of the Non-State Pension Fund Neftegarant</p>



Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party
Rosneft-Stavropolneftegaz	1. Acquisition by the Company of 1 141 680 tonnes of crude oil from Rosneft-Stavropolneftegaz for RUR 7 140 079 230 (1.14% of the book value of Company assets as of 1 January 2006).	1. Acquisition price of oil by the Company – RUR 7 140 079 230	N.A. Borisenko – member of the Management Board of Rosneft, Chairman of the Board of Directors of Rosneft-Stavropolneftegaz
	2. Sale by the Company of 36.89 million cubic metres of gas belonging to Rosneft-Stavropolneftegaz for RUR 56 371 610 (0.009% of the book value of Company assets as of 1 January 2006).	2. Fee to be received by the Company - RUR 56 371 610	
	3. Sale by the Company of 16 920 tonnes of oil products to Rosneft-Stavropolneftegaz for RUR 253 800 000 (0.04% of the book value of Company assets as of 1 January 2006).	3. Sale price of oil products by the Company – RUR 253 800 000	
	4. Assignment by Rosneft-Stavropolneftegaz to the Company of access rights to the main oil pipeline system of OJSC Transneft on a gratuitous basis for exporting 56 000 tonnes of oil.	4. The Company did not pay any remuneration	
	5. Provision by the Company of RUR 495 100 000 in interest-free loans to Rosneft-Stavropolneftegaz to finance investing activities (0.08% of the book value of Company assets as of 1 January 2006).	5. Total interest-free loans of Rosneft-Stavropolneftegaz of RUR 495 100 000	
	6. Extension of the maturity term for the debts of Rosneft-Stavropolneftegaz to the Company on RUR 588 316 660 in loans provided by the Company to finance the operating and investing activities of Rosneft-Stavropolneftegaz (0.09% of the book value of Company assets as of 1 January 2006).	6. Value of the interest-free loans provided by the Company, the maturity for which was extended – RUR 588 316 660	
Rosneft-Stavropolneftegaz	7. Transfer by the Company to Rosneft-Stavropolneftegaz of fixed assets under lease for RUR 247 915 800 in rent (0.04% of the book value of Company assets as of 1 January 2006).	7. Rent to be received by the Company – RUR 247 915 800	N.A. Borisenko – member of the Management Board of Rosneft, Chairman of the Board of Directors of Rosneft-Stavropolneftegaz
	8. Sale by the Company to Rosneft-Stavropolneftegaz of material and technical assets for RUR 801 500 000 (0.13% of the book value of Company assets as of 1 January 2006).	8. The Company sold the material and technical assets for RUR 801 500 000	



Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party
Grozneftegaz	1. Provision by Grozneftegaz of oil and gas condensate production services to the Company, consisting of 2 200 000 of oil and 392.7 million cubic metres of natural gas of oil and gas deposits in the Chechen Republic (the development license belongs to the Company) and the transfer of the extracted hydrocarbon resources to the Company for sale for a fee of RUR 2 995 093 740 (0.48% of the book value of Company assets as of 1 January 2006)	1. Fee payable by the Company – RUR 2 995 093 740	N.A. Borisenko – member of the Management Board of Rosneft, Deputy Chairman of the Board of Directors of Grozneftegaz
2. Sale by the Company of 4 550 tonnes of crude oil to Grozneftegaz for RUR 25 047 000 (0.004% of the book value of Company assets as of 1 January 2006).	2. Sale price charged by the Company for the oil - RUR 25 047 000		
3. Sale by the Company of 373.38 million cubic metres of gas to Grozneftegaz for RUR 44 376 400 (0.007% of the book value of Company assets as of 1 January 2006).	3. Gas sale price set by the Company - RUR 44 376 400		
4. Sale by the Company of 53 820 tonnes of oil products to Grozneftegaz for RUR 807 300 000 (0.13% of the book value of Company assets as of 1 January 2006).	4. Sale price of oil products set by the Company – RUR 807 300 000		
5. Transfer by the Company to Grozneftegaz of fixed assets under lease for RUR 676 850 in rent (0.0001% of the book value of Company assets as of 1 January 2006).	5. Rent received by the Company – RUR 676 850		
6. Sale by the Company to Grozneftegaz of material and technical assets for RUR 318 400 000 (0.05% of the book value of Company assets as of 1 January 2006).	6. Sale price set by the Company for material and technical assets – RUR 318 400 000		
Severnaya Neft	1. Sale by the Company of 42 000 tonnes of oil products to Severnaya Neft for RUR 672 000 000 (0.11% of the book value of Company assets as of 1 January 2006).	1. Sale price of oil products set by the Company – RUR 672 000 000	S.V. Zemlyuk – member of the Management Board of Rosneft, member of the Board of Directors of Severnaya Neft



Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party	
Severnaya Neft	2. Assignment by Severnaya Neft to the Company of access rights to the main oil pipeline system of OJSC Transneft on a gratuitous basis for supplies of 1 900 000 tonnes of oil for export	2. The Company did not pay any remuneration.	S.V. Zemlyuk – member of the Management Board of Rosneft, member of the Board of Directors of Severnaya Neft	
	3. Granting of RUR 216 935 000 in interest-free loans by the Company to Severnaya Neft to finance operating and investing activities (0.03% of the book value of Company assets as of 1 January 2006)	3. Value of interest-free loans provided by the Company – RUR 216 935 000.		
	4. Extension of the maturity term for the debts of Severnaya Neft to the Company on RUR 2 932 135 840 in loans provided by the Company to finance operating and investing activities of Severnaya Neft (0.47% of the book value of Company assets as of 1 January 2006).	4. Value of the interest-free loans provided by the Company, the maturity term for which has been extended – RUR 2 932 135 840		
	5. Implementation by Severnaya Neft (as the agent) of RUR 831 653 990 in capital investments of the Company (as the principal) on the construction of production facilities for an agency fee of RUR 6 653 230 (0.0001% of the book value of Company assets as of 1 January 2006).	5. Agency fee payable by the Company- RUR 6 653 230		
	6. Transfer by the Company to Severnaya Neft of fixed assets under lease for RUR 251 438 660 in rent (0.04% of the book value of Company assets as of 1 January 2006).	6. Rent to be received by the Company – RUR 251 438 660		
	7. Sale by the Company to Severnaya Neft of material and technical assets for RUR 1 492 200 000 (0.24% of the book value of Company assets as of 1 January 2006).	7. Sale price set by the Company for material and technical assets – RUR 1 492 200 000		
	Selkupneftegaz	1. Acquisition by the Company of 580 140 tonnes of crude oil from Selkupneftegaz for RUR 2 738 279 680 (0.44% of the book value of Company assets as of 1 January 2006).		1. Acquisition price paid by the Company for oil – RUR 2 738 279 680
2. Assignment by Selkupneftegaz to the Company of access rights to the main oil pipeline system of OJSC Transneft on a gratuitous basis for supplies of 100 000 tonnes of oil for export.		2. The Company did not pay any remuneration.		
3. Receipt by the Company of RUR 264 692 700 in interest-free loans from Selkupneftegaz for the redistribution of funds for investing activities and repayment of financial obligations (0.04% of the book value of Company assets as of 1 January 2006).		3. Value of interest-free loans received from Selkupneftegaz – RUR 264 692 700.		



Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party
Selkupneftegaz	4. Sale by the Company to Selkupneftegaz of material and technical assets for RUR 40 000 000 (0.006% of the book value of Company assets as of 1 January 2006).	4. Sale price set by the Company for material and technical assets – RUR 40 000 000.	S.V. Zemlyuk – member of the Management Board of Rosneft, Deputy Chairman of the Board of Directors of Selkupneftegaz
Rosneft-Tuapsinsky NPZ [Oil Refinery]	1. Refining by Rosneft-Tuapsinsky NPZ for the Company of 4 050 000 tonnes of crude oil belonging to the Company for RUR 1 453 545 000 (0.23% of the book value of Company assets as of 1 January 2006).	1. Cost of the oil-refining payable by the Company – RUR 1 453 545 000.	S.V. Zemlyuk – member of the Management Board of Rosneft, Chairman of the Board of Directors of Rosneft – Tuapsinsky NPZ
	2. Granting of RUR 1 680 000 000 in interest-free loans to Rosneft-Tuapsinsky NPZ to finance investing activities (0.27% of the book value of Company assets as of 1 January 2006).	2. Value of interest-free loans provided by the Company – RUR 1 680 000 000.	
	3. Provision of services by Rosneft-Tuapsinsky NPZ to the Company related to the construction of production facilities for a fee of RUR 1 680 000 000 (0.27% of the book value of Company assets as of 1 January 2006).	3. Fee payable by the Company - RUR 1 680 000 000	
	4. Transfer by the Company to Rosneft-Tuapsinsky NPZ of fixed assets under lease for RUR 3 018 290 in rent (0.0005% of the book value of Company assets as of 1 January 2006).	4. Rent to be received by the Company –RUR 3 018 290	
Rosneft-MZ Nefteprodukt	1. Granting by the Company of RUR 64 700 000 in interest-free loans to Rosneft-MZ Nefteprodukt to finance investing activities (0.01% of the book value of Company assets as of 1 January 2006)	1. Value of interest-free loans provided by the Company – RUR 64 700 000.	A.M. Kuznetsov – member of the Management Board of Rosneft, Chairman of the Board of Directors of Rosneft-MZ Nefteprodukt
	2. Extension of the maturity term for the debts of Rosneft-MZ Nefteprodukt before the Company on RUR 9 600 000 in loans provided by the Company to finance the operating activities of Rosneft-MZ Nefteprodukt (0.001% of the book value of Company assets as of 1 January 2006).	2. Value of the interest-free loans provided by the Company, the maturity for which has been extended – RUR 9 600 000.	
	3. Implementation by Rosneft-MZ Nefteprodukt (as the agent) of RUR 99 349 000 in capital investments of the Company (as the principal) on the construction of production facilities for an agency fee of RUR 993 490 (0.0002% of the book value of Company assets as of 1 January 2006).	3. Agency fee paid by the Company - RUR 993 490	
	4. Transfer by the Company to Rosneft-MZ Nefteprodukt of fixed assets under lease for RUR 1 098 020 in rent (0.0002% of the book value of Company assets as of 1 January 2006)	4. Rent to be received by the Company – RUR 1 098 020.	



Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party
Rosneft-Altaineft-eprodukt	1. Sale by the Company to Rosneft-Altaineft-eprodukt of 300 000 tonnes of oil products for RUR 4 500 000 000 (0.72% of the book value of Company assets as of 1 January 2006.).	1. Sale price by the Company of oil products – RUR 4 500 000 000.	N.A. Borisenko – member of the Management Board of Rosneft, Chairman of the Board of Directors of Rosneft-Altainefteprodukt
	2. Granting by the Company of RUR 437 100 000 in interest-free loans to Rosneft-Altaineft-eprodukt to finance investing activities (0.07% of the book value of Company assets as of 1 January 2006.).	2. Value of interest-free loans provided by the Company – RUR 437 100 000.	
	3. Transfer by the Company to Rosneft-Altaineft-eprodukt of fixed assets under lease for RUR 6 176 670 in rent (0.001% of the book value of Company assets as of 1 January 2006)	3. Rent to be received by the Company – RUR 6 176 670	
Rosneft-Arkhangelsknefteprodukt	1. Provision by Rosneft-Arkhangelsknefteprodukt to the Company of oil transshipment services for the export of 3 260 000 tonnes through the rail bulk-oil complex Privodino for a fee of RUR 368 368 000 (0.06% of the book value of Company assets as of 1 January 2006).	1. Fee payable by the Company – RUR 366 368 000.	N.A. Borisenko – member of the Management Board of Rosneft, Chairman of the Board of Directors of Rosneft-Arkhangelsknefteprodukt
	2. Provision by Rosneft-Arkhangelsknefteprodukt to the Company of cargo oil transshipment services for the export of 3 260 000 tonnes of oil through Arkhangelsk terminal using a storage tanker for remuneration of USD 76 870 000 (0.34% of the book value of Company assets as of 1 January 2006).	2. Fee payable by the Company – USD 76 870 000.	
	3. Sale by the Company of 300 000 tonnes of oil products to Rosneft-Arkhangelsknefteprodukt for RUR 4 050 000 000 (0.64% of the book value of Company assets as of 1 January 2006)	3. Sale price set by the Company for oil products – RUR 4 050 000 000.	
	4. Granting by the Company of RUR 526 200 000 in interest-free loans to Rosneft-Arkhangelsknefteprodukt to finance investing activities (0.08% of the book value of Company assets as of 1 January 2006).	4. Value of interest-free loans provided by the Company – RUR 526 200 000.	
	5. Implementation by Rosneft-Arkhangelsknefteprodukt (as the agent) of the capital investments of the Company (as the principal) on the construction of production facilities for RUR 134 100 000 for an agency fee of RUR 1 072 800 (0.0002% of the book value of Company assets as of 1 January 2006).	5. Value of the agency fee payable by the Company- RUR 1 072 800.	



Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party
Rosneft-Arkhangelsknefteprodukt	6. Transfer by the Company to Rosneft-Arkhangelsknefteprodukt of fixed assets under lease for RUR 263 576 040 in rent (0.04% of the book value of Company assets as of 1 January 2006.)	6. Rent to be received by the Company – RUR 263 576 040	N.A. Borisenko – member of the Management Board of Rosneft, Chairman of the Board of Directors of Rosneft-Arkhangelsknefteprodukt
	7. Sale by the Company of material and technical assets to Rosneft-Arkhangelsknefteprodukt for RUR 147 000 000 (0.02% of the book value of Company assets as of 1 January 2006).	7. Sale price for the material and technical assets set by the Company – RUR 147 000 000.	
Rosneft-Tuapsenfteprodukt	1. Provision by Rosneft-Tuapsenfteprodukt to the Company of oil product transshipment services for the domestic market for 300 000 tonnes of oil for a fee of RUR 31 063 500 (0.005% of the book value of Company assets as of 1 January 2006).	1. Fee payable by the Company – RUR 31 063 500.	N.A. Borisenko – member of the Management Board of Rosneft, Chairman of the Board of Directors of Rosneft-Tuapsenfteprodukt
	2. Provision by Rosneft-Tuapsenfteprodukt to the Company of oil transshipment services for the export of 5 219 713 000 tonnes for a fee of USD 33 042 840 (0.15% of the book value of Company assets as of 1 January 2006).	2. Fee payable by the Company – USD 33 042 840.	
	3. Sale by the Company of 140 000 tonnes of oil products to Rosneft-Tuapsenfteprodukt for RUR 1 400 000 000 (0.22% of the book value of Company assets as of 1 January 2006).	3. Sale price for oil products set by the Company – RUR 1 400 000 000.	
	4. Granting of RUR 1 200 300 000 in interest-free loans to Rosneft-Tuapsenfteprodukt to finance investing activities (0.19% of the book value of Company assets as of 1 January 2006).	4. Value of interest-free loans provided by the Company – RUR 1 200 300 000.	
Rosneft-Kurganfteprodukt	1. Sale by the Company of 110 000 tonnes of oil products to Rosneft-Kurganfteprodukt for RUR 1 430 000 000 (0.23% of the book value of Company assets as of 1 January 2006).	1. Sale price for oil products set by the Company – RUR 1 430 000 000	R.Sh. Tursunov – member of the Management Board of Rosneft, Chairman of the Board of Directors of Rosneft-Kurganfteprodukt
	2. Granting by the Company of RUR 46 800 000 in interest-free loans to Rosneft-Kurganfteprodukt to finance investing activities (0.007% of the book value of Company assets as of 1 January 2006).	2. Value of interest-free loans provided by the Company – RUR 46 800 000.	
	3. Transfer by the Company to Rosneft-Kurganfteprodukt of fixed assets under lease for rent of RUR 14 015 520 (0.002% of the book value of Company assets as of 1 January 2006).	3. Rent to be received by the Company – RUR 14 015 520.	



Name of the party to the transaction	Subject of the transaction and its material terms	Transaction party	Related party
RN-Astra	1. Acquisition by the Company of 83 014 000 tonnes of crude oil from RN-Astra for USD 17 500 000 (0.08% of the book value of Company assets as of 1 January 2006).	1. Acquisition price for the oil set by the Company – USD 17 500 000.	A.M. Kuznetsov member of the Management Board of Rosneft, Chairman of the Supervisory Board of RN-Astra
	2. Extension of the maturity term for the debts of RN-Astra before the Company on USD 50 291 370 in loans provided by the Company to finance the operating and financing activities of RN-Astra (0.22% of the book value of Company assets as of 1 January 2006)	2. Value of interest-free loans provided by the Company, the maturity for which has been extended – USD 50 291 370	



AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS OF
OPEN JOINT-STOCK COMPANY ROSNEFT OIL COMPANY
FOR THE PERIOD FROM
1 JANUARY TO 31 DECEMBER 2006
INCLUSIVE

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To the Management and Owners of Rosneft

Information on the audit firm

Legal form and title	Closed joint-stock company Auditor and Accounting Service Center "CBA"
Location	101 Prospekt Mira, Moscow 129164
Number and date of state registration certificate	No. 626.228 of 4 February 1994
Licenses	Audit license No. E002806, issued on the basis of Order No. 297 of the Ministry of Finance of the Russian Federation of 10 December 2002 License B 347137 of 29 December 2005 was issued by the Directorate of the Federal Securities Service for Russia for Moscow and Moscow Region entitling the audit firm to perform work related to the use of data constituting a state secret.
Member of accredited professional audit organization	National Federation of Consultants and Auditors (Certificate No. 0142 of 21 September 2000) Institute of Professional Accountants of Russia (Certificate series D No. 0316/77 of 31 May 2005)

Information on the audited company

Legal form and title	Open Joint-Stock Company Oil Company Rosneft (OJSC OC Rosneft)
Location	26/1 Sofiyskaya Embankment, Moscow, 115035
Number and date of state registration certificate	No. 024.537 Series BB No. 006700 of 7 December 1995

Introduction

We performed an audit of the attached financial statements of the Open Joint-Stock Company Oil Company Rosneft (hereinafter the "Company") for the period from 1 January to 31 December 2006 inclusive. The financial statements of the Company consist of:

- Balance sheet (Form No. 1);
- Income statement (Form No. 2);
- Statements of changes in equity (Form No. 3);
- Cash flow statement (Form No. 4);

- Annex to the balance sheet (Form No. 5);
- Notes to the financial statements.

The executive body of the Company is responsible for the preparation and presentation of these financial statements. Our responsibility is to express an opinion based on the results of our audit on the truthfulness of the financial statements, in all material respects, and the compliance of the accounting procedures, in all material respects, with the legislation of the Russian Federation.



Scope of the audit

We performed the audit in accordance with:

- Federal Law №. 119-FZ of 7 August 2001 On Audit Activities;
- Federal Regulations (Standards) on auditing approved by Resolution No. 696 of the Russian Federation Government of 23 September 2002;
- Directive No. 4521-r of the Ministry of Property of the Russian Federation of 30 December 2002 (as amended by Directive No. 6703-r of the Ministry of Property of the Russian Federation of 2 December 2003);
- The audit standards of Auditor and Accounting Service Center "CBA".

The audit was planned and performed to obtain reason-

able assurance that the financial statements are free of material misstatement. The audit included examination, on a test basis, of evidence supporting the amounts in the financial statements, disclosures on financial and operational activities, assessment of the accounting principles and methods used in the preparation of the financial statements, consideration of the main estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a sufficient basis for our opinion on the reliability of the financial statements and the compliance of the accounting procedures with the legislation of the Russian Federation.

Audit opinion

In our opinion, the financial statements of Open Joint-Stock Company Oil Company Rosneft reflect reliably, in all material aspects, the financial position of the Company as of 31 December 2006 and its financial perfor-

mance for the period from 1 January to 31 December 2006 inclusive, pursuant to the requirements of legislation of the Russian Federation on the compilation of financial statements.

Date of the audit report

30 March 2007

General Director
CJSC Auditor and Accounting Service Center "CBA",
PhD En, Professor

S.A. Rasskazova-Nikolaeva

Audit in-charge
Director of the Audit Department
CJSC Auditor and Accounting Service Center "CBA"*

E.N. Sedova

* (Auditor's qualification certificate for general audit No. K 008480 of 27 July 2000, with an unlimited term of validity)

Financial statements

Balance sheet		Codes
as of 31 December 2006 Form No. 1	under OKATO	4528659600
Date (year, month, day)	OKOGU	41114
Organization: OJSC OC Rosneft	under OKPO	00044428
Taxpayer identification number	TIN	77061007510
Type of activity Industrial production	under OKVED	11.10.11 23.20 11.10.2 63.40 60.30.11 51.70 74.14
Form of incorporation/form of ownership	OKOPF/OKFS	47
Unit of measurement: thousand RUR	under OKFS	12
Location (address): 26/1, Sofiyskaya Embankment, Moscow, 115035		
Date of approval		
Date of delivery (acceptance)		

Asset	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
I. Non-current Assets			
Intangible assets	110	6 380	3 465 315
Fixed assets	120	33 847 531	142 126 180
Construction in progress	130	12 371 218	33 316 382
Long-term financial investments	140	351 212 057	146 701 900
Deferred tax assets	145		
Geological exploration assets	147		25 705 194
Other Non-current assets	150	1 671 090	5 595 618
Total for section 1	190	399 108 276	356 910 589
II. Current assets			
Inventories	210	7 857 891	12 724 458
including:			
raw and other materials and other similar assets	211	1 602 079	1 181 928
work in progress costs(commercial costs)	213	258 922	344 817
finished products and goods for resale	214	2 871 356	8 023 997



shipped goods	215	1 378 456	1 189 257
deferred expenses	216	1 747 078	1 984 459
Value-added tax on acquired assets, excise	220	12 808 762	14 698 686
Account receivables (payment due more than 12 months after the reporting date)	230	198 868	439 704
Account receivables (payment due within 12 months after the reporting date)	240	69 952 115	332 310 966
including:			
buyers and customers	241	26 791 532	65 372 642
Short-term financial investments	250	123 946 135	28 395 100
Cash	260	13 710 194	3 503 396
Other current assets	270	185 967	
Total for section II	290	228 659 932	392 072 310
Balance (sum of lines 190 + 290)	300	627 768 208	748 982 899

Liability	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
III. Capital and reserves			
Charter capital	410	90 922	105 982
Treasury stock	411		
Additional capital	420	151 756 291	113 276 400
Reserve capital	430	1 326 763	5 299
Reserves formed in accordance with foundation documents	432	1 326 763	5 299
Undistributed profit of previous year	460	68 964 747	57 629 247
Results from business combinations			-96 270 127
Undistributed profit of the reporting year	470		213 216 616
Total for section III	490	222 138 723	287 963 417
IV. Long-term liabilities			
Loans and credits	510	329 860 653	317 517 571
Deferred tax liabilities	515	156 543	2 376 146
Other long-term liabilities	520		107 332

Total for section IV	590	330 017 196	320 001 049
V. Current liabilities			
Loans and credits	610	48 255 986	38 790 845
Accounts payable	620	26 398 549	98 981 852
including:			
suppliers and contactors	621	3 753 490	18 087 980
debt to staff of the company	624	79 370	123 398
debt to state extra-budgetary funds	625	5 510	130
debt on taxes and duties	626	2 291 220	46 429 011
other creditors	628	20 268 959	34 341 333
Income payable to participants (founders)	630		
Deferred income	640	93	3 557
Provisions for future expenses	650		
Other short-term liabilities	660	957 661	3 242 179
Total for section V	690	75 612 289	141 018 433
Balance (sum of lines 490+590+690)	700	627 768 208	748 982 899

Statement note on the existence of assets reported on off-balance-sheet accounts

Off-balance-sheet account	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
Rented fixed assets	910	789	91 809
Material assets accepted for safekeeping	920	684 664	2 387 518
Goods accepted on commission			50
Bad debts written off as a losses	940	453 149	858 126
Received collateral for obligations and payments	950	50 313 128	113 105 089
Issued collateral for obligations and payments	960	233 001 803	44 626 596
Depreciation of housing	970	73	3 525
Depreciation of amenities and similar facilities	980		915

Financial Director

A.I. Kozhinov

Chief Accountant

S.N. Kim



Income statement			Codes
for January-December 2006 Form No. 2		under OKATO	45286596000
Date (year, month, day)			
Organization: OJSC OC Rosneft		under OKPO	00044428
Taxpayer identification number		TIN	7706107510
Type of activity Industrial production		under OKVED	11.10.11 23.20 11.10.2 63.40 60.30.11 51.70.74.14
Form of incorporation/form of ownership		under OKOPF/OKFS	47
		OKOGU	41114
Unit of measurement: thousand RUR		under OKFS	12

Indicator	Line code	For the reporting period	For the same period of the previous year
1	2	3	4

I. Income and expenses on ordinary types of activity			
Revenue (net) from the sale of goods, products, work, services (minus value-added tax, excise taxes and similar mandatory payments)	10	589 010 932	486 669 228
Cost price of goods, products, work, and services sold	20	(405 941 469)	(325 837 007)
Gross profit	29	183 069 463	160 832 221
Selling expenses	30	(61 872 851)	(47 098 365)
Administrative expenses	40	(7 061 156)	(3 958 386)
Profit (loss) from sales (lines (010-020-030-040))	50	114 135 456	109 775 470
II. Other income and expenses			
Interest receivable	60	1 792 564	274 297
Interest payable	70	(20 889 057)	(20 098 404)
Income from equity participation in other organizations	80	4 065 400	1 601 252
Income from the sale and other disposal of other assets	90	12 537 498	162 046 312
Expenses on the sale and other disposal of other assets	100	(12 854 459)	(162 296 365)

Indicator	Line code	For the reporting period		For the same period of the previous year	
		gain	loss	gain	loss
1	2	3	4	5	6
Tax payments	110	(1 406 545)		(809 561)	
Other income	120	175 923 793		9 869 363	
Other expenses	130	(14 379 365)		(24 372 588)	
Profit (loss) before tax (lines (050+060+070+080+090-100-110+120-130))	140	258 925 285		75 989 776	
Deferred tax assets	150	68 367		94 171	
Deferred tax liabilities	151	(2 287 970)		-55 536	
Profits tax and similar mandatory payments	152	(44 810 571)		(19 461 827)	
Profit (loss) from ordinary activity (140+150-151-152)	160	211 895 111		56 677 656	
Amount of profit formed as a result of writing off re-valuation amounts to additional capital	161	41		47	
Total profits formed as a result of changes to the Charter	162	1 321 164			
Net profit (undistributed loss) for the reporting period) (lines 160+161+170-180)	190	213 216 616		56 677 703	
For reference					
Permanent tax liabilities (assets)	201	14 394 327		(979 802)	
Basic earnings (loss) per share	202	20,12		24,21	
Diluted earnings (loss) per share					

Breakdown of separate gains and losses

Indicator	Line code	For the reporting period		For the same period of the previous year	
		gain	loss	gain	loss
1	2	3	4	5	6
Revenue from the sale (purchase) of a foreign currency (value of sold (purchased) foreign currency)	204	764 614 401	(765 100 276)	766 938 681	(767 040 805)
Exchange rate differences on foreign currency transactions	205	30 399 473	(7 762 604)	9 003 997	(16 630 397)
Banking services	206		(1 223 457)		(1 288 556)



Indicator	Line code	For the reporting period		For the same period of the previous year	
		gain	loss	gain	loss
Profit (loss) of previous years declared (recognized) in the reporting period	207	681 290	1 677 510	184 575	(224 357)
Penalties, fines and arrears that have been acknowledged or which are due pursuant to a court (arbitration court) ruling	208	141 039 966	(259 621)	2 395	(113 952)
Write-off of receivables and payables, where the period of limitations has expired	2260	893	(21 090)	2 050	(868)

Financial Director

A.I. Kozhinov

Chief Accountant

S.N. Kim



Statement of changes in equity			Codes	
For 2006. Form No.3			under OKUD	0710003
Date (year, month, day)				
Organization: OJSC OC Rosneft			under OKPO	00044428
Taxpayer identification number			TIN	7706107510
Type of activity Industrial production			under OKVED	11.10., 11.11., 10.20
Form of incorporation/form of ownership			under OKOPF/OKFS	47 12
Unit of measurement: thousand RUR			under OKEI	384

I. Change to equity

Indicator		Charter capital	Additional capital	Reserve capital	Retained earnings (uncovered losses)	Total
Title	Code					
1	2	3	4	5	6	7
Balance as of 31 December of the year before last	3010	90 922	88 242 390	1 326 763	23 649 864	113 309 939
2005. Changes to accounting policy	3011	X	X	X		
Result of the revaluation of fixed assets	3013	X		X		
Balance as of 1 January of the previous year	3014	90 922	88 242 390	1 326 763	23 649 864	113 309 939
Result of the translation of foreign currency	3015	X		X	X	
Net profits	3016	X	X	X	56 677 703	56 677 703
Dividends	3017	X	X	X	(1 755 280)	(1 755 280)
Profits from exchange gains, and also expenditure on the purchase of a new core asset, allocated to additional capital		X	X	X	(9 607 540)	(9 607 540)
Withholdings to the reserve fund	3018	X	X			
Increases in equity through:	3019	1 446	63 513 948			63 515 394
additional share issue	3020		X	X	X	
increase in the par value of shares	3021		X	X	X	
reorganization of the legal entity	3022		X	X		
Revaluation of shares with a market value	3023	X	53 906 408	X	X	53 906 408



Indicator		Charter capital	Additional capital	Reserve capital	Retained earnings (uncovered losses)	Total
Title	Code					
1	2	3	4	5	6	7
Conversion of preferred shares into ordinary shares	3024	1 446				1 446
Profits from exchange gains, and also expenditure on the purchase of a new core asset, allocated to additional capital	3025		9 607 540			9 607 540
Build-up, re-equipment, modernization	3026	X		X	X	
Retained earnings allocated to capital investments (commissioning of fixed assets)	3027	X		X	X	
Share premium on the difference between the sale price and par value of shares	3028	X		X	X	
Other sources for the share premium	3029	X		X	X	
other increases	3030		x			
Reduction in capital through:	3031	(1 446)	(47)			(1 493)
conversion of preferred shares into ordinary shares	3032	(1 446)				(1 446)
reduction in the par value of shares	3033		x	X	X	
reduction in the number of shares	3034		x	X	X	
	3035					
reorganization of the legal entity	3036		x	X		
write-down of shares with a market value	3037	X		X	X	
write-up of fixed assets that have been written off	3038	X	(47)	X	X	(47)
Increase in charter capital	3039	X		X	X	
exchange losses at the time of the formation of the charter capital	3040	X		X	X	
Compensation for losses	3041	X			X	
Reduction in the fund for the development of production at the time of the commissioning of fixed assets	3042	X	x	X		
other reductions	3045					



Indicator		Charter capital	Additional capital	Reserve capital	Retained earnings (uncovered losses)	Total
Title	Code					
1	2	3	4	5	6	7
Balance as of 31 December of the previous year	3046	90 922	151 756 291	1 326 763	68 964 747	222 138 723
2006 Changes to accounting policy	3047	X	X	X		
Result of the revaluation of fixed assets	3048	X		X		
	3049	X				
Balance as of 1 January of the reporting year	3050	90 922	151 756 291	1 326 763	68 964 747	222 138 723
Result of the translation of foreign currency	3052	X		X	X	
Net profits	3053	X	X	X	213 216 616	213 216 616
Dividends	3054	X	X	X	(11 335 500)	(11 335 500)
Withholdings to the reserve fund	3055	X	X			
Increases in equity through:	3056	15 060	85 035 350			85 050 410
additional share issue	3057	15 060	X	X	X	15 060
increase in the par value of shares	3058		X	X	X	
reorganization of the legal entity	3059		X	X		
Revaluation of shares with a market value	3060		26 929 807	X	X	26 929 807
Build-up, re-equipment, modernization	3061			X	X	
Retained earnings allocated to capital investments (commissioning of fixed assets)	3062			X	X	
Share premium on the difference between the sale price and par value of shares	3063		58 105 543	X	X	58 105 543
Other sources for the share premium	3064			X	X	
other increases	3065			X		
	3066					
Reduction in capital through:	3067		(123 515 241)	(1 321 464)	(96 270 127)	(221 106 832)
reduction in the par value of shares	3068		X	X	X	



Indicator		Charter capital	Additional capital	Reserve capital	Retained earnings (uncovered losses)	Total
Title	Code					
1	2	3	4	5	6	7
reduction in the number of shares	3069		x	x	X	
reorganization of the legal entity	3070		x	x	(96 270 127)	(96 270 127)
write-down of shares with a market value	3071	X		x	X	
write-up of fixed assets that have been written off	3072	X	(41)	x	X	(41)
increase in charter capital	3073	X		x	X	
exchange losses at the time of the formation of the charter capital	3074	X		x	X	
Compensation for losses	3075	X			X	
reduction in the fund for the development of production at the time of the commissioning of fixed assets	3076	X	x	x		
other reductions	3077		(123 515 200)	(1 321 464)		(124 836 664)
	3078					
Balance as of 31 December of the reporting year	3079	105 982	113 276 400	5 299	174 575 736	287 963 417

II. Provisions

Indicator		Balance	Received	Used	Balance
Title	Code				
1	2	3	4	5	6
Reserves formed in accordance with foundation documents :					
Reserve fund					
(title of provisions)					
data of the previous year	3082	1 326 763			1 326 763
data of the reporting year	3083	1 326 763		1 321 464	5 299

Indicator		Balance	Received	Used	Balance
Title	Code				
1	2	3	4	5	6
Valuation reserves:					
data of the previous year	3084	64 252	224 259	54 225	234 286
data of the reporting year	3085	234 286	427 522	295 340	366 468
Provisions for future expenses:					
data of the previous year	3088		609 249	606 249	
data of the reporting year	3089		850 239	850 239	

Notes

Indicator		Opening balance of the reporting year		Closing balance of the reporting year	
Title	Code				
1) net assets	3150	222 138 816		287 966 974	
		From the budget		From extra-budgetary funds	
		for the reporting year	for the pre-vious year	for the reporting year	for the pre-vious year
2) received for:					
Expenses on ordinary activities – total	3160				
Including:	3161				
Capital investments in non-current assets	3170				
Including:					

Director

S.I. Makarov

Chief Accountant

S.N. Kim



Cash flow statement		Codes	
For 2006 Form No 4		under OKUD	0710004
Date (year, month, day)			2007 03 05
Organization: OJSC OC Rosneft		under OKPO	00044428
Taxpayer identification number		TIN	7706107510
Type of activity Industrial production		under OKVED	
Form of incorporation/form of ownership		under OKOPF/OKFS	47 12
Unit of measurement: thousand RUR		under OKEI	384

Indicator		For the reporting period	For the same period of the previous year
Title	Line code		
1	2	3	4
Opening cash balance of the reporting year	4010	13 710 194	21 088 306
Cash flow on day-to-day operational proceeds—total:	4020	1 707 632 656	1 492 390 500
including:			
Funds received from buyers and clients	4021	884 225 026	670 471 247
Other income	4030	823 407 630	821 919 253
Cash used – total:	4040	(1 695 961 457)	(1 489 134 970)
including:			
to pay for purchased goods, work, services, raw materials and other current assets	4050	(1 524 099 466)	(1 397 299 034)
to pay wages	4060	(2 995 400)	(1 562 956)
to pay dividends and interest	4070	(28 594 553)	(20 653 024)
for settlements on taxes and duties	4080	(112 869 390)	(33 485 066)
for other expenses	4085	(27 402 648)	(36 134 890)
Net cash from day-to-day operations	4090	11 671 199	3 255 530
Cash flow from investing activity – total:	4110	870 013 627	241 899 987
including:			
Revenues from the sale of fixed assets and other non-current assets	4111	2 810 348	302 808
Revenues from the sale of securities and other financial investments	4120	818 700 248	208 487 530
Dividends received	4130	1 676 915	1 601 524



Indicator		For the reporting period	For the same period of the previous year
Title	Line code		
1	2	3	4
Interest received	4140	935 789	59 322
Receipts from repayment of loans provided to other organizations	4150	45 639 640	30 126 849
other proceeds	4151	250 687	1 321 954
Used for investing activity – total:	4052	(989 011 368)	(424 450 345)
Acquisition of subsidiaries	4160	(5 749 449)	(9 224 685)
Acquisition of fixed assets, income-bearing investments in tangible assets and intangible assets	4170	(43 295 661)	(7 061 425)
Acquisition of securities and other financial investments	4180	(816 590 381)	(372 765 763)
Loans provided to other organizations	4190	(123 375 877)	(35 398 269)
Other remittances	4191		(203)
Net cash from investing activity	4200	(118 997 741)	(182 550 358)
Received from financing activity – total:	4210	474 422 659	407 752 265
Including:			
Share issue proceeds	4220	58 108 394	
loans received	4230	40 390 706	41 931 409
credits received	4250	373 645 028	365 729 535
other proceeds	4260	2 278 531	91 321
Used on financing activity – total:	4280	(377 302 915)	(235 835 549)
including:			
repayment of loans (without interest)	4290	(22 832 156)	(45 603 964)
repayment of credits (without interest)	4310	(341 824 705)	(161 097 647)
Other remittances	4340	(12 646 054)	(29 133 938)
Net cash from financing activity	4360	97 119 744	171 916 716
Net increase (decrease) in cash and equivalents		(10 206 798)	(7 378 112)
Closing cash balance of the reporting period	4350	3 503 396	13 710 194
Impact of fluctuations in the exchange rate of foreign currency to the rouble		(610 409)	143 092

Financial Director

A.I. Kozhinov

Chief Accountant

S.N. Kim



Annex to the balance sheet		Codes	
For 2006 Form No.5		under OKUD	0710005
Date (year, month, day)			2006 03 15
Organization: OJSC OC Rosneft		under OKPO	00044428
Taxpayer identification number		TIN	7706107510
Type of activity Industrial production		under OKVED	11.10.11 23.20 11.10.2 63.40 60.30.11 51.70.74.14
Form of incorporation/form of ownership		under OKOPF/OKFS	47 12
Unit of measurement: thousand RUR		under OKEI	384

Intangible assets

Indicator		Opening balance of the reporting period	Arrivals	Disposals	Closing balance of the reporting period
Title	Code				
1	2	3	4	5	6
Items of intellectual property (exclusive rights to the results of intellectual activity)	5100	26	444		470
including:					
of a patent-holder to an invention, commercial prototype, or utility model	5101		406		406
of a holder of rights to a computer program or database	5102				
of a holder of rights to an integrated-circuit design	5103				
of the owner to a trademark, service mark, or the title of the place of origin of goods	5104	26	38		64
of a patent-holder to the results of selective breeding	5105				
Organizational costs	5106				
Goodwill	5107				
Other	5108	7 931	3 754 276		3 762 207

Indicator		Opening balance of the reporting year	Closing balance of the reporting year
Item	Code		
1	2	3	4
Amortization of intangible assets – total	5109	1 577	297 362
including:			
(exclusive rights to the results of intellectual activity)	5111	6	86
organizational expenses			
Organizational costs	5112		

Fixed assets

Indicator		Opening balance of the reporting period	Received	Disposals	Closing balance of the reporting period
Item	Code				
1	2	3	4	5	6
Buildings	5113	4 506 677	12 694 398	(1 420 744)	15 780 331
Structures and transmission equipment	5114	32 131 882	133 357 287	(229 228)	165 259 941
Machinery and equipment	5115	6 854 602	22 022 300	(4 459 534)	24 417 368
Vehicles	5116	540 185	3 328 894	(315 541)	3 553 538
Production and business inventories	5117	308 805	305 235	(17 394)	596 646
Draft animals	5118				
Productive livestock	5119				
Perennial plants	5120				
Other fixed assets	5121	33 257	26 776	(570)	59 463
Plots of land and natural objects	5122	1 974	155 169	(80)	157 063
Capital investments in land reclamation	5123				
Total	5124	44 377 382	171 890 059	(6 443 091)	209 824 350

Indicator		Opening balance of the reporting year	Closing balance of the reporting year
Item	Code		
1	2	3	4
Depreciation of fixed assets – total	5125	10 529 851	67 698 170
including:			
buildings and structures	5126	7 377 927	55 716 009



Indicator		Opening balance of the reporting year	Closing balance of the reporting year
Item	Code		
1	2	3	4
machines, equipment and vehicles	5127	2 988 034	11 619 544
other	5128	163 890	362 617
fixed assets transferred under lease – total	5129	37 458 515	172 759 673
including:			
buildings	5130	4 426 026	11 762 817
Structures	5131	28 781 155	140 578 929
Mothballed fixed assets	5132	4 336 213	11 695 829
Fixed assets received under lease – total	5133	789	91 809
including:			
leasing			
Real estate commissioned and undergoing state registration	5134	5 700 189	45 945 989
Note.	Code	Opening balance of the reporting year	Closing balance of the reporting year
	2	3	3
Result of the revaluation of fixed assets	5135		
historical (replacement) cost	5136		
Depreciation	5137		
Change to the value of fixed assets as a result of additional construction, equipment, overhaul and partial liquidation	Code	Opening balance of the reporting year	Closing balance of the reporting year
	2	3	4
	5138	50 292	1 123 042

Income-bearing investments in tangible assets

Indicator		Opening balance of the reporting year	Received	Disposals	Closing balance of the reporting period
Item	Code				
1	2	3	4	5	6
Assets to be transferred on a leasing basis	5139			()	

Indicator		Opening balance of the reporting year	Received	Disposals	Closing balance of the reporting period
Item	Code				
1	2	3	4	5	6
Assets to be provided under a rental agreement	5140			()	
Other	5141			()	
Total	5142			()	
Depreciation of income-bearing investments in material assets	5143				

Expenses on research and development

Types of work		Opening balance of the reporting year	Received	Written off	Balance at end of the reporting year
Item	Code				
1	2	3	4	5	6
Total	5144			()	
including:		9 144	17 417	(6 000)	20 531
				()	
				()	
Note:					
Expenses on research and development, design and technical work in progress			Code	Opening balance of the reporting year	Closing balance of the reporting year
			2	3	4
			5145	9 144	20 531
Unsuccessful expenses on research and development, posted to non-sales expenses			Code	Opening balance of the reporting year	Closing balance of the reporting year
			2	3	4
			5146		



Expenses on the development of natural resources

Indicator		Opening balance of the reporting period	Received	Written off	Balance Closing balance of the reporting period
Item	Code				
1	2	3	4	5	6
Expenses on the development of natural resources – total	5147	959 734	41 849 266	(12 596 874)	30 212 126
Including:				()	
Exploration work		959 734	16 144 072	(12 596 874)	4 506 932
Exploration assets			25 705 194	()	25 705 194
Note:					
Total expenses on plots of land, on which prospecting and deposit assessment, exploration and/or hydrogeological surveying and other similar work have not yet been completed			Code	Opening balance of the reporting year	Closing balance of the reporting year
			2	3	4
			5148	959 734	4 506 932
Total expenses on natural resource development posted to non-sales expenses of the reporting period as unproductive			5 149		5 626

Financial investments

Indicator		Long-term		Short-term	
Item	Code	Opening balance of the reporting year	Closing balance of the reporting year	Opening balance of the reporting year	Closing balance of the reporting year
1	2	3	4	5	6
Contributions to charter (joint) capital of other organizations – total	5150	329 034 058	60 070 187		
including:					
subsidiaries	5151	321 457 745	50 552 171		
affiliates	51511	7 306 528	8 916 799		
other organizations	51512	269 785	601 217		
State and municipal securities	5152		3 369		
including:					



Indicator		Long-term		Short-term	
Item	Code	Opening balance of the reporting year	Closing balance of the reporting year	Opening balance of the reporting year	Closing balance of the reporting year
1	2	3	4	5	6
interest-bearing securities			3 369		
interest-free securities					
Securities of other organizations – total	5153	937 477	4 260 406	522 985	1 398 858
including:					
bonds	51541		2 678 185		
promissory notes	51542	937 477	1 582 221	522 985	1 398 858
Loans provided	5155	21 001 375	81 880 047	99 255 900	9 401 167
Deposits	5156			10 318 310	1 448 210
Contributions to joint activity	51561	239 147	487 891		
Other	5157			13 848 940	16 146 865
Total	5158	351 212 057	146 701 900	123 946 135	28 395 100
Of the overall amount of financial investments with a current market value:					
Contributions to charter (joint) capital of other organizations – total	5159	116 601 999	482 357		
including:					
дочерних и зависимых хозяйственных обществ	5160	116 601 999			
State and municipal securities	5161				
Securities of other organizations – total	5162		2 678 185		
Including:					
debt securities (bonds, promissory notes)	5163		2 678 185		
Other	5164				
Total	5165	116 601 999	3 160 542		
Note.					
Changes in value as a result of adjustment of valuation for financial investments that have a current market value	5166		(16 536)		



Indicator		Long-term		Short-term	
Item	Code	Opening balance of the reporting year	Closing balance of the reporting year	Opening balance of the reporting year	Closing balance of the reporting year
1	2	3	4	5	6
For debt securities, the difference between the initial cost and par values posted to the financial results of the reporting period	5167		(16 536)		

Accounts receivable and accounts payable

Indicator		Opening balance of the reporting year	Closing balance of the reporting year
Item	Code	3	4
1	2	3	4

Receivables:			
short-term – total	5168	69 952 115	332 310 966
including:			
buyers and customers	5169	26 791 532	65 372 642
advances paid	5170	9 428 217	12 751 792
other	5171	33 732 366	254 186 532
long-term – total	5172	198 868	439 704
including:			
buyers and customers	5173		
advances paid	5174		
other	5175	198 868	439 704
Total	5176	70 150 983	332 750 670

Accounts payable:			
current – total	5177	75 612 196	141 014 876
including:			
suppliers and contractors	5178	3 753 490	18 087 980
advances received	5179	4 517 791	5 849 546
settlements on taxes and duties	5180	2 291 220	46 429 011

Indicator		Opening balance of the reporting year	Closing balance of the reporting year
Item	Code		
1	2	3	4
credits	5181	22 643 503	35 554 715
loans	5182	25 612 483	3 236 130
other	5183	16 793 709	31 857 494
non-current – total	5184	329 860 653	317 624 903
including:			
credits	5185	286 302 956	287 735 895
loans	5186	43 557 697	38 781 676
other			107 332
Total	5187	405 472 849	458 639 779

Operating expenses

Indicator		For the reporting year	For the previous year
Item	Code		
1	2	3	4
Material costs	5188	225 083 148	166 574 631
Wage expenses	5189	2 453 405	1 225 808
Social remittances	5190	157 589	108 503
Depreciation	5191	5 648 374	3 082 648
Other costs	5192	63 962 362	6 331 878
Total by cost item	5193	297 304 878	177 323 468
Change in balances (increase (+), decrease (-)):			
work in progress	5194	85 895	(45 465)
deferred expenses	5195	237 381	446 503
provisions for future expenses	5196		



Security

Indicator		Opening balance of the reporting year	Closing balance of the reporting year
Item	Code		
1	2	3	4
Received – total	5197	50 313 128	113 105 089
including:			
promissory notes	5198	50 294 056	113 086 017
Pledged property	5199		
of which:			
fixed assets	5200		
securities and other financial investments	5201		
Other	5202		
Issued – total	5203	233 001 803	44 626 596
including:			
promissory notes	5204	13 861 994	13 893 824
Pledged property	5205		
of which:			
fixed assets	5206		
securities and other financial investments	5207	10	3 760
Other	5208	219 139 799	30 729 012

Government assistance

Indicator		Reporting period		For the same period of the previous year	
Item	Code				
1	2	3		4	
Budget funds received in the reporting year – total	5209				
		Opening balance of the reporting year	received during the reporting period	Repaid during the reporting period	Closing balance of the reporting period
Budgetary credits – total	5210				

Financial Director

A.I. Kozhinov

Chief Accountant

S.N. Kim

Calculation of net assets of Rosneft (pursuant to balance sheet estimate) as of 31 December 2006

No.	Indicator	Balance sheet line code	As of 1 Jan 06 (thousand RUR)	As of 31 Dec 2006 (thousand RUR)
1.	Assets			
1	Intangible assets	110	6 380	3 456 315
2	Fixed assets	120	33 847 531	142 126 180
3	Construction in progress	130	12 371 218	33 316 382
4	Long-term and short-term financial investments	140.250	475 158 192	175 097 000
5	Deferred tax assets	145		
6	Geological exploration assets	147		25 705 194
7	Other non-current assets	150	1 671 090	5 595 618
8	Inventories	210	7 857 891	12 724 458
9	VAT on purchased assets, excise	220	12 808 762	14 698 686
10	Accounts receivable	230.240	70 150 983	332 750 670
11	Cash	260	13 710 194	3 503 396
12	Other current assets	270	185 967	
13	Total assets (sum of points 1-12)		627 768 208	748 982 899
2.	Liabilities			
14	Long-term obligations on loans and borrowings	510	329 860 653	317 517 571
15	Deferred tax liabilities	520	156 543	2 376 146
16	Other long-term liabilities			107 332
17	Short-term liabilities on loans and credits	610	48 255 986	38 790 845
18	Accounts payable	620	26 398 549	98 981 852
19	Income payable to participants (founders)	630		
20	Provisions for future expenses and payments	650		
21	Other short-term liabilities	660	957 661	3 242 179
22	Total liabilities excluded from the value of assets (sum of points 14-19)		405 629 392	461 015 925
23	Value of net assets (total assets less total liabilities) points 13-20		222 138 816	287 966 974

Chief Accountant

S.N. Kim



Notes to the financial statements of Rosneft for 2006

This explanatory note is an integral part of the financial statements of OJSC OC Rosneft for 2006, prepared in accordance with the effective legislation of the Russian Federation.

1. Organization and lines of business

The oil company OJSC OC Rosneft was founded as an open joint-stock company on 7 December 1995 through the reorganization of the Rosneft state enterprise. All the assets and liabilities previously managed by Rosneft were transferred to the Parent Company at their book value on the date of foundation, together with the property rights, which belonged to the Government of the Russian Federation (hereinafter the "State") in other privatized oil and gas enterprises. The assets and liabilities were transferred in accordance with Decree No. 327 of the President of the Russian Federation of 1 April 1995 On Priority Measures to Improve the Performance of Oil Companies and in accordance with RF Government Resolution No. 971 of 29 September 1995 On the Reorganization of State Enterprise Rosneft into Open Joint-Stock Company Oil Company Rosneft. This transfer constituted a restructuring of the assets controlled by the State, and correspondingly the book value of the assets was used to reflect this transfer.

Legal address of the Company

Legal address of Rosneft: 26/1 Sofiyskaya Embankment, Moscow, 115035

Members of the Board of Directors of the Company:

1. Igor Sechin

Deputy Chief of the Administration of the President of the Russian Federation, Assistant to the President of the Russian Federation, Chairman of the Board of Directors

2. Kirill Androsov

Deputy Minister of Economic Development and Trade of the Russian Federation

3. Sergei Bogdanchikov

President of OJSC Oil Company Rosneft

4. Andrei Kostin

OJSC Bank Vneshnei Torgovli

5. Sergei Naryshkin

Deputy Prime Minister of the Russian Federation, Chief of Staff of the Government of the Russian Federation

6. Alexander Nekipelov

Vice-President of the Russian Academy of Sciences

7. Gleb Nikitin

Director of the Department of the Federal Property Management Agency

8. Andrei Reus

Deputy Minister of Industry and Energy of the Russian Federation

9. Hans-Jorg Rudloff

Chairman of the Management Board of Barclays Capital

In accordance with the Regulations on the Board of Directors of Rosneft, the remuneration is paid to the members of the Board of Directors by decision of the general meeting of shareholders based on the Company's annual performance. Members of the Board of Directors were not paid any remuneration in 2006.

Members of the Audit Commission of the Company:

1. Mikhail Bondarenko

Head of Department of the Ministry for Economic Development and Trade of the Russian Federation

2. Artur Latsis

Deputy Head of Corporate Policy, Department of Investment and Innovation Policy of the Ministry of Industry and Energy of the Russian Federation

3. Elena Solovieva

Department Head of the Federal Energy Agency

Executive Body of the Company:

1. Sergei Bogdanchikov

President of OJSC OC Rosneft

The Company's Management Board includes:

1. Sergei Bogdanchikov

President, Chairman of the Management Board

**2. Nikolai Borisenko**

First Vice-President, Deputy Chairman of the Board

3. Sergei Kudryashov

First Vice-President

4. Anatoly Baranovsky

Vice-President

5. Stepan Zemlyuk

Vice-President

6. Kim Sun Ne

Chief Accountant

7. Rizo Tursunov

Vice-President

8. Peter Lloyd O'Brien

Head, Group of Financial Advisers to President of OJSC OC Rosneft, Vice-President, Rosneft

Members of the Management Board of OJSC OC Rosneft receive a wage stipulated by employment contracts, but do not receive any additional remuneration for discharging their functions as members of the Management Board.

Data on executive and supervisory bodies have been provided as of the date of the signing of the financial statements for 2006.

Breakdown of charter capital

As of 31 December 2006 the following held shares in Rosneft:

- OJSC ROSNEFTEGAZ owned 7,965,816,383 ordinary shares of Rosneft, accounting for 75.16% of all the ordinary shares and charter capital of the Company;
- The Russian Federation, represented by the Property Management Committee, owned one ordinary share in OJSC OC Rosneft, constituting 0.000000009% of all ordinary shares and charter capital of the Company;
- OJSC OC YUKOS owned 1,000,000,000 ordinary shares of Rosneft, accounting for 9.44% of the ordinary shares and charter capital of the Company;
- The Joint-Stock Bank Sberbank was a nominal holder of 1,034,133,827 ordinary shares of Rosneft, constituting 9.76% of the ordinary shares and charter capital of the Company;
- The Bank of Foreign Economic Activity of the USSR (Vneshekonombank) was the nominal holder of 332,119,664 ordinary shares of Rosneft, constituting

3.13% of the ordinary shares and charter capital of the Company);

- Legal entities holding less than 1% of the shares were the owners and nominal shareholders of 197,126,185 ordinary shares of Rosneft, constituting 1.86% of total ordinary shares and charter capital of the Company;
- Individuals owned 68,981,757 ordinary shares in OJSC OC Rosneft, constituting 0.65% of the ordinary shares and charter capital of the Company.

Description of business

The Company's main lines of business are: Geological exploration and prospecting work:

- Extraction, preparation and transportation of oil, gas and gas condensate;
- Refining of oil and production of oil products;
- Sale of oil, gas, gas condensate and oil products;
- Investing activities;
- Other lines of business.

The Company derives a significant proportion of its revenues from the sale of products in US dollars. In addition, a significant proportion of its financing activity and liabilities are denominated in US dollars. Furthermore, most operating and investing expenses, other liabilities and also tax liabilities are denominated in Russian roubles. In connection with the depreciation of the US dollar against the Russian rouble, the Company was subjected to a corresponding currency risk. However, this risk was neutralized to a significant extent by the increase in oil prices.

Reorganization of the Company

Meetings of the boards of directors of Rosneft and the 12 main subsidiaries were held on 17 April 2006 to consider issues related to the restructuring (consolidation) of OJSC OC Rosneft through incorporation of joint-stock subsidiaries in the Company.

Within the framework of the consolidation, the Company incorporated 12 of its joint-stock companies: OJSC OC Rosneft-Krasnodarneftegaz, OJSC OC Rosneft-Purneftegaz, OJSC OC Rosneft-Sakhalinmorneftegaz, OJSC OC Rosneft-Stavropolneftegaz, OJSC Yuganskneftegaz, OJSC Severnaya Neft, OJSC Selkupneftegaz, OJSC OC Rosneft-Komsomolsky NPZ, OJSC OC Rosneft-Tuapsinsky NPZ, OJSC OC Rosneft-Arkhangelsknefteprodukt, OJSC OC Rosneft-Nakhodkanefteprodukt, and OJSC OC Rosneft-Tuapsenefteprodukt.

The boards of directors of the Company and subsidiaries determined, pursuant to the requirements of legisla-



tion and within the framework of the established procedure, the coefficients for the conversion of the shares of the subsidiaries into the shares of the Company and the purchase price of the Company shares and incorporated subsidiaries, approved the supporting rationale for the terms and procedure governing the reorganization, contained in contracts on incorporation of the subsidiaries in the Company.

A general meeting of shareholders of OJSC OC Rosneft was held on 2 June 2006, which passed a decision on the reorganization of the Company through the incorporation of subsidiaries and approved contracts on the incorporation of the subsidiaries into the Company.

General meetings of shareholders of the 12 joint-stock subsidiaries were held on 2 June 2006, which

passed decisions on their reorganization through incorporation in the Company and approved contracts on their incorporation in the Company, as well as transfer deeds. A joint general meeting of shareholders of the Company and the subsidiaries being consolidated was held on the same day to make amendments and addenda to the charter of the Company on the legal succession of the Company with respect to the subsidiaries incorporated as a result of the reorganization.

The consolidation programs were completed by 1 October 2006.

The subsidiaries were incorporated into the Company on 1 October 2006 as part of the consolidation process. The consolidation resulted in the following amendments to the Company's balance-sheet indicators:

thousand RUR

Indicator	Value prior to consolidation (as of 30 September 2006)	Value after consolidation (as of 1 October 2006)	Size of the change	Reason for the change
1. Non-current assets				
Intangible assets	6 064	3 502 282	3 496 218	Incorporation of subsidiaries
Fixed assets	35 368 392	120 865 456	85 497 064	Incorporation of subsidiaries
Construction in progress	13 297 592	49 764 782	36 467 190	Incorporation of subsidiaries
Long-term financial investments	533 010 168	131 045 920	-401 964 248	Incorporation of subsidiaries (85 814 934), elimination of investments in the charter capitals of the incorporated subsidiaries (-438 638 237), elimination of intra-group turnover (-49 140 945)
Geological exploration assets	23 563 765	23 736 016	172 251	Incorporation of subsidiaries
Other non-current assets	904 847	904 847	0	
Total for section 1	606 150 828	329 819 303	-276 331 525	
2. Current assets				
Inventories	9 377 307	13 684 937	4 307 630	



Indicator	Value prior to consolidation (as of 30 September 2006)	Value after consolidation (as of 1 October 2006)	Size of the change	Reason for the change
Including:				
raw materials, materials	1 852 312	1 979 672	127 360	Incorporation of subsidiaries
costs of work in progress	467 377	468 508	1 131	Incorporation of subsidiaries
finished products and goods for resale	3 369 448	7 427 055	4 057 607	Incorporation of subsidiaries
shipped goods	1 987 165	1 987 165	0	
deferred expenses	1 701 005	1 822 537	121 532	Incorporation of subsidiaries
Value-added tax on acquired assets, excise tax	12 856 847	18 181 060	5 324 213	Incorporation of subsidiaries
Accounts receivable (payment of which is expected more than 12 months after the reporting date)	302 424	414 153	111 729	Incorporation of subsidiaries
Accounts receivable (payment of which is expected within 12 months after the reporting date)	72 949 798	186 684 122	113 734 324	Incorporation of subsidiaries (26 287 663), elimination of intra-group turnover (-33 129 725)
Short-term financial investments	47 561 617	40 719 555	- 6 842 062	Incorporation of subsidiaries (26 287 663), elimination of intra-group turnover (- 33 129 725)
Cash	3 244 832	3 547 893	303 061	Incorporation of subsidiaries
Other current assets	545 091	545 091	0	
Total for section 2	146 837 916	263 776 811	116 938 895	
Balance	752 988 744	593 596 114	- 159 392 630	



Indicator	Value prior to consolidation (as of 30 September 2006)	Value after consolidation (as of 1 October 2006)	Size of the change	Reason for the change
3. Capital and reserves				
Charter capital	93 772	105 981	12 209	Changes to the charter capital related to the registration of reports on the results of the issue of additional shares placed in connection with the incorporation of the subsidiaries
Additional capital	236 791 600	113 276 400	- 123 515 200	Elimination of investments in the charter capitals of consolidated subsidiaries (revaluation of the shares of subsidiaries listed on securities markets prior to the incorporation date -123 515 200)
Reserve capital	1 326 763	1 326 763	0	
Undistributed profit of previous years	57 629 247	57 629 247	0	
Undistributed profit (consolidation result)		- 96 270 131	- 96 270 131	Result of the incorporation
Retained earnings of the reporting year	76 386 385	76 386 385	0	
Total for section 3	372 227 767	152 454 645	- 219 773 122	
4. Long-term liabilities				
Loans and credits	329 349 548	306 778 466	- 22 571 082	Incorporation of subsidiaries (26 444 990), elimination of intra-group turnover (-49 016 072)
(-49 016 072)				
Deferred tax liabilities	18 1959	181 959	0	
Other long-term liabilities	0	4 552 286	4 552 286	Incorporation of subsidiaries
Total for section 4	329 531 507	311 512 711	- 18 018 796	



Indicator	Value prior to consolidation (as of 30 September 2006)	Value after consolidation (as of 1 October 2006)	Size of the change	Reason for the change
5. Short-term liabilities				
Loans and credits	30 987 100	7 074 600	-23 912 500	Incorporation of subsidiaries (9 342 389), elimination of intra-group turnover (-33 254 889)
Suppliers and contractors	7 217 045	29 952 193	22 735 148	Incorporation of subsidiaries (9 775 473), elimination of intra-group turnover (-1 901 124)
Debt to staff	61 670	77 223	15 553	Incorporation of subsidiaries
Debt to extra-budgetary funds	6 203	9 666	3 463	Incorporation of subsidiaries
Debt on taxes and duties	1 591 250	73 215 734	71 624 484	Incorporation of companies
Other payables	11 052 290	18 982 112	7 929 822	Incorporation of subsidiaries (10 204 507), elimination of intra-group turnover (-2 274 685)
Deferred income	190	3 508	3 318	Incorporation of subsidiaries
Provisions for future expenses	313 722	313 722	0	
Total for section 5	51 229 470	129 628 758	78 399 288	
Balance	752 988 744	593 596 114	-159 392 630	

IPO of the Company

In July 2006 Rosneft shareholders made an initial public offering of ordinary shares of Rosneft in Russia and also global depository receipts issued for these shares on the London Stock Exchange. A total of 1,126,357,616 ordinary shares in the Company were sold during the placement. A further 285,064,359 newly issued ordinary shares of the Company were also placed. As a result of the placement, the Company obtained revenues from the sale of such newly issues shares amounting to RUR 58,108.4 million. The premium of the price at which shares were sold

over the par value of the shares was reported in the accounts as additional capital in the amount of RUR 58,105.5 million

List of subsidiaries and affiliates, with an indication of stakes in the charter capital and stakes in voting shares

The table below provides a list of subsidiaries and affiliates incorporated in the Company, indicating the stakes in the charter capital held by the Company and the share of their total voting shares as of 31 December 2006.



No.	Organization	Equity interest of the Company	
		% of charter capital	% of voting shares
Oil-producing companies			
1	LLC RN-Severnaya Neft	100.00	
2	LLC RN-Yuganskneftegaz	100.00	
3	LLC RN-Krasnodarneftegaz	100.00	
4	LLC RN-Purneftegaz	100.00	
5	LLC RN-Stavropolneftegaz	100.00	
6	LLC RN-Sakhalinmorneftegaz	100.00	
7	CJSC Komsomolskneft	100.00	100.00
8	OJSC OC Rosneft-Dagneft	68.70	91.60
9	OJSC Grozneftegaz	51.00	51.00
10	LLC Company Polar Lights	50.00	
11	OJSC Dagneftegaz	40.00	40.00
12	OJSC Verkhnechonskneftegaz	25.94	25.94
13	LLC Kaspoil	75.10	
Oil refineries			
14	LLC RN-Tuapse Refinery	100.00	
15	LLC RN-Komsomolsk Refinery	100.00	
16	OJSC OC Rosneft-MZ Nefteprodukt	65.42	87.23
17	OJSC VARUST	60.25	60.25
Oil product supply companies			
18	LLC RN-Nakhodkanefteprodukt	100.00	
19	LLC RN-Arkhangelsknefteprodukt	100.00	
20	LLC RN-Tuapsenefteprodukt	100.00	
21	LLC RN-Vostoknefteprodukt	100.00	
22	OJSC OC Rosneft-Stavropolye	97.79	97.79
23	OJSC Nakhodka Oil-Loading Commercial Harbor	97.51	97.51
24	OJSC OC Rosneft-Kubannefteprodukt	89.50	96.61
25	OJSC OC Rosneft-Kabardino-Balkarskaya Toplivnaya Company	88.66	92.91

No.	Organization	Equity interest of the Company	
		% of charter capital	% of voting shares
26	OJSC OC Rosneft-Kurganefteprodukt	83.32	90.33
27	OJSC OC Rosneft-Karachaevo-Cherkesskneft-eprodukt	85.99	87.46
28	OJSC OC Rosneft-Smolensknefteprodukt	66.67	86.97
29	OJSC OC Rosneft-Altainefteprodukt	64.18	78.59
30	OJSC OC Rosneft-Yamalnefteprodukt	49.52	66.03
31	OJSC OC Rosneft-Murmansknefteprodukt	45.38	60.51
32	OJSC OC Rosneft-ARTAG	38.00	50.67
33	LLC Yu-Kuban	49.00	
Other companies			
Group of Sakhalin projects			
34	CJSC Sakhalinskie Proekty	100.00	100.00
35	CJSC Vostokshelf	100.00	100.00
36	West Kamchatka Holding B.V.	60.00	
37	LLC RN-Kaiganeftegaz	99.99	
38	CJSC Vostok-Shmidt-Neftegaz	99.00	99.00
39	CJSC Zapad-Shmidt-Neftegaz	99.00	99.00
40	CJSC RN-Astra	99.00	99.00
41	LLC Venineft	99.00	
42	LLC Vostok-Shmidt-Invest	99.00	
43	LLC Zapad-Shmidt-Invest	99.00	
44	OJSC Rosneft-Sakhalin	55.00	55.00
45	CJSC Sakhalinmorneftegaz-Shelf	100.00	100.00
46	CJSC Sakhalinmorneftegaz-AMK	100.00	100.00
Management of foreign projects			
47	KOO Rosneft International Ltd	100.00	100.00
48	LLC RN-Kazakhstan	99.99	
49	KOO Rosneft Shell Caspian Ventures Ltd	51.00	51.00



No.	Organization	Equity interest of the Company	
		% of charter capital	% of voting shares
Group of service companies			
50	LLC RN-Burenie	100.00	
51	OJSC KNG-Mashzavodservis	92.30	96.67
52	OJSC Purnefteotdacha	61.54	61.54
53	LLC Komsomolskneftezavodremstroi	100.00	
54	LLC KNPZ-Service	100.00	
Group of financial institutions			
55	OJSC Russian Regional Development Bank	76.47	76.47
56	LLC Okhabank	33.40	
Research			
57	LLC SakhalinNIPImorneft	100.00	
58	LLC YuNG-NTTs Ufa	100.00	
59	OJSC OC Rosneft-NTTs	64.22	
Logistics and transport group			
60	LLC RN-Trade	99.99	
61	CJSC Rosnefteflot	51.00	51.00
62	OJSC Moskovskaya Gazovaya Kompaniya	50.00	50.00
63	OJSC Daltransgaz	25.00	25.00
64	CJSC Vostochny Neftenalivnoi Terminal	100.00	100.00
Group of other companies			
65	LLC Baikalfinansgrup	99.90	
66	LLC Vostok-Energy	51.00	
67	LLC Pursatkom	49.00	
68	CJSC Rosshelf	26.42	26.42
69	CJSC Izdatelstvo Neftyanoe Khozyaistvo	25.00	25.00
70	CJSC Ros&Neft	25.00	25.00
71	LLC ChOP NKPZ-Strazh	100.00	
72	LLC PSO Lastochka	81.00	



2. Production indicators

According to the 2006 financial results, profits from the sale of products and work (services) of the Company amounted to RUR 114,135.45 million. This represents a 3.97% increase on 2005 (RUR 109,775.47 million).

In 2006, the Company produced 21,313,000 tonnes of oil, up 19,113,000 tonnes from the previous year. This increase was due to the transfer of the subsoil licenses of incorporated subsidiaries after their consolidation on 1 October 2006.

Revenues from the sale of products, work and services (net of VAT and customs duties) increased in 2006 by RUR 102,341.7 million compared to 2005, an increase of 121%.

In 2006, the Company acquired 11 new licenses for the geological exploration, prospecting and extraction of hydrocarbons in Irkutsk Region, Krasnoyarsk Territory, Taymyr Autonomous District and Sakhalin Region at the following blocks: Vostochno-Sugdinsky, Vadinsky, Tukolandsky, Pedomayakhsky, Mogdinsky, Sanarsky, Danilovsky, Severo-Charsky, Osoveiskoye, Kulindinsky and Kaurunainskaya Area (Western part).

As a result of the consolidation of OJSC OC Rosneft, all the subsoil licenses of incorporated subsidiaries (OJSC Yuganskneftegaz, OJSC Sakhalinmorneftegaz, OJSC Purneftegaz, OJSC Krasnodarneftegaz, OJSC Stavropolneftegaz, OJSC Selkupneftegaz and OJSC Severnaya Neft) were transferred to the balance sheet of OJSC OC Rosneft.

The Company was involved in programs to develop deposits and engage in geological prospecting at the licensing blocks of the Company, on the territory of the subsidiaries and in territories where the Company and its subsidiaries participate in joint-venture projects. The Company used its own resources to cover most costs. It also sought other sources of financing. According to management, the Company will obtain all the financing it requires to complete these programs.

The Company refined 23.8 million tonnes of oil at Russian refineries in 2006, 10.8 million tonnes of which were processed at its own refineries (including mini-refineries) and 13.0 million tonnes at refineries belonging to other companies. Total oil-refining increased by 110.7% compared to 2005.

The Company sold 22.2 million tonnes of its own oil products, including 13.25 million tonnes for export, comparable to the figure for 2005. Total domestic sales, including sales by a sales and distribution subsidiary, increased from 7.4 million tonnes in 2005 to 9 million tonnes in 2006, an increase of 21.6%. Total sales to sales and distribution subsidiaries amounted

to 5.7 million tonnes (21.3% more than in 2005).

According to the results for 2006, the average staffing numbers of Company employees included in the financial statements totaled 1,084.

3. Methodology for preparing the financial statements

Regulatory framework for the preparation of the financial statements

The financial statements of the Company were compiled in accordance with the requirements of the following regulatory documents:

- Accounting and Reporting Regulations of the Russian Federation, approved by Order No. 34n of the RF Ministry of Finance of 29 July 1998 (as amended by Orders No. 107n of the Ministry of Finance of the Russian Federation of 30 December 1999, No. 31n of 24 March 2000, No. 115n of 18 September 2006);
- Order No. 67n of the Ministry of Finance of the Russian Federation of 22 July 2003 On the Forms of the Financial Statements of the Company (as amended by Orders No. 135n of the RF Ministry of Finance of 31 December 2004, No. 115n of 18 September 2006);
- Accounting Regulations Financial Statements of the Company (PBU 4/99), approved by Order No. 43n of the RF Ministry of Finance of 6 July 1999 (as amended by Order No. 115N of 18 September 2006).

Change in the opening balances of the balance sheet

As at 31 December 2006, line 150 of the balance sheet "Other non-current assets" reported capital investments in geological prospecting assets and R&D work. At the start of the reporting period, the balance of assets had been recorded on line 130 of the balance sheet "Construction in progress".

For the purposes of comparability of indicators, and also pursuant to the approved standard forms of corporate financial statements, adjustments were made to the opening balances of the balance sheet:



thousand RUR

Asset	As of 31.12.05	Change	As of 01.01.06
Construction in progress	13 340 066	- 968 848	12 371 218
Other non-current assets	702 242	968 848	1 671 090
Liability			
Loans and credits	49 213 647	-957 661	48 255 986
Other short-term liabilities	0	957 661	957 661

4. Information on accounting policy

The accounting policy of the Company was formed in accordance with the principles established by Accounting Regulations Accounting Policy of the Company, PBU 1/98, approved by Order No. 60n of the RF Ministry of Finance of 9 December 1998:

- the economic entity assumption (assets and liabilities are recorded separately from the assets and liabilities of other companies);
- the going concern assumption;
- the accounting continuity assumption, with respect to practical application of the company's adopted accounting policy;
- the accrual principle assumption.

Significant accounting policies stipulated by the company's 2006 accounting policy

1. The assets used to manufacture products when performing work, providing services or for management needs are allocated to fixed assets throughout their useful life, provided that they have a useful life of over 12 months.

In accordance with Accounting Regulations Accounting for Fixed Assets, PBU 6/01, approved by Order No. 26n of the RF Ministry of Finance of 30 March 2001 (in the version of 18 September 2006), fixed assets are recognized in the financial statements at their historical (replacement) value, minus depreciation amounts accumulated during the time of use.

Fixed assets are depreciated on a straight-line basis, except for cars booked prior to 1 January 2002. In accordance with Resolution No. 1072 of the USSR Council of Ministers of 22 October 1990, these vehicles are depreciated as a percentage of the value of the car per 1,000 km. Depreciation is accrued in full for fixed assets worth less than 10,000 roubles

and commissioned after 1 January 2002 and before 1 January 2006 at the time of the booking of the assets in the accounts. After 1 January 2006 these assets are depreciated on a straight-line basis.

Fixed assets in reserve are split into two groups subject to different accounting treatment. Fixed assets in reserve owing to technical requirements (emergency supplies, reserve stock, technological stock), are recognized in the accounts within fixed assets and are depreciated in accordance with the general procedure. Fixed assets in reserve for no specific reasons are recognized in the accounts and financial statements within investments in non-current assets and are not depreciated.

2. Intangible assets are booked at historical cost determined in accordance with PBU 14/2000 Accounting for Intangible Assets, approved by Order No. 91n of the RF Ministry of Finance of 16 October 2000. The historical cost of the intangible assets is amortized on a straight-line basis depending on the service life established by an order of a special commission.

Subsoil licenses within the limits of mining lease-mineral extraction are recognized in the accounts and financial statements as intangible assets.

3. Production inventories are booked in the accounts at actual cost, calculated proceeding from total actual acquisition costs, net of VAT and other refundable taxes (except in cases stipulated by the legislation of the Russian Federation).

4. Debt on credits and loans is recognized in the accounts and financial statements in accordance with the terms of concluded contracts. Debt is not transferred from long-term to short-term debt.

5. Total interest payable on loans and credits received is accrued on a monthly basis.

6. Revenues from the sale of products, work and services are recognized in the accounts at the time of the shipment of products, discharge of work and provision of services and the submission to buyers (clients) of settlement documents (accruals basis).



7. Permanent and temporary differences between book profits and taxable profits of the reporting period are recognized in the accounts. Temporary and permanent differences, calculated by comparing the data of financial and tax accounting on expense and income items of the reporting period lead to the formation of permanent tax liabilities and assets, and deferred tax liabilities and assets.

8. The use of profits is recognized in the accounts and the financial statements in the year following the reporting year pursuant to a decision of the meeting of shareholders. At the same time, some of the profits to be directed toward capital investments by decision of the shareholders are indicated in the financial statements on the line "Retained earnings" and do not reduce the balance of retained earnings.

9. The results of the revaluation of the shares of subsidiaries with a fair market value are recognized in the accounts and the financial statements, with the amounts of the revaluation allocated to additional capital.

10. The results of geological prospecting work are recorded as non-current assets on account 06 "Geological prospecting assets". Geological prospecting assets related to geographical segments on which oil and gas production has started are depreciated using the units of production method, starting from the month following the month of the booking of the asset in the accounts: for licenses on the geological exploration of the sub-soil, proceeding from the term of the technological project document; for the remaining geological prospecting assets, proceeding from a three-year period.

Information on amendments to the accounting policy introduced since 1 January 2007

Amendments to the accounting policy for 2007 are attributable to the introduction of new provisions of legislation of the Russian Federation, changes to the management system of the Company and the development of new accounting methods. These amendments can be summed up as follows:

1. Fixed assets.

- An asset is booked in the accounts as a fixed asset on the date when the asset is ready for commissioning. The accounting policy for 2006 stipulated the procedure for recognizing a fixed asset no earlier than the date of the start of its use in production or for management needs.

- All fixed assets in reserve are depreciated in accordance with the general procedure. The Accounting Policy

for 2006 only stipulated this possibility for assets constituting emergency supplies, reserve stock and technological stock.

2. Accounts receivable and accounts payable.

The following criteria were established for provisions on doubtful debts:

- up to three months – provisions are not created;

- for three to 12 months – provisions are created in the amount of 50-100%;

- more than 12 months – provisions are created for 100% of the value.

The Accounting Policy for 2006 stated that provisions are created depending on the financial status (solvency) of a debtor and an assessment of the likelihood that a debt will be repaid.

3. Accounting for profits tax settlements.

The Company records in detail on the balance sheet the amount of the deferred tax asset and deferred tax liability. In the Accounting Policy for 2006 this figure was not detailed.

4. Accounting for settlement and exchange differences.

In connection with the release of new Orders of the RF Ministry of Finance № 156n of 27 November 2006, No. 155n of 27 November 2006, No. 154n of 27 November 2006, addenda have been made to the section on exchange differences, stipulating inter alia that settlement differences should be subject to the same accounting treatment as exchange differences.

5. Fixed assets and capital construction in progress

Buildings, structures, machines, equipment, measuring gauges, control instruments and devices, computer technology, means of transport, instruments, production stock and household goods, etc., are categorized as fixed assets. Land plots and natural resources are recorded within fixed assets owned by the Company. The Russian National Classification of Fixed Assets, adopted by Resolution No. 359 of the State Committee for Standardization, Methodology and Certification of the Russian Federation of 26 December 1994 is applied to determine the composition and grouping of fixed assets.

Fixed assets are recognized on the balance sheet at residual value. Fixed assets are recognized in the accounts at their initial acquisition, construction and manufacturing cost. Fixed assets were not revalued in the reporting year. The cost of the fixed assets is amortized through the accrual of depreciation throughout their established service life.



thousand RUR

Groups of fixed assets	Historical (replacement) cost as of 1 January 2006	Depreciation as of 1 January 2006	Historical (replacement) value as of 31 December 2006	Depreciation as of 31 December 2006
Buildings	4 506 677	575 725	15 780 331	3 368 823
Facilities and transfer mechanisms	32131882	6802202	165259941	52 347 186
Machines, equipment and vehicles	7 394 787	2 988 034	27 970 906	11 619 544
Production and business inventories	308 805	156 258	596 646	346 455
Other types of fixed assets	35 231	7 632	216 526	16 162
Total	44 377 382	10 529 851	209 824 350	67 698 170

The initial cost of fixed assets as of 31 December 2006 totaled RUR 209,824 million and increased compared to 2005 owing to the fixed assets of the incorporated subsidiaries and the commissioning of new fixed assets. The initial cost of fixed assets of the incorporated subsidiaries totaled RUR 139,839 million, while accrued depreciation on these assets totaled RUR 54,342 million. Fixed assets worth RUR 32,051 million were commissioned.

In 2006 the discharged scope of work on the capi-

tal construction of assets and acquired equipment, which required or did not require assembly, included or not included in construction estimates, amounted to RUR 19,445.8 million (excluding VAT). Sources of financing for capital investments: depreciation in the amount of RUR 5,635.5 million; retained earnings of the reporting year in the amount of RUR 13,792.3 million.

Capital construction in progress was recognized in the accounts, broken down by type of costs.

thousand RUR

Type of cost	As of 1 January 2006	As of 31 December 2006
Equipment for installation, requiring or not requiring assembly	879 176	463 216
Capital construction in progress	8 125 003	32 750 950
Objects completed through capital construction and requiring registration, are virtually not used	2 793 272	6 095
Land plots	32	511
Advances issued	573 735	95 610
Total	12 371 218	33 316 382

6. Intangible assets

Intangible assets include trademarks, subsoil licenses, patents, other.

Intangible assets are recognized on the balance

sheet at residual cost. Intangible assets are recognized in the accounts at initial acquisition cost and expenses on bringing them to a level suitable for use. The cost of the intangible assets is amortized throughout their useful life on a straight-line basis.

thousand RUR

Group of intangible assets	Initial value as of 1 January 2006	Amortization as of 1 January 2006	Initial value as of 31 December 2006	Amortization as of 31 December 2006
Subsoil licenses	7 931	1 571	3 761 503	296 626
Trademark	26	6	64	9
Other			1 110	727
Total	7 957	1 577	3 762 677	297 362

The cost of the intangible assets increased as a result of the incorporation of subsoil licenses of subsidiaries in the amount of RUR 3,753.5 million.

7. Inventories

The table below describes the Company's inventory.

thousand RUR

Type of inventory	As of 1 January 2006	As of 31 December 2006
Raw and other materials	1 602 079	1 181 928
Costs on work in progress	258 922	344 817
Finished products	2 871 356	8 023 997
Shipped goods	1 378 456	1 189 257
Deferred expenses	1 747 078	1 984 459
Total	7 857 891	12 724 458

Materials, fuel, spare parts, and other material resources are recognized in the financial statements at actual acquisition cost.

Work in progress and finished products were recognized at actual cost, goods – at their purchase price.

In accordance with the Company's accounting policy, expenses are recognized within deferred expenses if incurred in the reporting period but related to subsequent reporting periods, such as: costs related

to the acquisition of licenses to types of activity, the implementation and adaptation of software products, the insurance of Company employees and property.

The value of inventory increased primarily owing to the incorporation of the assets of subsidiaries after consolidation. According to the item finished products, 1,135,000 tonnes of oil worth RUR 4,046 million were incorporated during the consolidation process.



8. Financial investments

The cost of long-term financial investments as of 31 December 2006 totaled:

thousand RUR

Type of investment	As of 1 January 2006	As of 31 December 2006
Equity interests and shares	329 034 058	60 070 187
Loans provided	21 001 375	81 880 047
Other	1 176 624	4 751 666
Total	351 212 057	146 701 900

Financial investments in company shares contracted primarily owing to the cancellation of shares of the incorporated subsidiaries worth RUR 438,638.2 million.

As a result of the incorporation of subsidiaries on the Company's balance sheet, shares and equity interests in other companies were booked in the amount of RUR 42,961.4 million.

In 2006, Rosneft acquired new core assets and increased Rosneft's shareholdings in the voting shares of subsidiaries and other companies.

The following core assets were acquired and/or created:

acquired:

- 100% of the shares in CJSC Promlizing for RUR 10,000;
- 97.51% of the ordinary shares in OJSC Nefteport – as of 31 December 2006 the historical cost of investments amounted to RUR 528,491,000;
- 19,500 ordinary shares in OJSC Russian Regional Development Bank worth RUR 332,718,000, as a result of which the stake of Rosneft in the bank's charter capital increased from 50.98% to 76.47%. As of 31 December 2006 the historical cost of investments amounted to RUR 731,868,000;
- 2,317,720 ordinary shares of additional issues of OJSC Daltransgaz, the stake of Rosneft in the Company's charter capital amounted to 25.0% plus one share. As of 31 December 2006 the historical cost of investments amounted to RUR 1,571,302,000.

established:

- LLC RN-Burenie – Rosneft owns 100 percent of the charter capital. As of 31 December 2006 the charter capital amounted to RUR 4,374,924,000;
- LLC Vostok-Energy – a joint venture with the Chi-

nese company CNPC. Rosneft has a 51% shareholding in the charter capital of the company. As of 31 December 2006, the historical cost of the shareholding amounted to RUR 5,100,000;

In the reporting year the following shareholdings (equity interests in the charter capital) were sold: CJSC Promlizing - 100%, LLC Kamchatneftegaz – 99.9%, CJSC FK Rosneft-Finans – 11.53%, West Kamchatka Holding B.V. – 60 shares.

In 2006, the following subsidiaries were liquidated: LLC RN-Teleport, LLC RN-Perspektiva.

Russian projects

As in previous years, in 2006 Rosneft took part in the development and implementation of a number of projects located in Russia.

Work related to the Vankor group of fields was performed in 2006 involving exploratory drilling at Rosneft's Vankorsky and Severo-Vankorsky licensing blocks. The project was financed through long-term loan contracts with CJSC Vankorneft. Total financing in 2006 amounted to RUR 24,160 million. Actual data on the rate of drilling achieved in exploratory drilling amounted to 13,900 meters, according to seismic surveying of 2,625 linear km.

One significant project has been developed in Russia since 2003 – the Temryuksko-Akhtarsky – Sea of Azov project. Rosneft is jointly developing the project with OJSC LUKOIL through LLC OC Priazovneft. Both have equal stakes of 42.5% in the limited-liability company (the authorities of Krasnodar Territory hold the remaining 15%). In 2006, project financing on this project amounted to RUR 304.5 million.

Rosneft has been developing the Tuapsinsky Trough–Black Sea project through its subsidiary LLC RN-Shelf-

Yug since 2004. Rosneft has a 100% stake in the project. Total financing of work in 2006 amounted to RUR 20 million.

In 2006, Rosneft completed an analysis of the geological materials of the coastal area and regional sea geology and geophysical data in order to identify priority sites for the performance of 3D marine seismic exploration studies and perform deep-hole prospecting. Thirteen promising structures were identified.

Rosneft has been participating since late 2005 in the Verkhnechonsk oil and gas condensate field (where it has an equity interest of 25.94%), jointly with OJSC TNK-BP (equity interest of 62.7%) and the administration of Irkutsk Region (equity interest of 11.29%). Rosneft's equity interest in the project is financed under loan agreements. A RUR 1,228.48 million loan was provided by Rosneft-International Limited in 2006.

In 2005, the drilling of exploratory wells Nos 1008 and 1022 was completed at the Verkhnechonsk deposit. Geophysical research has been performed on the wells, together with exploration work and project work on the construction of permanent highways and the Verkhnechonsk Deposit-Talakan oil pipeline. A project group of Rosneft and OJSC TNK-BP agreed on the underlying principles of joint management and financing of the deposit's development.

Foreign projects

To implement the Adaisky Block, Kazakhstan and the Kurmangaz Structure – Kazakh Shelf projects located in Kazakhstan, and also the Turkmen Shelf, blocks 29-31 project, located in Turkmenistan, Rosneft in 2006 provided LLC RN-Kazakhstan with RUR 811.4 million in loans, including RUR 800.2 million for Kazakh projects and RUR 11.2 million for the project in Turkmenistan.

In 2006, a total of 38,665 tonnes of oil were extracted at the Adaisky Block over a 12 month period (with Rosneft's share amounting to 19,330 tonnes of oil). In addition, five exploratory wells were drilled. Electrical exploration work totaling 255 linear kilometers was performed. At the Biikzhal deposit, construction work on oil treatment facilities with production

capacities of 500 tonnes a day was completed. 2D seismic surveying work was performed. In all 935 linear kilometers were discharged.

Analysis of the results of the drilling of well No. 1 was completed for the Kurmangaz Structure–Kazakh Shelf project. A new strategy for a PSA was developed at the block, leading to an upgrade of the geological model and the processing, reprocessing and interpretation of available seismic materials totaling 2,085 linear kilometers.

Rosneft has been participating in the Turkmen Shelf, Blocks 29-31 project since 2004. It holds a 37% share in the project, while CJSC ZaRURRezhneft and MGK ITERA hold 26% and 37% respectively. In 2006, geological materials of Western Geko were studied. Preparatory work for the signing of a PSA performed in 2004-2005 was analyzed. An official letter was sent to the Ministry of Oil and Gas Industry of Turkmenistan on resuming work on the preparation for the signing of the PSA.

Since 2001, Rosneft has also participated in the Block 245-South, Algeria Project (where it holds a 50% equity interest) through the operating company Rosneft-Stroitransgaz Ltd, which has been working under a contract with the Algerian State Oil and Gas Company Sonatrak on the exploration, development and extraction of hydrocarbons at the 245-South Gara Tisselit project in Algeria. Rosneft took out a loan to finance its stake in the project. In 2006, it obtained a RUR 473.3 million (USD 17.4 million) loan.

In 2006, a third exploratory well was drilled and tested. Hydrocarbons were discovered for third time. Two extension wells were drilled and tested, confirming the discoveries and increasing the hydrocarbon reserves. 3D seismic surveying work was performed at the Northern Tesselit block. The 3D seismic surveying data were processed. Exploration work on the Eastern and Western Takuazet deposits has been completed. Applications have been submitted for operating licenses. Contouring work is being performed on the third deposit that has been discovered.

The table below shows the cost of short-term financial investments as at 31 December 2006:

thousand RUR

Type of investment	As of 1 January 2006	As of 31 December 2006
Loans provided	99 255 900	9 401 167
Other	24 690 235	18 993 933
Total	123 946 135	28 395 100



The cost of short-term financial investments contracted owing to repayment of a loan to Baikalfinansgroup in the amount of RUR 90,970.4 million, the repayment of third party promissory notes for RUR 4,264.1 million and also the repayment of intra-group loans of subsidiaries at the time of consolidation.

9. Loans and borrowings received, other liabilities, guarantees issued

As of 31 December 2006 debt on loans amounted to RUR 314,290.6 million (RUR 308,946.5 million at 1

January 2006), debt on borrowings amounted to RUR 42,017.8 million (RUR 69,170.1 million as of 1 January 2006), and debt on other liabilities was RUR 3,349.5 million (RUR 957.7 million as of 1 January 2006).

Credits attracted in 2006 were used to finance the following Company activities:

- Acquisition of new core assets;
- Refinancing of existing debt;
- Implementation of investment programs;
- Replenishment of working capital.

	Balance as of 1 January 2006	received		repaid		Balance as of 31 December 2006
		Rosneft	At the time of consolidation, 1 October 2006	Rosneft	At the time of consolidation, 1 October 2006	
Long-term credits	286 302 956	117 169 555	0	124 736 616	0	278 735 895
Long-term loans	43 557 697	34 679 228	26 444 991	18 247 832	47 652 408	38 781 676
Long-term company promissory notes	0	104 001	1 366 995	0	1 363 664	107 332
Short-term credits	22 643 503	279 862 952	0	266 951 740	0	35 554 715
including overdrafts	0	117 355 124	0	111 868 437	0	5 486 687
Short-term loans	25 612 483	6 189 408	9 342 391	5 081 243	32 826 909	3 236 130
Short-term company promissory notes	957 661	17 691	3 172 606	477 799	427 980	3 242 179

In the financial statements as at 31 December 2006, the debt on loans was recognized with due account of accrued interest. The weighted average nominal interest rate of the unconsolidated credit portfolio as at the end of 2006 amounted to 6.06%. The cost of the credit portfolio of financial liabilities of Rosneft at a weighted average interest rate fell compared to 2005 from 7.12% to 6.06% (excluding guarantees and project financing). At the same time, LIBOR

increased from 1 January 2006 to 29 December 2006 inclusive from 2.4% to 5.32%, while the weighted average margin contracted during this time fell from 3.6% to 0.74%.

Export supplies of oil constituted the primary security on these loans. The cost of issued securities as at 31 December 2006, totaled RUR 44,626.6 million. At the same time, the breakdown of issued securities on pledged items was as follows:

thousand RUR

Subjects of the pledge (security)	Percentage of the total. %
Revenues from the sale of oil and oil products	59.9
Sureties	9
Promissory notes	31.1

10. Assets and liabilities denominated in foreign currency

Changes to exchange rates, in particular to the US dollar, have a material impact on the financial performance of the Company. The table below provides information on rouble/dollar exchange rate fluctuations:

Exchange differences which arose during the year on transactions with assets and liabilities denominated in a foreign currency and also on their translation on the reporting date, were posted to the account for other (non-sale) incomes and expenses. During 2006, exchange gains amounted to RUR 30,399 million, while exchange losses came to RUR 7,762 million (9,004 million and 16,630.4 million in 2005, respectively).

As of 31 December	Exchange rate
2006	26.33
2005	28.78
2004	27.75

11. Tax debt

The tax liabilities of the Company are recognized in the financial statements on an accruals basis.

The rates of the main taxes paid in 2006 amounted to:

- profit tax – 24%
- value-added tax – 18%.

As of 31 December 2006, the debt of the Company on taxes to the budget amounted to RUR 46,429.1 million according to accounting data. The debt increased owing to the incorporation of tax debts of Yuganskneftgaz amounting to RUR 44,654.1 million.

In accordance with the provisions of Chapter 14 “Tax Control” of the RF Tax Code, the tax authorities may perform desk and field tax audits of taxpayers, payers of contributions and tax agents for the three calendar years preceding the audit. Company management assumes that the tax liabilities will be calculated in accordance with the requirements of tax legislation. The audit by the tax authorities of tax returns for a specific period does not imply that they will not be subjected to repeat audits within the three-year period.

12. Accounts receivable and accounts payable

Receivables

As of 1 January 2006 the Company’s receivables totaled RUR 70,150.9 million. During 2006 the debt increased by RUR 262,599.7 million to RUR 332,750.7 million as of 31 December 2006.

The increase was attributable to the incorporation of the debt of Yuganskneftgaz to YUKOS of RUR 106,917.6 million and the recognition of RUR 141,033.7 million in receivables included in the register of creditors of YUKOS pursuant to court decisions.

In accordance with accounting policy, the Company establishes provisions for doubtful debts. Based on the results of an inventory of receivables and considering the financial status (solvency) of the debtor and after assessing the likelihood of the repayment of debts, provisions of RUR 283 million were established. The receivables were indicated in the Company balance sheet, less established provisions.



thousand RUR

Line item	As of 1 January 2006	As of 31 December 2006
Buyers and customers	26 791 532	65 372 642
Advances issued	9 428 217	12 751 792
Other debtors	33 931 234	254 626 236
Total	70 150 983	332 750 670

Payables

The Company's accounts payable as of 1 January 2006 totaled RUR 26,398.5 million. During 2006 accounts payable increased by RUR 72,583.3 million to RUR 98,981.8 million as of 31 December 2006.

Accounts payable increased primarily owing to the transfer to the balance sheet of the tax debt of the incorporated subsidiary Yuganskneftgaz amounting to RUR 44,654.1 million, the promissory note debt of RUR 14,915.9 million and also suppliers and contractors of 5,206.8 million.

Line item	As of 1 January 2006	As of 31 December 2006
Suppliers and contractors	3 753 490	18 087 980
Debt to company employees	79 370	123 398
Debt to the budget and extra-budgetary funds	2 296 730	46 429 141
Advances received	4 517 791	5 849 546
Other creditors	15 751 168	28 491 787
Total	26 398 549	98 981 852

13. Equity

Charter capital

As of 31 December 2006, Rosneft's charter capital was RUR 105,981,778.17, divided into 10,598,177,817 ordinary shares with a par value of 1 (one) kopeck each.

On 6 December 2006, amendments No. 3 to the Company Charter were registered in connection with the registration of the reports on the results of the issue of additional shares, placed in connection with the takeover of subsidiaries (consolidation). As a result, the Company's charter capital equaled RUR 105,981,778.17.

Reserve capital and additional capital

The Company's equity also includes reserve capital and additional capital.

The Company's reserve capital consists of reserve

capital formed in accordance with the foundation documents (5% of charter capital). As of 31 December 2006, in accordance with the amendments made to the Company Charter, the amount of reserve capital created was RUR 5,299,000.

The company's additional capital as of 31 December 2006 was RUR 113,266.4 million, or RUR 38,479.9 million less than in 2005. This change in additional capital was due to:

- write-up of shares of subsidiaries during the reporting year to the date of the takeover, in the amount of RUR +26,929.8 million.
- write-down of revaluation of shares as of the date of takeover of subsidiaries, in the amount of RUR – 123,515.2 million.
- share premium (IPO) in the amount of RUR +58,105.5 million.



Undistributed profit

As at 31 December 2006, the undistributed profit of previous years was RUR 57,629.2 million; as at 1 January 2006, retained earnings of previous years were RUR 68,964.7 million. The change in undistributed profit was due to the pay-

out of dividends of RUR 11,335.5 million for 2005.

The amount of undistributed profit of the reporting year was RUR 213,216.6 million, of which, profits from sales were RUR 114,135.5 million. The following income and expenses also affected the size of undistributed profit of the reporting year:

Income from the sale and other disposal of other property

thousand RUR

Item	2005	2006
Total:	162 046 312	12 537 498
Including:		
Revenue from sales of tangible assets	971 191	36 575
Revenues from sales of capital construction in progress	259 469	
Revenues from sales of fixed assets	39 372	2 451 619
Revenues from sales of long-term promissory notes	4 268 459	571 127
Revenues from sales of short-term promissory notes	156 078 540	9 257 606
Revenues from sales of shares and equity holdings	422 100	23 962

Expenses on the sale and other disposal of other property

thousand RUR

Item	2005	2006
Total:	162 296 365	12 854 459
including:		
Value of capital construction in progress sold	259 444	
Residual value of fixed assets sold	37 595	2 342 244
Value of intangible assets sold	938 120	36 394
Value of long-term promissory notes sold	4 268 260	571 127
Value of short-term promissory notes sold	156 290 679	9 166 072
Expenses on the liquidation of equipment and capital construction in progress	6 573	22 346



Other income

thousand RUR

Item	2005	2006
Total:	9 869 363	175 923 793
Including:		
Foreign-exchange and settlement differences	9 074 700	30 435 265
Income from joint activity	138 474	19 800
Profits from previous years identified in the current year	184 575	681 290
Fines, penalties, and forfeits (OC YUKOS)		141 033 735

Other expenses

thousand RUR

Item	2005	2006
Total:	24 372 588	14 379 365
Including:		
Foreign-exchange and settlement differences	18 390 068	7 816 281
Banking services	1 288 556	1 223 457
Expenses on initial public offering of shares		835 250
Expenses related to the execution of investment contracts	957 724	860 764

Net assets

The Company's net assets as of year-end 2006 were RUR 287,966.9 million. The growth in net assets from the start of 2006 (RUR 222,138.8 million) was RUR 65,828.1 million, or 129.6%, and was mainly due to the takeover of the assets of subsidiaries on consolidation. The Company's net assets as of 31 December 2006 exceeded the charter capital by RUR 287,861 million.

14. Profits per share; payment of dividends

Rosneft's net profits for 2006 were RUR 213,216,616 thousand. Net profits per share of Rosneft for 2006 were RUR 20.12/share.

The dividend payout on Rosneft shares for 2006 will be preliminary determined by the Board of Directors of the Company at the end of May 2007.

15. Events after the reporting date

In February 2007, the Company concluded a credit agreement in the amount of USD 2.5 billion with ABN AMRO Bank as a creditor and eight international banks as joint organizers. The loan was taken out for general corporate needs and was used to settle previous, more expensive credits (some of them repaid early).

On 18 January 2007, the LLC Burgas–Alexandroupolis Pipeline Consortium was registered with Moscow Inspectorate No. 46 of the Federal Tax Service; shares



in the consortium were distributed as follows: OJSC AK Transneft – 33.34%; OJSC OC Rosneft – 33.3%; OJSC Gazpromneft – 33.33%.

On 26 January 2007, the Company acquired 55,331,951 ordinary registered shares in OJSC Okhinskaya TETs, which constitutes 85.61% of the company's charter capital, at a price of RUR 11.37 per share.

On 12 January 2007, 2,000 ordinary shares in OJSC ANTEK-invest (a 16.53% shareholding) were sold for RUR 49,216,200.

On 15 March 2007, the Board of Directors of Rosneft approved transactions related to the Company's acquisition of a loan of USD 13 billion and the Company's provision of a surety for RN-Razvitie (in which Rosneft indirectly owns a 100% equity holding), which took out a USD 9 billion loan. The loans were taken out to finance the acquisition of core assets in the Russian Federation and abroad, including as part of auctions to sell the assets of OC Yukos.

16. Business contingencies

1. In the reporting period, the International Commercial Court of Arbitration under the Chamber of Commerce and Industry of the Russian Federation collected debt under 4 loan agreements from Yuganskneftegaz (a legal predecessor of Rosneft) in favor of Yukos Capital S.a.r.l. under 4 lawsuits: RUR 11,233,000,000 – the loan amount; RUR 1,702,858,500 – accrued interest; USD 857,507.26 – arbitration fees and court costs. Rosneft believes that it has grounds to have these decisions overturned and plans to file petitions with the Moscow Court of Arbitration to overturn the decisions of the ICCA under the Chamber of Commerce and Industry of the Russian Federation in the next reporting period.

2. In May 2005, Moravel Investments Limited, a company affiliated with the YUKOS group, filed suit against Yuganskneftegaz in the London Court of International Arbitration for the recovery of USD 662 million under a guarantee provided in favor of YUKOS in respect of a loan of USD 1,600 million.

Hearings in this arbitration case were completed in July 2006. It is expected that a decision will be issued in the next reporting period.

Rosneft believes the claims made by Moravel Investments Limited are unfounded, since in March 2006 in a suit brought by Rosneft against YUKOS and several of its affiliates (including Moravel Investments Limited), the Moscow Court of Arbitration invalidated the guarantee agreement in accordance with Russian law. Two superior courts upheld this decision. Rosneft believes that this decision may affect the result of the arbitration proceedings in London. Rosneft further believes that it is not subject to the jurisdiction of the London Court of International Arbitration.

3. In October 2003, the Czech company Kyklop spol S r.o. filed a primary claim in the Court of Arbitration under the Zurich Chamber of Commerce on collecting debt from Yuganskneftegaz for the payment of spare parts delivered under contract No. 114-01-797 of 27 October 1994, in the amount of USD 3,900,800 (RUR 105,300,000), plus interest of 5%.

In September 2006, the company Kyklop spol S r.o. attempted to make changes to its "primary claim" in order to add a so-called Oil Suit, which is based on an alleged oil purchase contract, the "original" of which was submitted to the Court by Kyklop spol S r.o.

In accordance with the oil purchase contract, Yuganskneftegaz's debt to Kyklop spol S r.o. is USD 891,214.80, plus interest and penalties, which Yuganskneftegaz must pay not later than 31 December 2001. Otherwise, Yuganskneftegaz will be obligated to compensate Kyklop spol S r.o. in the amount of one million tonnes of oil, with the amount of oil to increase by 5% for each week of delay in the shipment.

The court is expecting Kyklop spol S r.o. to pay the court duty in full. Otherwise, the court will refuse to accept the Oil Lawsuit for consideration.

Rosneft considers the claims made to be without merit and will continue to defend its rights and lawful interests in the next reporting period.

4. On 31 October 2006 the Moscow Court of Arbitration issued a decision invalidating decision No. 52/554/1 of Interregional Inspectorate for Major Taxpayers No. 1 of the Federal Tax Service of Russia dated 12 May 2006, which refused Yuganskneftegaz an increase in losses for 2002 in the amount of RUR 163,111,000. It is expected that the tax authorities will appeal this court decision. Rosneft believes that the claims of the tax authorities are without merit and will continue to defend its interests in court.

5. By decision No. 42/668 of 13 September 2005, Interregional Inspectorate for Major Taxpayers No. 1 of the Federal Tax Service of Russia refused a refund of profits to Yuganskneftegaz for 2001 in the amount of RUR 1,186,064,500, in connection with the use of a concession stipulated by the Law On State Guarantees and Compensation for Persons Working and Residing in the Regions of the Far North and Areas Equated Thereto, when financing capital construction, while charging the Company an additional RUR 1,044,373,500 in profit taxes due for 2001.

Yuganskneftegaz did not agree with this decision, and filed a petition with the Moscow Court of Arbitration, containing two requests:

- to invalidate decision No. 52/668 of the tax authorities of 13 September 2005 on charging an additional RUR 1,044,373,500 in profit tax;
- to obligate the tax authorities to refund Yuganskneft-



egaz overpaid profit tax for 2001 in the amount of RUR 1,186,064,500.

With regard to the second demand, on 28 April 2006 the Moscow Court of Arbitration refused to satisfy Yuganskneftegaz's request in full. The decision of the appellate court of 18 September 2006 satisfied the appeal of Yuganskneftegaz, overturning the lower court's decision and invalidating the tax authorities' decision. It is expected that the tax authorities will continue the appeals process at a higher court.

With regard to the first demand, proceedings in the Moscow Court of Arbitration have been suspended until the higher court of appeal considers the petition on the second claim. As the legal successor of Yuganskneftegaz, Rosneft will continue the court proceedings in the following reporting period.

6. The Moscow Court of Arbitration is currently considering the petition by Rosneft on the invalidation of demand No. 765 by the Interregional Inspectorate for Major Taxpayers No. 1 of the Federal Tax Service of Russia on the payment of fines accrued on the tax of Yuganskneftegaz for the second half of 2004, in the amount of RUR 955,101,400. The higher court of appeal returned the case to the lower court for renewed consideration. The case will be re-examined in the next reporting period.

It is possible that a number of other losses will appear, which the Company believes will be immaterial in size.

17. Related parties

The Company's related parties are mainly subsidiaries and affiliates, as well as members of the Board of Directors and Management Board (collegial executive body). Related-party transactions were performed during 2006, including the following major transactions:

1. Yuganskneftegaz:

The cost of oil acquired from Yuganskneftegaz in the production cost of sold goods (products) equaled 14% (prior to consolidation on 30 September 2006).

2. Rosneft-Purneftegaz:

The cost of oil acquired from Rosneft-Purneftegaz in

the production cost of sold goods (products) equaled 3% (prior to consolidation on 30 September 2006).

3. RN-Trade:

The cost of oil acquired from RN-Trade in the production cost of sold goods (products) equaled 17%.

4. The cost of services on the production of hydrocarbon raw materials provided by operators in the production cost of sold products equaled 10.6%, including:

Grozneftegaz	0.7%
RN-Purneftegaz	2.3%
RN-Stavropolneftegaz	0.4%
RN-Severnaya Neft	0.8%
RN-Sakhalinmorneftegaz	0.5%
RN-Krasnodarneftegaz	0.5%
RN-Yuganskneftegaz	5.5%

5. Severnaya Neft:

The cost of oil acquired from Severnaya Neft in the production cost of sold goods (products) equaled 5% (prior to consolidation on 30 September 2006).

6. Rosneft-Komsomolsk Refinery:

The cost of oil-refining services in the production cost of goods (products) equaled 0.5%.

7. Rosneft-Tuapse Refinery:

The cost of oil-refining services in the production cost of goods (products) equaled 0.3%.

8. RN-Vostoknefteprodukt:

The value of sold oil products accounted for 3% of revenue from the sale of goods (products).

9. Rosneft-Kubannefteprodukt:

The value of sold oil products accounted for 1% of revenue from the sale of goods (products).

18. Indicators by segment

Pursuant to PBU 12/2000 "Information by segment", general business, currency, credit and price risks that can be confirmed by the company are taken into account when separating information by segment.

Revenue (net) (mln. roubles)	
Oil	360 519
Gas	1 980
Oil products	194 663

Revenue (net) (mln. roubles)	
Oil	360 519
Other sales	31 849
Total	589 011

Revenue (net) (mln. roubles)	Domestic market	Export
Oil	5 101	355 418
Gas	1 980	
Oil products	89 007	105 656
Other sales	31 849	
Total	127 937	461 074

19. Other aspects of the Company's activity

Environmental protection issues

The operations of oil and gas companies are always associated with the risk of environmental damage. Company management is convinced that its activity complies with the requirements of legislation on environmental protection, and therefore that the Company is not at risk of the appearance of material liabilities.

Insurance

The Company continues to insure property, freight, transportation, construction and assembly work. However, the risk of suspension of a company's operations is not usually an object of insurance on the Russian market of insurance market.

Financial Director

A.I. Kozhinov

Chief Accountant

S.N. Kim

15 March 2007



*Financial statements
of OJSC OC Rosneft for January–March 2007*

Balance sheet			Codes
As of 31 March 2007 Form No. 1		under OKATO	4528656000
Date (year, month, day)		OKOGU	41114
Organization: OJSC OC Rosneft		under OKPO	00044428
Taxpayer identification number		TIN	7706107510
Type of activity Industrial production		under OKVED	11.10.11 23.20 11.10.2 63.40 60.30.11 51.70.74.14
Form of incorporation/form of ownership		under OKOPF/OKFS	47 12
Unit of measurement: thousand RUR		under OKFS	12
Location (address): 26/1 Sofiyskaya Embankment, Moscow, 115035			
Date of approval			
Date of delivery (acceptance)			

Assets	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
I. Non-current assets			
Intangible assets	110	3 465 315	3 428 305
Fixed assets	120	142 126 180	141 253 157
Construction in progress	130	33 316 382	42 549 731
Long-term financial investments	140	146 701 900	174 743 681
Deferred tax assets	145	294 569	405 655
Geological exploration assets	147	25 705 194	25 704 826
Other non-current assets	150	5 595 618	5 621 744
Total for section 1	190	357 205 158	393 707 099
II. Current assets			
Inventories	210	12 724 458	14 483 185
including:			
raw and other materials and other similar assets	211	1 181 928	1 083 449

Assets	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
work in progress costs (commercial costs)	213	344 817	360 769
finished products and goods for resale	214	8 023 997	9 341 847
shipped goods	215	1 189 257	1 838 321
deferred expenses	216	1 984 459	1 858 799
Value-added tax on acquired assets, excise	220	14 698 686	13 835 258
Account receivables (payment due more than 12 months after the reporting date)	230	439 704	423 498
Account receivables (payment due within 12 months after the reporting date)	240	332 562 394	337 724 312
including:			
buyers and customers	241	65 372 642	72 541 320
Short-term financial investments	250	28 395 100	32 523 505
Cash	260	3 503 396	4 114 803
Other current assets	270		
Total for section II	290	392 323 738	403 104 561
Balance (sum of lines 190+290)	300	749 528 896	796 811 660

Liability	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
III. Capital and reserves			
Charter capital	410	105 982	105 982
Treasury stock	411		
Additional capital	420	113 276 400	113 276 400
Reserve capital	430	5 299	5 299
reserves formed in accordance with foundation documents	432	5 299	5 299
Undistributed profit of previous years	460	174 837 294	174 837 294
Results from business combinations			
Undistributed profit of the reporting year	470		18 605 544
Total for section III	490	288 224 975	306 830 519



Liability	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
IV. Long-term liabilities			
Loans and borrowings	510	317 517 571	311 859 057
Deferred tax liabilities	515	2 670 715	3 273 732
Other long-term liabilities	520	107 332	107 332
Total for section IV	590	320 295 618	315 240 121
V. Current liabilities			
Loans and credits	610	38 790 845	69 320 062
Accounts payable	620	98 971 722	101 847 736
including:			
suppliers and contactors	621	18 087 593	25 699 401
debt to staff of the Company	624	123 398	69 435
debt to state extra-budgetary funds	625	130	7 482
debt on taxes and duties	626	46 429 011	48 802 676
other creditors	628	34 331 590	27 268 742
Income payable to participants (founders)	630		
Deferred income	640	3 557	3 543
Provisions for future expenses	650		327 500
Other short-term liabilities	660	3 242 179	3 242 179
Total for section V	690	141 008 303	174 741 020
Balance (sum of lines 490+590+690)	700	749 528 896	796 811 660

**Note on the existence of valuables accounted on off-balance-sheet accounts**

Off-balance-sheet account	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
Rented fixed assets	910	91 809	93 190
Material assets accepted for safekeeping	920	2 387 518	2 387 518
Goods accepted on commission		50	50
Bad debts written off as losses	940	858 126	858 126
Received collateral for obligations and payments	950	113 105 089	146 746 705
Issued collateral for obligations and payments	960	44 626 596	86 212 317
Depreciation of housing	970	3 525	3 525
Depreciation of amenities and similar facilities	980	915	915

Director

A.I. Baranovsky

First Deputy Chief Accountant

N.N. Vovk



Income statement			Codes
for January-March 2007 Form No. 2		under OKATO	45286596000
Date (year, month, day)			
Organization: OJSC OC Rosneft		under OKPO	00044428
Taxpayer identification number		TIN	7706107510
Type of activity Industrial production		under OKVED	11.10.11 23.20 11.10.2 63.40 60.30.11 51.70.74.14
Form of incorporation/form of ownership		under OKOPF/OKFS	47 12
		OKOGU	41114
Unit of measurement: thousand RUR		under OKFS	12

Indicator	Line code	For the reporting period	For the same period of the previous year
1	2	3	4
I. Income and expenses on ordinary types of activity.			
Revenue (net) from the sale of goods, products, work, services (minus value-added tax, excise taxes and similar mandatory payments)	10	141 762 497	140 204 385
Cost price of goods, products, work, and services sold	20	(93 428 041)	(96 712 999)
Gross profit	29	48 334 456	43 491 386
Selling expenses	30	(17 241 714)	(14 484 931)
Administrative expenses	40	(2 100 143)	(1 331 419)
Profit (loss) from sales (lines (010-020-030-040))	50	28 992 599	27 675 036
II. Other income and expenses			
Interest receivable	60	111 969	102 411
Interest payable	70	(5 323 603)	(5 570 534)
Income from equity participation in other organizations	80	26 963	
Income from the sale and other disposal of other property	90	10 618 899	440 396
Expenses on the sale and other disposal of other property	100	(10 389 872)	(460 334)
Tax payments	110	(797 499)	(216 774)
Other income	120	6 884 425	11 640 521
Other expenses	130	(4 931 032)	(2 943 135)
Profit (loss) before tax (lines (050+060+070+080+090-100-110+120-130))	140	25 192 849	30 667 587



Indicator	Line code	For the reporting period	For the same period of the previous year
1	2	3	4
Deferred tax assets	150	111 085	16 601
Deferred tax liabilities	151	(603 017)	101 377
Profits tax and similar mandatory payments	152	(6 095 373)	(7 463 646)
Profit (loss) from ordinary activity (140+150-151-152)	160	18 605 544	23 321 919
Amount of profit formed as a result of writing off revaluation amounts to additional capital	161		
Net profit (undistributed loss) for the reporting period (lines 160+161+170-180)	190	18 605 544	23 321 919
For reference			
Permanent tax liabilities (assets)	201	-541 021	-110 554
Basic earnings (loss) per share	202		
Diluted earnings (loss) per share	203		

Breakdown of separate gains and losses

Indicator	Line code	For the reporting period		For the same period of the previous year	
		gain	loss	gain	loss
1	2	3	4	5	6
Revenue from the sale (purchase) of a foreign currency (value of sold (purchased) foreign currency)	204	250 058 272	(250 001 081)	169 150 587	(169 314 915)
Exchange rate differences on foreign currency transactions	205	6 239 470	(3 427 292)	11 426 319	(1 966 449)
Banking services	206	5 558	(278 884)	21 717	(218 408)
Profit (loss) of previous years declared (recognized) in the reporting period	207	400 530	(378 447)	149 760	(120 771)
Penalties, fines and arrears that have been acknowledged or which are due pursuant to a court (arbitration court) ruling	208	19 232	(22 372)		(42 150)
Write-off of receivables and payables, where the period of limitations has expired	209				

Director

A.I. Baranovsky

First Deputy Chief Accountant

N.N. Vovk



Calculation of net assets of Rosneft (pursuant to balance sheet estimate) as of 31 March 2007

No.	Indicator	Balance sheet line code	As of 1 January 2007 (thousand RUR)	As of 31 March 2007 (thousand RUR)
1.	Assets			
1	Intangible assets	110	3 465 315	3 428 305
2	Fixed assets	120	142 126 180	141 253 157
3	Construction in progress	130	33 316 382	42 549 731
4	Long- and short-term financial investments	140.250	175 097 000	207 267 186
5	Deferred tax assets	145	294 569	405 655
6	Geological exploration assets	147	25 705 194	25 704 826
7	Other non-current assets	150	5 595 618	5 621 744
8	Inventories	210	12 724 458	14 483 185
9	VAT on purchased assets, excise	220	14 698 686	13 835 258
10	Accounts receivable	230.240	333 002 098	338 147 810
11	Cash	260	3 503 396	4 114 803
12	Other current assets	270		
13	Total assets (sum of points 1-12)		749 528 896	796 811 660
2.	Liabilities			
14	Long-term obligations on loans and borrowings	510	317 517 571	311 859 057
15	Deferred tax liabilities	520	2 670 715	3 273 732
16	Other long-term liabilities		107 332	107 332
17	Short-term liabilities on loans and credits	610	38 790 845	69 320 062
18	Accounts payable	620	98 971 722	101 847 736
19	Income payable to participants (founders)	630		
20	Provisions for future expenses and payments	650		327 500
21	Other short-term liabilities	660	3 242 179	3 242 179
22	Total liabilities excluded from the value of assets (sum of points 14-19)		461 300 364	489 977 598
23	Value of net assets (total assets less total liabilities) points 13-20		288 228 532	306 834 062

Chief Accountant

S.N. Kim



AUDITOR'S REPORT

ON THE CONSOLIDATED FINANCIAL STATEMENTS OF
OPEN JOINT-STOCK COMPANY OIL COMPANY ROSNEFT
FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2006

INCLUSIVE

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To the management and owners of OJSC OC ROSNEFT

Information on the audit firm

Legal form and title	Closed Joint Stock Company Auditor and Accounting Service Center "CBA"
Location	101 Prospekt Mira, Moscow 129164
Number and date of state registration certificate	No. 626.228 of 4 February 1994
Licenses	Audit license No. E002806, issued on the basis of Order No. 297 of the Ministry of Finance of the Russian Federation of 10 December 2002 License B 347137 of 29 December 2005 was issued by the Directorate of the Federal Securities Service for Russia for Moscow and the Moscow Region entitling the audit firm to perform work related to the use of data constituting a state secret
Member of accredited professional audit organization	National Federation of Consultants and Auditors (Certificate No. 0142 of 21 September 2000) Institute of Professional Accountants of Russia (Certificate series D No. 0316/77 of 31 May 2005)

Information on the audited company

Legal form and title	Open Joint Stock Company Rosneft Oil Company (OJSC OCRosneft)
Location	26/1 Sofiyskaya Embankment, Moscow, 115035
Number and date of state registration certificate	No. 024.537 Series BB No. 006700 of 7 December 1995

Open Joint Stock Company Rosneft Oil Company and its subsidiaries (the Rosneft Group):

No.		Equity stake of the Parent Company	
		% of CC	% of voting shares
Oil-producing companies			
1.	LLC RN-Severnaya Neft	100.00	
2.	CJSC Komsomolskneft	100.00	100.00
3.	LLC RN-Krasnodarneftegaz	100.00	
4.	OJSC OC Rosneft-Dagneft	68.70	91.60
5.	LLC RN-Purneftegaz	100.00	

No.		Equity stake of the Parent Company	
		% of CC	% of voting shares
6.	LLC RN-Stavropolneftegaz	100.00	
7.	LLC RN-Sakhalinmorneftegaz	100.00	
8.	LLC RN-Yuganskneftegaz	100.00	
9.	OJSC Grozneftegaz	51.00	51.00
10.	LLC Polar Lights Company	50.00	
11.	OJSC Dagneftegaz	40.00	40.00
12.	OJSC Verkhnechonskneftegaz	25.94	25.94
13.	LLC Kaspoil	75.00	
Oil-refining companies			
14.	LLC RN-Tuapse Refinery	100.00	
15.	OJSC OC Rosneft-MZ Nefteprodukt	65.42	83.23
16.	LLC RN-Komsomolsk Refinery	100.00	
Oil product supply companies			
17.	LLC RN-Vostoknefteprodukt	100.00	
18.	OJSC OC Rosneft-Stavropolye	97.79	97.79
19.	OJSC OC Rosneft-Kubannefteprodukt	89.50	96.61
20.	OJSC OC Rosneft-Kabardino-Balkarskaya Topliva vaya Kompaniya	88.66	92.91
21.	OJSC OC Rosneft-Kurgannefteprodukt	83.32	90.33
22.	OJSC OC Rosneft-Karachaevo-Cherkessknefte- eprodukt	85.99	87.46
23.	OJSC OC Rosneft-Smolensknefteprodukt	66.67	86.97
24.	LLC RN-Arkhangelsknefteprodukt	100.00	
25.	OJSC OC Rosneft-Altainefteprodukt	64.18	78.59
26.	OJSC OC Rosneft-Yamalnefteprodukt	49.52	66.03
27.	OJSC OC Rosneft-Murmansknefteprodukt	45.38	60.51
28.	LLC RN-Nakhodkanefteprodukt	100.00	
29.	OJSC OC Rosneft-Artag	38.00	50.67
30.	LLC RN-Tuapsenefteprodukt	100.00	



No.		Equity stake of the Parent Company	
		% of CC	% of voting shares
31.	LLC Yu-Kuban	49.00	
Other companies			
Group of Sakhalin projects			
32.	CJSC Sakhalinskiye Proekty	100.00	100.00
33.	CJSC Vostokshelf	100.00	100.00
34.	West Kamchatka Holding BV	60.00	60.00
35.	LLC RN-Kaiganneftegaz	99.99	
36.	CJSC Vostok-Shmidt-Neftegaz	99.00	99.00
37.	CJSC Zapad-Shmidt-Neftegaz	99.00	99.00
38.	CJSC RN-Astra	99.00	99.00
39.	LLC Venineft	99.00	
40.	LLC Vostok-Shmidt-Invest	99.00	
41.	LLC Zapad-Shmidt-Invest	99.00	
42.	OJSC Rosneft-Sakhalin	55.00	55.00
43.	CJSC Sakhalinmorneftegaz-Shelf	100.00	100.00
44.	CJSC Sakhalinmorneftegaz-AMK	100.00	100.00
Management of international projects			
45.	Rosneft International Ltd	100.00	100.00
46.	LLC RN-Kazakhstan	99.99	
47.	Rosneft Shell Caspian Ventures Ltd	51.00	51.00
Group of service companies			
48.	LLC RN-Burenief	100.00	
49.	OJSC KNG-Mashzavodservis	92.30	96.67
50.	OJSC Purnefteotdacha	61.54	61.54
51.	LLC Komsomolskneftezavodremstroi	100.00	
52.	LLC KNPZ-Service	100.00	
Research			
53.	LLC SakhalinNIPIorneft	100.00	

No.		Equity stake of the Parent Company	
		% of CC	% of voting shares
54.	LLC YuNG-NTTs Ufa	100.00	
55.	OJSC OC Rosneft-NTTs	64.22	
Logistics and transport			
56.	LLC RN-Trade	99.99	
57.	CJSC Rosnefteflot	51.00	
58.	OJSC Moskovskaya Gazovaya Kompaniya	51.00	51.00
59.	LLC Daltransgaz	25.00	
60.	CJSC Vostochny Neftenalivnoi Terminal	100.00	100.00
Group of financial institutions			
61.	OJSC Russian Regional Development Bank	76.47	76.47
62.	LLC Okhabank	33.40	
Group of other institutions			
63.	LLC Baikalfinansgroup	99.90	
64.	CJSC Rosshelf	26.42	26.42
65.	CJSC Izdatelstvo Neftyanoe Khozyaistvo	25.00	25.00
66.	CJSC Ros&Neft	25.00	25.00
67.	LLC Pursatkom	49.00	
68.	LLC Vostok Energy	51.00	
69.	LLC ChOP NKPZ-Strazh	100.00	
70.	LLC PSO Lastochka	81.00	

Introduction

We performed an audit of the attached consolidated financial statements of the Open Joint Stock Company Rosneft Oil Company (hereinafter "Rosneft"), which include the financial statements of its subsidiaries (together the "Rosneft Group") for the period from 1 January to 31 December 2006 inclusive. The consolidated financial statements of the Rosneft Group consist of:

- Consolidated balance sheet (Form No. 1);
- Consolidated income statement (Form No. 2);
- Consolidated statement of changes in equity (Form No. 3);
- Consolidated cash flow statement (Form No. 4);
- Annex to the consolidated balance sheet (Form No. 5);
- Notes to the consolidated financial statements.

The executive body of OJSC OC Rosneft is responsible for the preparation and presentation of these financial statements. Our responsibility is to express an opinion based on the results of our audit on the truthfulness of the financial statements, in all material respects, and the compliance of the accounting procedures, in all material respects, with the legislation of the Russian Federation.



Scope of the audit

We performed the audit in accordance with:

- Federal Law №. 119-FZ of 7 August 2001 on Audit Activities;
- Federal Regulations (Standards) on auditing approved by Resolution No. 696 of the RF Government of Russia of 23 September 2002;
- Directive No. 4521-r of the Russia's Ministry of Property of 30 December 2002 (as amended by Directive No. 6703-r of the Russia's Ministry of Property of 2 December 2003);
- Auditor and Accounting Service Center "CBA".

The audit was planned and performed to obtain reason-

able assurance that the consolidated financial statements are free of material misstatement. The audit included examination, on a test basis, of evidence supporting the amounts in the consolidated financial statements, disclosures on financial and operational activities of the Rosneft Group, assessment of the accounting principles and methods used in the preparation of the consolidated financial statements, consideration of the main estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a sufficient basis for our opinion on the reliability of the consolidated financial statements and the compliance of the accounting procedures with the legislation of the Russian Federation.

Audit opinion

In our opinion, the consolidated financial statements of the Rosneft Group reflect reliably, in all material aspects, the financial position of the Company as of 31 December 2006 and its financial performance for the period from 1 January to 31 December 2006 inclusive, pursuant to the requirements of Russian legislation on the compilation of financial statements.

Date of the audit report

30 March 2007

General Director
CJSC Auditor and Accounting Service Center "CBA",
PhD En, Professor

S.A. Rasskazova-Nikolaeva

Audit in-charge
Director of the Audit Department
CJSC Auditor and Accounting Service Center "CBA"*

E.N. Sedova

Financial statements

Consolidated Balance Sheet

as of 31 December 2006 Form No. 1

Organization: OJSC OC Rosneft

Unit of measurement: million RUR

* (Auditor's qualification certificate for general audit No. K 008480 of 27 July 2000, with an unlimited term of validity)

Asset	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
I. Non-current assets			
Intangible assets	110	3764.5	4639.2
Goodwill		349147.9	89608.9
Fixed assets	120	139163.7	202678.4
Construction in progress	130	46098.3	62650.2
Profitable investments in tangible assets	135	5.5	152.3
Long-term financial investments	140	37875.5	53009.9
Deferred tax assets	145	4049.1	3891.0
Other non-current assets	150	770.6	27014.3
Total for section 1	190	580875.1	443644.2
II. Current assets			
Inventories	210	39770.0	51154.1
including:			
raw and other materials and other similar assets	211	11625.1	17549.6
livestock for raising and fattening	212	1.4	1.3
work in progress costs (commercial costs)	213	10427.4	8785.3
finished products and goods for resale	214	10998.7	19492.8
shipped goods	215	958.0	872.0
deferred expenses	216	5759.4	4453.1
other inventories and expenses	217		
Value-added tax on acquired assets, excise tax	220	24740.3	16705.7
Accounts receivable (payment due more than 12 months after the reporting date)	230	667	1789.5
including:			
buyers and customers	231	228.2	727.1
Accounts receivable (payment due within 12 months after the reporting date)	240	170834.8	339156.2
including:			
buyers and customers	241	57004.8	61328.3
Short-term financial investments	250	36433.1	33827.8



Asset	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
Cash	260	27589.7	13383.1
Other current assets	270	186.0	245.4
Total for section II	290	300220.9	456261.8
Balance (sum of lines 190+290)	300	881096.0	899906.0

Liability	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
III. Equity and reserves			
Charter capital	410	90.9	106
Treasury stock	411		
Additional capital	420	154587.7	115781.4
Reserve capital	430	1609.0	277.8
including:			
statutory reserves	431	13.9	13.5
reserves formed in accordance with founding documents	432	1595.1	264.3
Special-purpose financing and receipts	450		
Undistributed profit of previous years	460	155406.1	46992.0
Uncovered loss of previous years	465	6188.5	2926.7
Undistributed profit of the reporting year	470		277914
Uncovered loss of the reporting year	475		(16611.3)
Result of write-off of goodwill on consolidation	476		(96144.2)
Use of profits of the reporting year to pay dividends	477		(23.6)
Total for section III	490	305505.2	325365.4
Minority interest	491	45413.2	13874.7

IV. Long-term liabilities			
Loans and credits	510	337192.8	395329.8
Deferred tax liabilities	515	9625.8	5969.7
Other long-term liabilities	520	5043.2	324.7
Total for section IV	590	351861.8	401624.2

Liability	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
V. Short-term liabilities			
Loans and credits	610	26924.6	41839.9
Accounts payable	620	129236.1	111997.7
including:			
suppliers and contactors	621	17540.3	20897.4
debt to staff of the Company	624	2139.1	2367.5
debt to state extra-budgetary funds	625	382.4	688.5
debt on taxes and duties	626	71128.7	49893.3
other creditors	628	38045.6	38151.2
Income payable to participants (founders)	630	146.7	94.9
Deferred income	640	1503.3	185.6
Provisions for future expenses	650	3840.8	381.9
Other short-term liabilities	660	16664.3	4541.7
Total for section V	690	178315.8	159041.7
Balance (sum of lines 490+590+690)	700	881096.0	899906.0

Statement note on the existence of assets reported on off-balance-sheet accounts

Off-balance-sheet account	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
Rented fixed assets	910	35303.5	27471.2
Material assets accepted for safekeeping	920	4058.1	7147.8
Goods accepted on commission	930	55.5	42.9
Bad debts written off as a loss	940	3646.3	1156.3
Received collateral for obligations and payments	950	18872.6	28135.9
Issued collateral for obligations and payments	960	600171.0	138687.4
Depreciation of housing	970	25.0	238.7

Financial Director

A.I. Baranovsky

Chief Accountant

S.N. Kim



Consolidated Income statement	
For 2006	
	Form No. 2
Organization: OJSC OC Rosneft	
Unit of measurement: million RUR	

Indicator	Line code	For the reporting period	For the same period of the previous year
1	2	3	4
I. Income and expenses on ordinary types of activity			
Revenue (net) from the sale of goods, products, work, services (minus value-added tax, excise taxes and similar mandatory payments)	2010	652 241.90	518 520.50
Cost price of goods, products, work, and services sold	2020	(358 483.6)	(255 172.1)
Gross profit	2029	293 758.3	263 348.4
Selling expenses	2030	(70 131.7)	(49 389.6)
Administrative expenses	2040	(17 496.3)	(12 071.1)
Profit (loss) from sales (lines(010-020-030-040))	2050	206 130.3	201 887.7
II. Other income and expenses			
Interest receivable	2060	3 514.8	1 856.5
Interest payable	2070	(24 713 .9)	(25 083 .8)
Income from equity participation in other organizations	2080	444.8	165.6
Income from the sale and other disposal of other assets	2090	259 386.7	229 034.4
Expenses on the sale and other disposal of other assets	2100	(261407.2)	(199 530.2)
Tax payments	2110	(3 594. 2)	(2 242. 6)
Other income	2120	200 130.2	27 169.9
Other expenses	2130	(33 108. 5)	(63 152. 8)
Profit (loss) before tax (lines (050+060+070+080+090-100-110+120-130))	2140	346 782.6	170 104.7
Deferred tax assets	2150	-61.4	3 365.9
Deferred tax liabilities	2151	(2 932. 5)	(3 423. 9)

Indicator	Line code	For the reporting period	For the same period of the previous year
1	2	3	4
Current profit tax	2152	(67 608.0)	(46 455.5)
Profit (loss) from ordinary activity (140+150-151-152)	2160	276 180.7	123 591.2
Amount of profit formed as a result of writing off revaluation amounts to additional capital	2170	2 546.9	535.1
Minority interest	2180	(17 424.9)	(13 668.2)
Net profit (undistributed loss) for the reporting period) (lines (160+161)	2190	261 302.7	110 458.1
For reference:			
Permanent tax liabilities (assets)	2201	4 516.0	5 674.8
Gross revenues	2203	984 440.9	707 995.8

Breakdown of separate other income and expenses

Indicator	Line code	For the reporting period		For the same period of the previous year	
		gain	loss	gain	loss
1	2	3	4	5	6
Revenue from the sale (purchase) of a foreign currency (value of sold (purchased) foreign currency)	2210	145 637.6	(147 637.6)	789 172.9	(789 267.4)
Exchange rate differences on foreign currency transactions	2220	34 033.4	(9 763.9)	12 543.5	(20 070.4)
Banking services	2230		(1 335.1)		(1 363.9)
Profit (loss) of previous years declared (recognized) in the reporting period	2240	1 260.8	(33.6)	6 614.4	(1 189.6)
Penalties, fines and arrears that have been acknowledged or which are due pursuant to a court (arbitration court) ruling	2250	152 577.6	(3 408.3)	2 950.9	(445.8)
Write-off of receivables and payables, where the period of limitations has expired	2260	50.6	(124.7)	104.0	(460.0)

Financial Director

A.I. Baranovsky

Chief Accountant

S.N. Kim



Statement of changes in equity

as of 1 January 2007.

Form No. 3

Organization: OJSC OC Rosneft

Unit of measurement: million RUR

I. Change in equity

Indicator		Charter capital	Additional capital	Reserve capital	Retained earnings (uncovered loss)	Total
Title	Code					
1	2	3	4	5	6	7
Balance as of 31 December 2004	3010	90.9	97 224.4	1 501.8	43 798.1	142 615.2
Changes to accounting policy	3011					
Result of the revaluation of fixed assets	3013					
Balance as of 1 January 2005	3014	90.9	97 224.4	1 501.8	43 798.1	142 615.2
Result of the conversion of foreign currency	3015					
Net profits	3016				110 458.1	110 458.1
Dividends	3017				- 1 759.1	-1 759.1
Withholdings to the reserve fund	3018				-111.5	-11.5
Increase in equity – total:	3019		57 363.4	107.2	17 423.8	74 894.3
including:						
additional share issue	3020					
increase in the par value of shares	30201					
reorganization of the legal entity	3021				30.0	30.0
other increases	30211		57 363.4	107.2	17 393.8	74 864.3
Decrease in equity – total:	3022				20 591.8	20 591.8
including:						
decrease in the par value of shares	30221					
reduction in the number of shares	3023					
reorganization of the legal entity	3024					
Other reductions	30241					



I. Change in equity						
Indicator		Charter capital	Additional capital	Reserve capital	Retained earnings (uncovered loss)	Total
Title	Code					
1	2	3	4	5	6	7
Balance as of 31 December 2005	3025	90.9	154 587.7	1 609.0	149 217.6	305 505.2
Changes to accounting policy	3026					
Result of the conversion of foreign currency	3030					
Net profits	3031				261 302.7	261 302.7
Dividends	3032				-23.6	-23.6
Withholdings to the reserve fund	3033			-1 331.1		-1 331.1
Increase in equity – total:	3034	15.1	83 641.6			83 656.7
including:						
additional share issue	3134	15.1				15.1
increase in the par value of shares	3035					
reorganization of the legal entity	3036					
Other increases	30361		83 641.6			83 641.6
Decrease in equity – total:	3037		122 447.9		201 296.4	323 744.3
including:						
decrease in the par value of shares	3137					
reduction in the number of shares	3038					
reorganization of the legal entity	3039					
result of the write-off of goodwill					96 144.2	96 144.2
Other reductions	30391		122 447.9		105 152.2	227 600.1
Balance as of 31 December 2006		106	115 781.4	277.9	209 200.3	325 365.4



II. Provisions					
Indicator	Line code	Balance	Received	Used	Balance
1	2	3	4	5	6
Provisions for future expenses and payments	3100				
2005	3101	1 487.6	3 985.8	1 632.6	3 840.8
2006	3102	3 840.8	1 544.5	5 003.4	381.9
Valuation reserves – total	3118				
2005	3119	755	24 022.8	23 301.4	1 476.4
2006	3120	1 476.4	710.7	661.9	1 525.2
including:					
Doubtful debt provisions	3121				
2005	3122	299.3	23 179.1	22 895.8	582.6
2006	3123	582.6	744.9	587.2	740.3
Other provisions	3124				
2005	3125	455.6	843.7	405.5	893.8
2006	3126	893.8	316.8	425.7	784.9

Notes

Indicator	Line code	Opening balance of the reporting year	Closing balance of the reporting year		
1	2	3	4		
1) Net assets	3150	352 421.7	339 425.8		
		From the budget		From extra-budgetary funds	
		for the reporting year	for the previous period	for the reporting year	for the previous period
		3	4	5	6
2) Received for:					
Expenses on ordinary activities – total	3160	0.1	0.2		2.1
Capital investments in non-current assets	3170				
including:	3171				

Financial Director

A.I. Baranovsky

Chief Accountant

S.N. Kim



Consolidated Cash flow statement		Codes	
For 31 March 2007 Form No. 4	under OKUD	0710004	
Organization: OJSC OC Rosneft	under OKPO	00044428	
	under OKOPF/OKFS	47	12
Unit of measurement: million RUR	under OKEI	384/385	

Indicator	Line code	For the reporting period	For the same period of the previous year
1	2	3	4
Opening cash balance of the reporting year	4010	25 901.1	35 482.3
Cash flow on day-to-day operational proceeds – total:	4020	3 005 280.7	1 817 321.8
including:			
Funds received from buyers and clients	40201	978 371.5	692 517.5
Other income	4030	2 026 909.2	1 12 4804.3
Cash used for current operations – total:	4040	3 019 678.5	1 786 624.5
including:			
to pay for purchased goods, work, services, raw materials and other current assets	4050	1 565 931.7	1 145 405.7
to pay wages	4060	15 938.7	17 307.5
to pay dividends and interest	4070	46 422.2	21 907.3
for settlements on taxes and duties	4080	163 952.4	241 480.7
for other expenses	4085	1 227 433.5	360 523.3
Net cash from day-to-day operations	4090	(14 397.8)	30 697.3
Cash flow from investing activity – total:	4110	1 017 307.1	116 923.8
including:			
revenues from the sale of fixed assets and other non-current assets	4111	508.6	27.9
revenues from the sale of securities and other financial investments	4120	818 401.5	26 100.3
dividends received	4130	1 216.2	156.9
interest received	4140	1 228.5	121.7
receipts from repayment of loans provided to other organizations	4150	151 575.5	90 176.6
Other	4151	44 376.8	95.4
Used for investing activity – total:	4052	1 162 340.6	326 604.6



Indicator	Line code	For the reporting period	For the same period of the previous year
1	2	3	4
including:			
Acquisition of subsidiaries	4160	94 780.9	3 846.4
Acquisition of fixed assets, income-bearing investments in tangible assets and intangible assets	4170	75 779.4	16 020.7
Acquisition of securities and other financial investments	4180	831 808.1	190 482.7
Loans provided to other organizations	4190	159 842.1	116 179.2
Other	4191	130.1	75.6
Net cash from investing activity	4200	(145 033.5)	(209 680.8)
Received from financing activity – total:	4210	583 383	423 683.7
including:			
Share issue proceeds	4220	58 108.6	
loans received	4230	49 689.8	35 557.4
credits received	4250	471 800	388 076.4
other proceeds	4260	3 784.6	49.9
Used on financing activity – total:	4280	436 471.9	252 593.9
including:			
repayment of loans	4290	76 703.4	82 993.2
repayment of credits	4310	346 789	162 511.2
repayment of financial lease obligations	4330	243.5	1 285.7
Other	4340	1 2736	5 803.8
Net cash from financing activity	4360	146 911.1	171 089.8
Note:			
effect of changes in the Central Bank exchange rate		(685.1)	120
Closing cash balance of the reporting year	4350	13 380.9	27 588.6

Financial Director

A.I. Baranovsky

Chief Accountant

S.N. Kim

Annex to the consolidated balance sheet

as of 31 December 2006

Form No. 5

Organization: OJSC OC Rosneft

Unit of measurement: thousand RUR

1. Intangible assets

Indicator	Line code	Opening balance of the reporting period	Received	Disposals	Closing balance of the reporting period
1	2	3	4	5	6
Items of intellectual property (exclusive rights to the results of intellectual activity)	5100	3.0	39.2	2.5	39.7
including:					
of a patent-holder to an invention, commercial prototype, or utility model	5101	3.0	38.7	2.5	39.2
of a holder of rights to a computer program or database	5102		0.4		0.4
of a holder of rights to an integrated-circuit design	5103				
of the owner to a trademark, service mark, or the title of the place of origin of goods	5104		0.06		0.06
of a patent-holder to the results of selective breeding	5105				
Organizational costs	5106	3.4		3.4	
Goodwill	5107	349 147.9	116 394.8	375 933.8	89 608.9
Other	5108	3 796.5	4 863.7	3 671.4	4 988.8

Indicator	Line code	Opening balance of the reporting year	Closing balance of the reporting year
1	2	3	4
Amortization of intangible assets – total	5109	38.5	389.3



Indicator	Line code	Opening balance of the reporting year	Closing balance of the reporting year
1	2	3	4
items of intellectual property (exclusive rights to the results of intellectual activity)	5111	1.6	9.7
Organizational costs	5112	0.6	

2. Fixed assets

Indicator	Line code	Opening balance of the reporting period	Received	Disposals	Closing balance of the reporting period
1	2	3	4	5	6
Buildings	5113	19 320.0	17 228.9	10 585.1	25 963.8
Structures and transmission equipment	5114	147 002.7	150 121.7	81 245.9	215 878.5
Machinery and equipment	5115	46 139.6	48 328.2	33 514.7	60 953.1
Vehicles	5116	4 578.1	5 217	2 384.1	7 411.0
Production and business inventories	5117	1 277	824.8	677.5	1 424.3
Draft animals	5118				
Productive livestock	5119				
Perennial plants	5120				
Other fixed assets	5121	1 568.2	461.5	756.3	1 273.4
Plots of land and natural objects	5122	140.4	188.8	134.8	194.4
Capital investments in land reclamation	5123				
Total	5124	220 026.1	222 370.8	129 298.4	313 098.5

Indicator	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
Depreciation of fixed assets – total	5125	80 862.4	110.4
including:			
buildings and structures	5126	57.7	87 277.3
machines, equipment and vehicles	5127	21 574.5	21 723.7

Indicator	Line code	Opening balance of the reporting year	Closing balance of the reporting period
1	2	3	4
other	5128	1 603.5	1 419.1
Fixed assets transferred under lease	5129	6 180.1	2 722.8
including:			
buildings	5130	1 402.7	1 040.3
structures	5131	1 982.9	260.9
Mothballed fixed assets	5132	8 375.8	12 322.2
Fixed assets received under lease – total	5133	35 303.5	26 924.9
Real estate commissioned and undergoing state registration	5134	17 192.3	60 426.8
For reference			
Result of the revaluation of fixed assets	5135		
historical (replacement) cost	5136		
depreciation	5137		
Change to the value of fixed assets as a result of additional construction, equipment, overhaul and partial liquidation	5138	2 014.2	866.6

Income-bearing investments in material assets

Indicator	Line code	Opening balance of the reporting year	Received	Disposals	Closing balance of the reporting period
1	2	3	4	5	6
Assets to be transferred on a leasing basis	5139				
Assets to be provided under a rental agreement	5140	11.5		11.5	
Other	5141	0.7	242.5	0.7	242.5
Total	5142	12.2	242.5	12.2	242.5
	Line code	Opening balance of the reporting period	Closing balance of the reporting period		
1	2	3	4		
Depreciation of income-bearing investments in material assets	5143	4.2	90.2		



Expenses on research and development

Types of work. Title	Line code	Opening balance of the reporting period	Received	Written off	Closing balance of the reporting period
1	2	3	4	5	6
Total	5144	178	31.5	146.7	62.8
For reference			Line code	Opening balance of the reporting year	Closing balance of the reporting year
1			2	3	4
Expenses on research and development, design and technical work in progress			5145	178	62.8
Unsuccessful expenses on research and development, posted to non-sales expenses			5146	14.8	

Expenses on the development of natural resources

Indicator	Line code	Opening balance of the reporting period	Received	Written off	Balance Closing balance of the reporting period
1	2	3	4	5	6
Expenses on the development of natural resources – total	5147	6 035.7	58 114.2	29 494.1	34 655.8
For reference			Line code	Opening balance of the reporting year	Closing balance of the reporting year
1			2	3	4
Total expenses on plots of land, on which prospecting and deposit assessment, exploration and/or hydrogeological surveying and other similar work have not yet been completed			5148	6 035.7	8 950.6
Total expenses on natural resource development posted to non-sales expenses of the reporting period as unproductive			5149		5.6

Financial investments

Indicator	Line code	Long-term		Short-term	
		Opening balance of the reporting year	Closing balance of the reporting year	Opening balance of the reporting year	Closing balance of the reporting year
1	2	3	4	5	6
Contributions to charter (joint) capital of other organizations – total	5150	7 613.1	9 411.6		
subsidiaries	5151				
affiliates	51511	6 789.1	8 407.9		
Other organizations	51512	824.0	1 003.7		
State and municipal securities	5152	614.5	1 309.5	196.8	919.3
Securities of other organizations – total	5153	596.8	3658	2895.9	2420.1
including:					
shares	5154			310.6	545.0
bonds	51541	395.8	2213.9	21.5	649.5
promissory notes	51542	201.0	1 444.1	2 563.8	1 225.6
Loans provided	5155	4 702.2	6 114.2	6 094.8	11 126.7
Deposits	5156			11 267.0	2 261.7
Contributions to joint activity	51561	641.2	1 049.1		
Other	5157	23 707.7	31 467.6	15 978.6	17 100.0
Total	5158	37 875.5	53 009.9	36 433.1	33 827.8

Accounts receivable and accounts payable

Indicator	Line code	Opening balance of the reporting year	Closing balance of the reporting year
1	2	3	4
Accounts receivable			
Short-term – total	5168	170 834.8	339 156.2
including:			
buyers and customers	5169	57 004.8	61 328.3
advances paid	5170	10 885.5	14 947.9



Indicator	Line code	Opening balance of the reporting year	Closing balance of the reporting year
1	2	3	4
other	5171	102 944.5	262 880.0
Long-term – total	5172	667.0	1789.5
including:			
buyers and customers	5173	228.2	727.1
advances paid	5174	6.6	24.7
Other	5175	432.2	1 037.7
Total	5176	171 501.8	340 945.6
Accounts payable:			
Short-term – total	5177	156 160.7	153 837.6
including:			
suppliers and contractors	5178	17 540.3	20 897.4
advances received	5179	4 070.0	1 144
settlements on taxes and duties	5180	71 511.2	4 989.3
credits	5181	23 082.5	37 125.1
loans	5182	3 842.1	4 714.8
other	5183	36 114.7	84 967
Long-term – total	5184	342 236.1	395 654.5
including:			
credits	5185	289 368.5	373 966.5
loans	5186	47 824.3	21 363.2
Total	5187	508 022.5	549 492.1

Operating expenses (by cost item)

Indicator	Line code	For the reporting year	For the previous year
1	2	3	4
Material costs	5188	44 525.4	22 028.5
Wage expenses	5189	22 703.9	15 959.6
Social remittances	5190	4 628.4	2 946.8

Indicator	Line code	For the reporting year	For the previous year
1	2	3	4
Depreciation	5191	20 303.1	14 186.1
Other costs	5192	330 309.2	242 988.8
Total by cost item	5193	422 470.0	298 109.9
Change in balances (increase (+), decrease (-)):			
work in progress	5194	-1 642.5	-86.9
deferred expenses	5195	-86.0	1 089.5
provisions for future expenses	5196	-3 458.9	7 14.1

Security

Indicator	Line code	Opening balance of the reporting year	Closing balance of the reporting year
1	2	3	4
Received – total:	5197	18 872.6	28 135.9
including:			
promissory notes	5198	3 177.7	4 149.0
securities	51981		
property	51982		10.8
other	51984	15 694.8	23 976.1
Issued – total	5203	600 170.9	138 687.4
including:			
promissory notes	5204	13 966.7	14 033.8
securities	52041	3.8	3.8
property	52042	106 980.8	
other	52044	479 219.7	124 649.8



Government assistance

Indicator		Reporting period		For the same period of the previous year	
Item	Code				
1	2	3			4
Budget funds received in the reporting year – total	5209				
		Opening balance of the reporting year	received during the reporting period	Repaid during the reporting period	Closing balance of the reporting period
Budgetary loans – total	5210				

Financial Director

A.I. Baranovsky

Chief Accountant

S.N. Kim

Notes to the consolidated financial statements of the Rosneft Group for 2006

These notes are an integral part of the consolidated financial statements of the Rosneft Group for 2006, prepared in accordance with the effective legislation of the Russian Federation.

These notes use the following terms and definitions.

Parent Company – OJSC OC Rosneft.

The Group – the aggregate of interrelated organizations, considered as a single whole. The basis of these relations is the participation of the Parent Company (OJSC OC Rosneft) in subsidiaries and associations and/or the ability to control their activities.

Group Companies – members of the Group, including the Parent Company OJSC OC Rosneft and its subsidiaries and associates. Rosneft is the head (parent) company in respect of its subsidiaries, and a dominant or participating company in respect of its associates.

Subsidiary – business entity whose decisions may be determined by the Parent Company by virtue of its dominant participation in charter capital (more than 50% of voting shares of a joint-stock company, or more than 50% of the charter capital of a limited-liability company), by virtue of signed contracts, or by other means.

Associate – business entity in which the Parent Company has more than 20% of voting shares (for a joint-stock company) or 25% of the charter capital (for a limited-liability company).

Consolidated financial statements – financial statements of the Group, reflecting the financial position as of the reporting date and the financial performance for the reporting period of a group of related companies, prepared in accordance with established rules. In addition to adding up all of the assets, liabilities, income and

expenses of Group Companies, the rules for preparing consolidated financial statements assume the elimination of common items that are operations between Group members. Thus, the term “consolidated financial statements of interrelated organizations” as used in Russian regulatory documents governing accounting applies to financial statements prepared according to the rules for consolidated financial statements.

1. Organization and lines of business

Description of the Parent Company

OJSC OC Rosneft (hereinafter the “Parent Company”) was founded as a joint-stock company on 7 December 1995. All the assets and liabilities previously managed by the Rosneft state enterprise were transferred to the Parent Company at their book value on the date of foundation, together with the property rights, which belonged to the Government of the Russian Federation (hereinafter the “State”) in other privatized oil and gas enterprises. The assets and liabilities were transferred in accordance with Decree No. 327 of the President of the Russian Federation of 1 April 1995 On Priority Measures to Improve the Performance of Oil Companies and in accordance with the Russian Federation Government Resolution No. 971 of 29 September 1995 On the Reorganization of State Enterprise Rosneft into Open Joint Stock Company Rosneft Oil Company. This transfer constituted a restructuring of the assets controlled by the state, and correspondingly the book value of the assets was used to reflect this transfer.



Legal address of the Parent Company

Legal address of Rosneft: 26/1 Sofiyskaya Embankment, Moscow, 115035

Executive and oversight bodies of the Parent Company

The Board of Directors is the management body of the Parent Company between general meetings of shareholders. Its members are:

Members of the Board of Directors of the Company:

1. Igor Sechin

Deputy Chief of the Administration of the President of the Russian Federation, Aide to the President of the Russian Federation, Chairman of the Board of Directors

2. Kirill Androsov

Deputy Minister of Economic Development and Trade of the Russian Federation

3. Sergey Bogdanchikov

President of OJSC Oil Company Rosneft

4. Andrey Kostin

OJSC Bank Vneshnei Torgovli

5. Sergey Naryshkin

Deputy Prime Minister of the Russian Federation, Chief of Staff of the Government of the Russian Federation

6. Alexander Nekipelov

Vice-President of the Russian Academy of Sciences

7. Gleb Nikitin

Director of the Department of the Federal Property Management Agency

8. Andrey Reus

Deputy Minister of Industry and Energy of the Russian Federation

9. Hans-Joerg Rudloff

Chairman of the Management Board of Barclays Capital

In accordance with the Regulations on the Board of Directors of Rosneft, remuneration is paid to the members of the Board of Directors of the Parent Company by decision of the general meeting of shareholders based on the

Company's annual performance. Members of the Board of Directors were not paid any remuneration in 2006.

The members of the Audit Commission of the Parent Company are:

1. Mikhail Bondarenko

Head of Department of the Ministry for Economic Development and Trade of the Russian Federation

2. Artur Latsis

Deputy Head of Corporate Policy, Department of Investment and Innovation Policy of the Ministry of Industry and Energy of the Russian Federation

3. Elena Solovieva

Department Head of the Federal Energy Agency

Chief Executive Officer of the Parent Company:

1. Sergey Mikhailovich Bogdanchikov

President of OJSC OC Rosneft

The Management Board of the Parent Company includes:

1. Sergey Bogdanchikov

President, Chairman of the Management Board

2. Nikolay Borisenko

Deputy Chairman of the Management Board

3. Sergey Kudryashov

First Vice President of OJSC OC Rosneft

4. Peter Lloyd O'Brien

Head, Group of Financial Advisers to President of OJSC NK Rosneft, Vice-President, Rosneft

5. Anatoly Baranovsky

Vice President of OJSC OC Rosneft

6. Stepan Zemlyuk

Vice-President of OJSC OC Rosneft

7. Kim Sun Ne

Chief Accountant of OJSC OC Rosneft

8. Rizo Tursunov

Vice President of OJSC OC Rosneft

Members of the Management Board of the Parent Company receive a wage stipulated by employment



contracts, but do not receive any additional remuneration for discharging their functions as members of the Management Board.

Data on the executive and oversight bodies of the Parent Company are given as of 31 December 2006.

Breakdown of charter capital

As of 31 December 2006 the following held shares in the Parent Company:

- OJSC ROSNEFTEGAZ owned 7,965,816,383 ordinary shares of Rosneft, accounting for 75.16% of all the ordinary shares and charter capital of the Company;
- the Russian Federation, represented by the Property Management Committee, owned one ordinary share in Rosneft, constituting 0.000000009% of all ordinary shares and charter capital of the Company;
- OJSC OC YUKOS owned 1,000,000,000 ordinary shares of Rosneft, accounting for 9.44% of the ordinary shares and charter capital of the Company;
- the Joint-Stock Bank Sberbank of the Russian Federation was a nominal holder of 1,034,133,827 ordinary shares of Rosneft, constituting 9.76% of the ordinary shares and charter capital of the Company;
- the Bank of Foreign Economic Activity of the USSR (Vneshekonombank) was the nominal holder of 332,119,664 ordinary shares of Rosneft, constituting 3.13% of the ordinary shares and charter capital of the Company);
- legal entities holding less than 1% of the shares were the owners and nominal shareholders of 197,126,186 ordinary shares of Rosneft, constituting 1.86% of total ordinary shares and charter capital of the Company;
- individuals owned 68,981,757 ordinary shares in OJSC OC Rosneft, constituting 0.65% of the ordinary shares and charter capital of the Company.

Number of shares of Group Companies issued but not paid in, par value of treasury shares of Group Companies

There are no shares that were issued by Group Companies but not placed.

The par value of treasury shares of Group Companies as of 31 December 2006 is zero.

Reorganization (Consolidation) of Group Companies

Meetings of the boards of directors of the Parent Company and the main Subsidiaries were held on 17 April 2006 to consider issues related to the reorganization (consolidation) of OJSC OC Rosneft through incorporation of joint-stock subsidiaries into the

Company. In this consolidation, 12 subsidiaries were merged into Rosneft:

OJSC OC Rosneft-Krasnodarneftegaz;
 OJSC OC Rosneft-Purneftegaz;
 OJSC OC Rosneft-Sakhalinmorneftegaz;
 OJSC OC Rosneft-Stavropolneftegaz;
 OJSC Yuganskneftegaz;
 OJSC Severnaya Neft;
 OJSC Selkupneftegaz;
 OJSC OC Rosneft-Komsomolsk Refinery;
 OJSC OC Rosneft-Tuapse Refinery;
 OJSC OC Rosneft-Arkhangelsknefteprodukt;
 OJSC OC Rosneft-Nakhodkanefteprodukt;
 OJSC OC Rosneft-Tuapsenefteprodukt.

Pursuant to the requirements of legislation and within the framework of the established procedure, the boards of directors of the Parent Company and the Subsidiaries determined the coefficients for the conversion of shares in the Subsidiaries into shares of the Parent Company and the purchase price of the Parent Company shares and incorporated Subsidiaries. They also approved the supporting rationale for the terms and procedure governing the consolidation, which are contained in contracts on incorporation of the Subsidiaries into the Parent Company.

A general meeting of shareholders of the Parent Company was held on 2 June 2006, which voted to restructure the Parent Company through the incorporation of Subsidiaries and approved contracts on the incorporation of the Subsidiaries into the Parent Company.

General meetings of shareholders of the 12 Subsidiaries were also held on 2 June 2006, which voted to consolidate through incorporation into the Parent Company and approved contracts on their incorporation into the Company, as well as transfer deeds. A joint general meeting of shareholders of the Parent Company and the Subsidiaries being consolidated was held on the same day to make amendments and addenda to the Charter of the Parent Company on the legal succession of the Parent Company with respect to the Subsidiaries incorporated as a result of the reorganization.

The consolidation program was completed on 1 October 2006, when entries were made in the Register on the termination of the activity of the consolidated Subsidiaries.

The Subsidiaries were incorporated into the Parent Company on 1 October 2006 as part of the consolidation process. The incorporation into the Parent Company resulted in a loss of goodwill written off in the amount of RUR 96,270.1 million.

IPO of the Parent Company

In July 2006, the shareholders of the Parent Company conducted an Initial Public Offering of ordinary shares of Rosneft in Russia and also Global Depositary Receipts issued for these shares on the London Stock Exchange. A total of 1,126,357,616 ordinary shares in the Parent Company were sold during the placement. A further 285,064,359 newly issued ordinary shares of the Company were also placed. The difference between the price of the shares' placement and their par value was reported in the accounts as additional capital.

Description of the Group's activity

The main lines of business of the Group are:

- Geological exploration and prospecting work;
- Production, preparation and transport of oil, gas and gas condensate;
- Refining of oil and manufacture of oil products and petrochemicals;
- Sale of oil, gas, gas condensate and refined products;
- Investing activities;
- Other lines of business.

The Parent Company derives a significant proportion of its revenues from the sale of products in US dollars. In addition, a significant proportion of its financing and investing activity and liabilities are denominated in US dollars. Most operating and investing expenses, other liabilities and also tax liabilities, however, are denominated in Russian rubles. In connection with the depreciation of the US dollar against the Russian ruble, the Parent Company was subjected to a corresponding currency risk. However, this risk was significantly neutralized by the increase in oil prices. The Parent Company takes measures to reduce these risks by increasing the level of export sales of crude oil and oil products.

List of subsidiaries, affiliates, and other enterprises with an indication of stakes in the charter capital and stakes in voting shares

The table below provides a list of subsidiaries, affiliates and other companies in the Group, indicating the stakes in the charter capital held by the Parent Company and its percentage of their total voting shares, as of 31 December 2006.

No.		Equity stake of the Parent Company	
		% of CC	% of voting shares
Oil-producing companies			
1.	LLC RN-Severnaya Neft	100.00	
2.	CJSC Komsomolskneft	100.00	100.00
3.	LLC RN-Krasnodarneftegaz	100.00	
4.	OJSC OC Rosneft-Dagneft	68.70	91.60
5.	LLC RN-Purneftegaz	100.00	
6.	LLC RN-Stavropolneftegaz	100.00	
7.	LLC RN-Sakhalinmorneftegaz	100.00	
8.	LLC RN-Yuganskneftegaz	100.00	
9.	OJSC Grozneftegaz	51.00	51.00
10.	LLC Polar Lights Company	50.00	
11.	OJSC Dagneftegaz	40.00	40.00
12.	OJSC Verkhnechonskneftegaz	25.94	25.94



No.		Equity stake of the Parent Company	
		% of CC	% of voting shares
13.	LLC Kaspoil	75.00	
Oil-refining companies			
14.	LLC RN-Tuapse Refinery	100.00	
15.	OJSC OC Rosneft-MZ Nefteprodukt	65.42	83.23
16.	LLC RN-Komsomolsk Refinery	100.00	
Oil product supply companies			
17.	LLC RN-Vostoknefteprodukt	100.00	
18.	OJSC OC Rosneft-Stavropolye	97.79	97.79
19.	OJSC OC Rosneft-Kubannefteprodukt	89.50	96.61
20.	OJSC OC Rosneft-Kabardino-Balkarskaya Topliva vaya Kompaniya	88.66	92.91
21.	OJSC OC Rosneft-Kurgannefteprodukt	83.32	90.33
22.	OJSC OC Rosneft-Karachaevo-Cherkessknefte- eprodukt	85.99	87.46
23.	OJSC OC Rosneft-Smolensknefteprodukt	66.67	86.97
24.	LLC RN-Arkhangelsknefteprodukt	100.00	
25.	OJSC OC Rosneft-Altainefteprodukt	64.18	78.59
26.	OJSC OC Rosneft-Yamalnefteprodukt	49.52	66.03
27.	OJSC OC Rosneft-Murmansknefteprodukt	45.38	60.51
28.	LLC RN-Nakhodkanefteprodukt	100.00	
29.	OJSC OC Rosneft-Artag	38.00	50.67
30.	LLC RN-Tuapsenefteprodukt	100.00	
31.	LLC Yu-Kuban	49.00	
Other companies			
Group of Sakhalin projects			
32.	CJSC Sakhalinskie Proekty	100.00	100.00
33.	CJSC Vostokshelf	100.00	100.00
34.	West Kamchatka Holding BV	60.00	60.00
35.	LLC RN-Kaiganneftegaz	99.99	
36.	CJSC Vostok-Shmidt-Neftegaz	99.00	99.00

No.		Equity stake of the Parent Company	
		% of CC	% of voting shares
37.	CJSC Zapad-Shmidt-Neftegaz	99.00	99.00
38.	CJSC RN-Astra	99.00	99.00
39.	LLC Venineft	99.00	
40.	LLC Vostok-Shmidt-Invest	99.00	
41.	LLC Zapad-Shmidt-Invest	99.00	
42.	OJSC Rosneft-Sakhalin	55.00	55.00
43.	CJSC Sakhalinmorneftegaz-Shelf	100.00	100.00
44.	CJSC Sakhalinmorneftegaz-AMK	100.00	100.00
Management of foreign projects			
45.	Rosneft International Ltd	100.00	100.00
46.	LLC RN-Kazakhstan	99.99	
47.	Rosneft Shell Caspian Ventures Ltd	51.00	51.00
Group of service companies			
48.	LLC RN-Burenie	100.00	
49.	OJSC KNG-Mashzavodservis	92.30	96.67
50.	OJSC Purnefteotdacha	61.54	61.54
51.	LLC Komsomolskneftezavodremstroi	100.00	
52.	LLC KNPZ-Service	100.00	
Research			
53.	LLC SakhalinNIPImorneft	100.00	
54.	LLC YuNG-NTTs Ufa	100.00	
55.	OJSC OC Rosneft-NTTs	64.22	
Logistics and transport			
56.	LLC RN-Trade	99.99	
57.	CJSC Rosnefteflot	51.00	
58.	OJSC Moskovskaya Gazovaya Kompaniya	51.00	51.00
59.	LLC Daltransgaz	25.00	
60.	CJSC Vostochny Neftenalivnoi Terminal	100.00	100.00



No.		Equity stake of the Parent Company	
		% of CC	% of voting shares
Group of financial institutions			
61.	OJSC Russian Regional Development Bank	76.47	76.47
62.	LLC Okhabank	33.40	
Group of other institutions			
63.	LLC Baikalfinansgrup	99.90	
64.	CJSC Rosshelf	26.42	26.42
65.	CJSC Izdatelstvo Neftyanoe Khozyaistvo	25.00	25.00
66.	CJSC Ros&Neft	25.00	25.00
67.	LLC Pursatkom	49.00	
68.	LLC Vostok Energy	51.00	
69.	LLC ChOP NKPZ-Strazh	100.00	
70.	LLC PSO Lastochka	81.00	

In addition, the Parent Company participates in the private pension fund Neftegarant. A long-term financial investment in this organization was written off in December 2005, but the Parent Company remains a founder.

2. Production indicators of the Group

According to the 2006 financial results, profits from the sale of products, work (services) by the Group amounted to RUR 206,130.3 million. This represents a 2.1% increase on the same figure for 2005 (RUR 201,887.7 million).

In 2006, the Group produced 80.8 million tonnes of oil and gas condensate (of which LLC Polar Lights Company produced 1.2 million tonnes and OJSC Udmurtneft produced 0.5 million tonnes) and 13.7 billion cubic metres of gas; target production figures were exceeded by 0.4% and 1.6%, respectively.

Gas production increased by 4.6% or 0.6 billion cubic metres compared to 2005 (13.1 billion cubic metres).

The Group made RUR 113,101 million in capital investments (including VAT paid to suppliers and contractors), which was 94.1% of the annual target and 84.2% higher than in 2005. Fixed assets were com-

missioned in the amount of RUR 76,620.1 million (including VAT), compared to a target figure of RUR 72,240.2 million (6.1% over the target). This figure is 64.3% higher than in 2005.

The Group's stock of producing oil wells increased by 23.3% in 2006 to 21,200 wells as of 31 December 2006; 410 oil wells were brought into production from drilling, up from 312 2005).

In 2006, the Group Companies acquired new licenses; specifically the Parent Company acquired 11 new geological exploration, development and production licenses in the Irkutsk Region, Krasnoyarsk Territory, Taymyr Autonomous District and Sakhalin Region at the following blocks: Vostochno-Sugdinsky, Vadinsky, Tukolandsky, Pendomayakhsky, Mogdinsky, Sanarsky, Danilovsky, Severo-Charsky, Osoveiskoye, Kulindinsky and Kaurunainskaya Area (western part).

The Parent Company and the Group Companies were involved in programs to develop fields and engage in geological exploration at the Parent Company's licensed blocks, on the territory of the subsidiaries and in territories where the Group participates in joint projects. The Group used its own resources to cover most costs. At the same time, the Group also sought other sources of financing. According to management, the Group will obtain all the financing it requires to complete these programs.



In 2006, the Group sent a total of 24.6 million tonnes of oil to Russian refineries, of which 10.9 million tonnes were sent to the Group's own refineries (including mini-refineries), and 13.7 million tonnes were sent to third-party oil refineries (including compounding of gas condensate). Thus, the amount of primary oil-refining increased by 10.1% compared to 2005.

Sales of oil products were 22.9 million tonnes, which is 5.5% higher than in 2005. Exports of oil products in 2006 were 13.3 million tonnes (0.2% more than in 2005). Total sales on the domestic market, including sales by the Group's marketing and distribution companies, increased from 8.4 million tonnes in 2005 to 9.6 million tonnes in 2006, an increase of 14.3%. Service stations sold 1.1 million tonnes of oil products, 9.5% more than in 2005.

In 2006, the average number of employees in the Group Companies included in the financial statements was 57,500. This represents an increase of 3.9% (2,100 employees) from 2005. The larger number of employees is due to the inclusion of new subsidiaries in the Group (OJSC Udmurtneft, LLC RN-Burenie), expanded production, and an increase in the scope of work.

3. Methodology for preparing the consolidated financial statements

Regulatory framework for the preparation of the consolidated financial statements

The consolidated financial statements of the Group were compiled in accordance with the requirements of the following regulatory documents:

- Accounting and Reporting Regulations in the Russian Federation, approved by Order No. 34n of the Ministry of Finance of the Russian Federation of 29 July 1998 (as amended by Orders No. 107n of the Ministry of Finance of the Russian Federation of 30 December 1999, No. 31n of 24 March 2000, No. 115n of 18 September 2006);
- Order No. 67n of the Ministry of Finance of the Russian Federation of 22 July 2003 On the Forms of the Financial Statements of the Organization (as amended by Orders No. 135n of the Ministry of Finance of the Russian Federation of 31 December 2004, No. 115n of 18 September 2006);
- Accounting Regulations Financial Statements of the Organization (PBU 4/99), approved by Order No. 43n of the Ministry of Finance of the Russian Federation of 6 July 1999 (as amended by of Order No. 115n of 18 September 2006);
- Methodological Recommendations on the preparation and submission of consolidated financial statements, approved by the Ministry of Finance of the Rus-

sian Federation Order No. 112 of 30 December 1996 (as amended as of the Ministry of Finance of the Russian Federation Order No. 36n of 12 May 1999) – hereinafter the “Methodological Recommendations on the preparation of consolidated financial statements”;

- International Financial Reporting Standards (as regards consolidation provisions not specified in the Methodological Recommendations on the preparation of consolidated financial statements).

Main requirements on consolidated financial statements

The Group's consolidated financial statements combine the financial statements of the Parent Company and its Subsidiaries, and also include data on Associates that are legal entities under the laws in effect at their place of registration.

The consolidated financial statements include the Subsidiaries' financial statements that meet the criteria established by the Methodological Recommendations on the preparation of consolidated financial statements.

The consolidated financial statements are prepared pursuant to the procedure, and in the scope and forms developed and approved by the Parent Company proceeding from Accounting Regulations PBU 4/99 Financial Statements of the Company. The standard reporting forms are supplemented with line items and data needed by users of the consolidated financial statements.

Before the consolidated financial statements are compiled, all mutual settlements and other financial relations between the Parent Company and the Subsidiaries, as well as among the various Subsidiaries, are reconciled and eliminated.

The consolidated financial statements are provided to the founders (participants) of the Parent Company. The consolidated financial statements are provided to other interested users in cases established by the laws of the Russian Federation, or by decision of the Parent Company.

Rules for the preparation of the consolidated financial statements

The consolidated financial statements of the Group are prepared in accordance with the procedure established by the Methodological Recommendations on the preparation of consolidated financial statements and International Financial Reporting Standards (hereinafter IFRS), as regards consolidation provisions not specified in the Methodological Recommendations on the preparation of consolidated financial statements.



The following basic rules are employed to combine the indicators of the financial statements of the Parent Company and the Subsidiaries in the consolidated financial statements:

1. Use of a uniform accounting policy in respect of similar items of property and liabilities, income and expenses.

2. Preparation of financial statements by Group Companies for the same period and as of the same reporting date.

3. The consolidated financial statements do not include:

1) financial investments by the Parent Company in the charter capital of the Subsidiaries, and accordingly that part of the charter capitals of the Subsidiaries that belong to the Parent Company;

2) indicators reflecting the payables and receivables between the Parent Company and the Subsidiaries, and also among the various Subsidiaries;

3) revenues from the sale of products (goods, work, services) between the Parent Company and the Subsidiaries, and also among the Subsidiaries, and costs on these sales;

4) any other income and expenses arising as the result of operations between the Parent Company

and the Subsidiaries, and also among the various Subsidiaries;

5) profits and losses from operations between the Parent Company and the Subsidiaries, and also among the various Subsidiaries;

6) dividends payable by the Subsidiaries to the Parent Company or to other Group Subsidiaries, and also by the Parent Company to its Subsidiaries. The consolidated financial statements reflect dividends payable to organizations and entities not part of the Group.

4. In accordance with IFRS principles, the part of the charter capital of Group Companies that does not belong to the Parent Company are presented in the consolidated balance sheet within "Minority interests" (as one of the components of the net assets of Subsidiaries used to calculate minority interests on the reporting date). Thus, the line "Charter capital" reflects only the amount of the charter capital of the Parent Company.

Scope of consolidation

The consolidated financial statements for 2006 include the following subsidiaries and associates of the Group.

Title	Core business
Oil-producing companies	
LLC Severnaya Neft	Provision of operator services for producing oil and gas
OJSC OC Rosneft-Dagneft	Oil and gas development and production
LLC NK RN-Purneftegaz	Provision of operator services for producing oil and gas
LLC NK RN-Stavropolneftegaz	Provision of operator services for producing oil and gas
LLC NK RN-Sakhalinmorneftegaz	Provision of operator services for producing oil and gas
LLC RN-Krasnodarneftegaz	Provision of operator services for producing oil and gas
LLC RN-Yuganskneftegaz	Provision of operator services for producing oil and gas
OJSC Grozneftegaz	Oil and gas development and production
LLC Polar Lights Company	Oil and gas production
OJSC Dagneftegaz	Oil and gas development and production
CJSC Komsomolskneft	Oil and gas development and production
LLC Kaspoil	Oil and gas exploration and production



Title	Core business
Oil refineries	
OJSC OC Rosneft-MZ Nefteprodukt	Production of oil products
LLC NK RN-Komsomolsk Refinery	Provision of operator services for oil-refining
LLC NK RN-Tuapse Refinery	Provision of operator services for oil-refining
Oil product supply companies	
LLC NK RN-Vostoknefteprodukt	Trading in oil products
OJSC OC Rosneft-Stavropolye	Trading in oil products
OJSC OC Rosneft-Kubannefteprodukt	Trading in oil products
OJSC Rosneft-Kab.-Balk. Toplivn. Komp.	Trading in oil products
OJSC OC Rosneft-Kurgannefteprodukt	Trading in oil products
OJSC OC Rosneft-Karachaevo-Cherkessknefteprodukt	Trading in oil products
OJSC OC Rosneft-Smolensknefteprodukt	Trading in oil products
LLC NK RN-Arkhangelsknefteprodukt	Trading in oil products
OJSC OC Rosneft-Altainefteprodukt	Trading in oil products
OJSC OC Rosneft-Yamalnefteprodukt	Trading in oil products
OJSC OC Rosneft-Murmansknefteprodukt	Trading in oil products
LLC RN-Nakhodkanefteprodukt	Trading in oil products
OJSC OC Rosneft-ARTAG	Trading in oil products
LLC RN-Tuapsenefteprodukt	Trading in oil products
Other	
CJSC Vostochny Neftenalivnoi Terminal	Transshipment of oil products
LLC RN-Trade	Sale of oil and oil products
CJSC Vostokshelf	Prospecting and field exploration
LLC Rosneft International Ltd	Investing activity
CJSC Sakhalinskie Proekty	Corporate governance
LLC Kayganneftegaz	Participation in the project on the Kaygansko-Vasyukansky block
CJSC Vostok-Shmidt-Neftegaz	Geological study, exploration and development of subsoil resources
CJSC Zapad-Shmidt-Neftegaz	Geological study, exploration and development of subsoil resources



Title	Core business
CJSC RN-Astra	Investing activity
LLC RN-Kazakhstan	Prospecting and field exploration
OJSC Rosneft-Sakhalin	Oil and gas exploration and production
OJSC Russian Regional Development Bank	Banking services
LLC Vostok-Shmidt-Invest	Prospecting and field exploration
LLC Zapad-Shmidt-Invest	Prospecting and field exploration
LLC Venineft	Prospecting and field exploration
CJSC Rosnefteflot	Transportation services
LLC Baikalfinansgrup	Share ownership
LLC RN-Burenie	Drilling work
OJSC KNG-Mashzavodservis	Machine-building
OJSC Purnefteotdacha	Services
LLC Komsomolskneftezavodremstroi	Construction
OJSC Moskovskaya Gazovaya Kompaniya	Retail trade in gas
LLC SakhNIPImorneft	R&D
LLC YuNG-NTTs Ufa	R&D
OJSC OC Rosneft-NTTs	R&D
LLC ChOP NKPZ-Strazh	Security services
LLC Vostok-Energy	Other services
LLC PSO Lastochka	Sanitarium and spa services
LLC KNPZ-Service	Other services
CJSC Sakhalinmorneftegaz-Shelf	Oil and gas exploration
CJSC Sakhalinmorneftegaz-AMK	Oil and gas exploration
West Kamchatka Holding BV	Investing activity

All of the above companies, with the exception of the group of companies of LLC Rosneft International Ltd, are registered in the Russian Federation.

The financial statements of the Russian Regional Development Bank were included in the consolidated financial statements following the general rules, with the preliminary transformation of bank financial statements into industrial financial statements.

Pursuant to point 2.7 of the Methodological Recommendations on the preparation of consolidated financial statements, the indicators of a subsidiary

should be included in the consolidated financial statements from the first of the month following the month when the parent organization acquires the relevant quantity of shares or equity holdings in the charter capital of the subsidiary, or otherwise gains the ability to determine the decisions made by subsidiaries. In connection with the fact that equity holdings in OJSC Udmurtneft, Taykhu Limited, and CJSC Promleasing were acquired in December 2006, the indicators of the consolidated Income Statement of the Group for 2006 included the indicators of these acquired com-



panies in full. The net profits of the OJSC Udmurtneft group for 2006 was RUR 2,972.15 million, including RUR 452.8 million in December 2006.

Long-term investments in associates are shown in the consolidated financial statements within other financial investments at the amount of costs actually incurred. Associates include:

OJSC Verkhnechonskneftegaz
CJSC Ros&Neft
OJSC Daltransgaz
CJSC Rosshelf
CJSC Izdatelstvo Neftyanoe Khozyaistvo
OJSC Rosnefteimpex NK Rosneft
LLC Pursatkom

Change in the opening balances of the balance sheet

The change in the opening balances of the balance sheet is due primarily to a revision in the classification of assets at OJSC OC Rosneft. As of 31 December 2006, line 150 of the balance sheet "Other non-current assets" reported capital investments in geological exploration assets and R&D work. At the start of the reporting period the balance of assets had been recorded on line 130 "Construction in progress."

In order to ensure comparability of indicators, and also in accordance with the approved standard corporate reporting forms, adjustments were made to the opening balances as of 1 January 2006 (compared to the data as of 31 December 2005) – the balance of "Construction in progress" was reduced by RUR 968.8 million, while the balance on "Other non-current assets" was simultaneously increased by RUR 968.8 million.

4. Information on accounting policy

In accordance with the requirements of the Methodological Recommendations on the preparation of consolidated financial statements, a uniform accounting policy for similar accounting items should be used to prepare the consolidated financial statements of a group of companies. In order to comply with this requirement, starting from 2002 the accounting policies of Group Subsidiaries have been largely brought into accord with the accounting policy of the Parent Company.

The accounting policy of Group Subsidiaries was formed in accordance with the principles established by Accounting Regulations PBU 1/98 Accounting Policy of the Company, approved by the Ministry of Fi-

nance of the Russian Federation Order No. 60n of 9 December 1998:

- the economic entity assumption (assets and liabilities are recorded separately from the assets and liabilities of other companies);
- the going concern assumption;
- the accounting continuity assumption, with respect to the company's adopted accounting policy;
- the accrual principle assumption.

Significant accounting policies stipulated by the 2006 accounting policy

1. The assets used to manufacture products when performing work, providing services or for management needs are allocated to fixed assets throughout their useful life, provided that they have a useful life of over 12 months (for fixed assets put into operation before 1 January 2001 a unit cost criteria applies of more than 100 times the statutory minimum monthly wage).

In accordance with Accounting Regulations Accounting for Fixed Assets, PBU 6/01, approved by Order No. 26n of the Ministry of Finance of the Russian Federation of 30 March 2001 (in the version of 18 May 2002), fixed assets of the Group are recognized in the consolidated financial statements at their historical (replacement) value, minus depreciation amounts accumulated during the time of use.

For financial accounting purposes, depreciation is charged on fixed assets on a straight-line basis:

- for items put into operation before 1 January 2002, using the depreciation rates approved by USSR Council of Ministers Resolution No. 1072 of 22 October 1990;
- for items put into operation after 1 January 2002, using depreciation rates calculated based on the useful service life established by the Russian Federation Government Resolution No. 1 of 1 January 2002;
- items worth less than 10,000 rubles and put into operation after 1 January 2002 but before 1 January 2006 may be fully depreciated on a lump-sum basis at the time the assets are booked in the accounts. After 1 January 2006 depreciation is charged on a straight-line basis.

Fixed assets in reserve are split into two groups subject to different accounting treatment. Fixed assets in reserve owing to technical requirements are recognized in the accounts within fixed assets and depreciation is charged. Fixed assets in reserve for other reasons are recognized in the accounts and financial statements within investments in non-current assets.



2. Intangible assets are booked at historical cost determined in accordance with PBU 14/2000 Accounting for Intangible Assets, approved by Order No. 91n of the Ministry of Finance of the Russian Federation of 16 October 2000. The historical cost of the intangible assets is amortized on a straight-line basis depending on the service life established by an order of a special commission. In the consolidated financial statements, intangible assets are presented at their historical cost less accrued depreciation.

Subsoil licenses within the limits of mining lease—mineral extraction are recognized in the accounts and financial statements as intangible assets.

3. Production inventories are booked in the accounts at actual cost, calculated proceeding from total actual acquisition costs, net of VAT and other refundable taxes (except in cases stipulated by the legislation of the Russian Federation).

Special work clothes put into use are accounted separately within materials. The cost of such special clothing is depreciated on a straight-line basis over the normal service life.

4. Debt on loans and borrowings is recognized in the accounts and financial statements in accordance with the terms of concluded contracts. Debt is not transferred from long-term to short-term debt.

5. Total interest payable on borrowings and loans received is accrued on a monthly basis.

6. Revenues from the sale of products, work and services are recognized in the accounts on an accruals basis at the time of the shipment of products, discharge of work and provision of services and the submission to buyers (clients) of settlement documents, after the transfer of title.

7. Permanent and temporary differences between book profits and taxable profits of the reporting period are recognized in the accounts. Temporary and permanent differences, calculated by comparing the data of financial and tax accounting on expense and income items of the reporting period, lead to the formation of permanent tax liabilities and assets and deferred tax liabilities and assets.

8. The use of profits is recognized in the accounts and the financial statements in the year following the reporting year pursuant to a decision of the meeting of shareholders. That part of the profits not paid as dividends by decision of the shareholders is shown on the line “Retained earnings”. The use of these profits for capital investments is shown in the accounts with detailed entries on account 84 “Retained earnings” and does not reduce the balance on “Retained earnings” in the financial statements.

9. The results of the revaluation of the shares of subsidiaries with a fair market value are recognized

in the accounts and the financial statements, with the amounts of the revaluation allocated to additional capital.

10. Expenses related to exploration and assessment of oil and gas fields and to the preparation of technological documentation for projects are capitalized on account 08 “Investments in non-current assets” and subsequently lead to the creation of geological exploration assets (except for capitalized costs on drilling prospecting/exploration wells that lead to a commercial oil flow, which are recognized as producing assets).

Exploration assets are assessed at actual costs and are presented on account 06 “Geological exploration assets.”

Exploration assets are depreciated proportional to the production of oil and gas (units of production method).

The depreciation of exploration assets is included in the cost of production of oil and gas of all fields belonging to a geographical segment where producing assets are located, to which the exploration assets also belong.

At the production stage, all costs on exploration work (except exploratory drilling) are recognized as expenses on ordinary activities and are included in the cost of production of oil and gas.

Each year, at the end of the reporting year, exploration assets should be reviewed for impairment (reduction in the value of the assets).

Information on amendments to the accounting policy introduced since 1 January 2007

Amendments to the accounting policy for 2007 are attributable to the introduction of new provisions of legislation of the Russian Federation, changes to the management system of the Group and the development of new accounting methods. These amendments can be summed up as follows:

1. Proceeding from the latest version of point 4 of PBU 6/01, amendments were made to the accounting of fixed assets:

1.1. An asset is booked in the accounts as a fixed asset on the date when the asset is ready for commissioning. The accounting policy for 2006 stipulated that a fixed asset was recognized no earlier than the date of the start of its use in production or for management needs.

1.2. All fixed assets in reserve are depreciated in accordance with the general procedure. The accounting policy for 2006 only stipulated this possibility for assets constituting emergency supplies, reserve stock and technological stock.

2. In order to ensure uniform calculation of doubtful debt provisions, the following criteria were established:

- up to three months – provisions are not created;
- for three to 12 months – provisions are created in the amount of 50-100%;
- more than 12 months – provisions are created for 100% of the value.

The accounting policy for 2006 stated that provisions are created depending on the financial status (solvency) of a debtor and an assessment of the likelihood that a debt will be repaid.

3. Proceeding from the requirements of the Ministry of Finance of the Russian Federation Orders No. 156n and No. 154n of 27 November 2006, addenda were made to the section on exchange-rate gains and losses, including on the accounting of settlement differences pursuant to the procedure stipulated for exchange-rate gains and losses.

5. Fixed assets and capital construction in progress

In the Group's consolidated financial statements buildings, structures, machines, equipment, measuring gauges, control instruments and devices, computer technology, vehicles, instruments, production and business inventories, etc., are categorized as fixed assets. Land plots and natural resources are recorded within fixed assets owned by the Group. The Russian National Classification of Fixed Assets, adopted by Resolution No. 359 of the Russian State Committee for Standardization, Methodology and Certification of 26 December 1994, is applied to determine the composition and grouping of fixed assets.

Fixed assets are recognized on the balance sheet at residual value. Fixed assets are recognized in the accounts at their initial acquisition, construction and manufacturing cost. Fixed assets were not revalued in the reporting year. The cost of the fixed assets is amortized through the accrual of depreciation throughout their established service life.

(mln. RUR)

Groups of fixed assets	Historical (replacement) value as of 31 December 2006	Amortization as of 1 January 2006	Historical (replacement) value as of 31 December 2006	Amortization as of 31 December 2006
Buildings and structures	166 322.7	57 684.5	241 842.3	87 277.3
Machines, equipment and vehicles	50 717.8	21 574.5	68 364.1	21 723.7
Other (land plots, instruments, etc.)	2 985.6	1 603.4	2 892.1	1 419.1
Total	220 026.1	80 862.4	313 098.5	110 420.1

The increase in the residual value of fixed assets was mainly due to the commissioning of construction objects and the acquisition of new equipment and vehicles.

The value of fixed assets received under lease by the Group at the beginning of the year equaled RUR 35 303.5 million, and at year end – RUR 27 471.2 million. The payments for fixed assets leased by Group companies in 2006 equaled RUR 2 954.1 million.

Capital construction in progress increased by 45.64%, or RUR 16 551.2 million, during the reporting period (from RUR 46 098.3 million to RUR 62 650.2 million). This growth was due to an increase in drilling, the development of new wells, and the completion of construction projects for three tankers.

6. Intangible assets and goodwill

Intangible assets include: standard service station designs, trademarks, subsoil usage licenses, patents, and others.

Intangible assets are recognized on the balance sheet at residual cost. Intangible assets are recognized in the accounts at initial acquisition cost and expenses on bringing them to a level suitable for use. The cost of intangible assets is amortized throughout their useful life on a straight-line basis.



Intangible assets (not including goodwill)	Carrying value	Amortization	Residual value
As of 1 January 2006	3 803.0	38.5 %	3 764.5
As of 31 December 2006	5 028.5	7.7 %	4639.2

Goodwill, which is shown on a separate line of the balance sheet, fell considerably – from RUR 349 147.9 million as of 1 January 2006 to RUR 89 608.9 million as of 31 December 2006 (or by RUR 259 539.0 million). According to Russian Accounting Standards, goodwill is calculated as the difference between the carrying value

of financial investments in Subsidiaries by the Parent Company and the equity interests belonging to the Parent Company in the net assets (capital) of Subsidiaries as of the date of performance of transactions involving the acquisition of shares. The decrease in goodwill was the result of two factors:

Factor	Effect on the change in goodwill. %
Disposal of goodwill as a result of the consolidation of Subsidiaries with the Parent Company	- 111.0
Other changes (growth in equity interests of the Parent Company in subsidiaries accounted as part of financial investments, changes in the membership or equity interest in second-tier subsidiaries, etc.)	+11.0

7. Inventories

The table below describes the Group's inventories.

(mln. RUR)

Item	As of 1 January 2006	As of 31 December 2006
Raw and other materials	11 625.1	17 549.6
Costs on work in progress	10 427.4	8 785.3
Finished products and goods for resale	10 998.7	19 492.8
Shipped goods	958.0	872.0
Deferred expenses	5 759.4	4 453.1
Other inventories	1.4	1.3
Total	39 770.0	51 154.1

The main types of inventories of raw and other materials are:

- pipes;
- construction materials;
- chemical products;
- spare parts (to power units, specialized and other equipment);
- cable;
- equipment (stop valves, control instruments, other);
- oil products for internal use;
- instruments and accessories.



Most of these inventories have a shelf life of less than three months.

Group Companies are constantly working to optimize the amount of inventories. For example, the following key tasks for optimization of inventory figures were set for 2007:

- establishing standard inventories and their turnover on line 211 of the balance sheet in 2007;
- development of schedules for reducing the amount of inventories in 2007;
- maximum involvement of existing material and technical resources in main and investing activities;
- drafting of purchase orders for material and technical resources based on existing material and technical resources;
- performance of inventories and preparation of the list of material and technical resources that are not necessary for production, for their subsequent sale, utilization or writing off;
- strengthening of control over the acquisition of material and technical resources, to make sure they are used in production.

In accordance with the accounting policy, expenses are recognized within deferred expenses if they are incurred by Group Companies during the current or previous reporting period but are related to subsequent reporting periods, such as: costs related to the acquisition of licenses to types of activity, the implementation and adaptation of software products, the insurance of employees and property of Group Companies.

8. Financial investments

Financial investments are presented in the financial statements of the Group Companies in the amount of actual costs. The amount of long-term financial investments as of 31 December 2006 equaled RUR 53 009.9 million, and increased by 40.0% over the course of the year (from RUR 37 875.5 million); pursuant to the consolidation rules, this indicator does not include financial investments of the Parent Company in Subsidiaries.

Description of the most important investments in Subsidiaries included in the scope of consolidation

LLC RN-Severnaya Neft was founded in 2005 on the foundation of OJSC Severnaya Neft, and performs production activity in the Nenets Autonomous District (NAD) and the Komi Republic. The Parent Company holds a 100.00% equity share in this company. The company's charter capital equals RUR 6 249.9 million.

LLC RN-Purneftegaz was founded in 2005 on the foundation of OJSC OC Rosneft-Purneftegaz, and is located close to the city of Gubkinsky in the Yamalo-Nenets Autonomous District. The Parent Company holds a 100.00% equity share in this company. The company's charter capital equals RUR 8 527.2 million.

LLC RN-Yuganskneftegaz is developing 25 deposits in West Siberia, in the Khanty-Mansiysk Autonomous District. The Parent Company holds a 100.00% equity share in this company. The company's charter capital equals RUR 14 166.2 million.

LLC RN-Sakhalinmorneftegaz is located on Sakhalin island. The company's charter capital equals RUR 2 979.4 million. The Parent Company holds a 100.00% equity share in this company. The company began its operations as the Sakhalin Trust, created in 1928 to develop the deposits in north Sakhalin. Today LLC RN-Sakhalinmorneftegaz is the largest oil production company in the Russian Far East.

LLC RN-Krasnodarneftegaz was founded in 2005 on the foundation of OJSC OC Rosneft-Krasnodarneftegaz. The Parent Company holds a 100.00% equity share in this company. The company's charter capital equals RUR 1 986.8 million.

LLC RN-Stavropolneftegaz was founded in 2005 on the foundation of OJSC OC Rosneft-Stavropolneftegaz. The Parent Company holds a 100.00% equity share in this company. The company's charter capital equals RUR 3 355.1 million.

LLC RN-Komsomolsk Refinery was founded in 2005 on the foundation of OJSC OC Rosneft-Komsomolsky Refinery. The Parent Company holds a 100.00% equity share in this company. The company's charter capital equals RUR 573.4 million.

LLC RN-Nakhodkanefteprodukt was founded in 2005 on the foundation of OJSC OC Rosneft-Nakhodkanefteprodukt, and is the largest oil terminal in the Russian Far East engaged in transshipment, storage, distribution and sale of products of oil-refining. The Parent Company holds a 100.00% equity share in this company. The company's charter capital equals RUR 514.4 million.

LLC RN-Arkhangelsknefteprodukt was founded in 2005 on the foundation of OJSC OC Rosneft-Arkhangelsknefteprodukt, and is the largest oil product supply company in northwest Russia engaged in transshipment, storage, distribution and sale of products of oil-



refining. The Parent Company holds a 100.00% equity share in this company. The company's charter capital equals RUR 546.5 million.

LLC RN-Tuapsenefteprodukt was founded in 2005 on the foundation of OJSC OC Rosneft-Tuapsenefteprodukt, and is engaged in transshipment, storage, distribution and sale of products of oil-refining. The Parent Company holds a 100.00% equity share in this company. The company's charter capital equals RUR 2 048.2 million.

LLC RN-Burenie performs drilling work. The Parent Company holds a 100.00% equity share in this company. The company's charter capital equals RUR 4 374.9 million.

Participation in joint venture projects and PSA, including projects financed by foreign partners

Russian projects

In 2006, as in previous years, Rosneft participated in developing and implementing of a number of projects located in Russia.

Work related to the Vankor group of fields was performed in 2006 involving exploratory drilling at Rosneft's Vankor and Northern-Vankor licensed blocks. The project was financed through long-term loan contracts with CJSC Vankorneft. Total financing in 2006 amounted to RUR 24 160 million. Actual data on the rate of drilling achieved in exploratory drilling amounted to 13 900 meters, according to seismic surveying of 2 625 linear kilometers.

One significant project has been developed in Russia since 2003 – the Temryuksko-Akhtarsky – Sea of Azov project. Rosneft is developing the project jointly with OJSC LUKOIL through LLC NK Priazovneft. Both have equal equity shares of 42.5% in the limited-liability company (the authorities of Krasnodar Territory hold the remaining 15%). In 2006, project financing on this project amounted to RUR 304.5 million.

Rosneft has been developing the Tuapse Trough–Black Sea project through its subsidiary LLC RN-Shelf-Yug since 2004. Rosneft has a 100% equity share in the project. Total financing of work in 2006 amounted to RUR 20 million.

In 2006, Rosneft completed work on analysis of the geological materials of the coastal area and regional sea geology and geophysical data in order to identify priority sites for the performance of 3D marine seismic exploration studies and subsequent deep-hole prospecting. Thirteen promising structures were identified.

Rosneft has been participating since late 2005 in the Verkhnechonsk oil and gas condensate field project (where it has an equity interest of 25.94%) jointly with OJSC TNK-BP (equity interest of 62.7%) and the administration of the Irkutsk Region (equity interest of 11.29%). Rosneft took out a loan to finance its share in the project. A RUR 1 228.5 million loan was provided by Rosneft-International Limited in 2006.

In 2006, the drilling of exploratory wells Nos 1008 and 1022 was completed at the Verkhnechonsk field. Geophysical research has been performed on the wells, together with exploration work and project work on the construction of permanent roads and the Verkhnechonsk Field-Talakan oil pipeline. A project group of Rosneft and TNK-BP agreed on the underlying principles of joint management and financing of the field's development.

International projects

To implement the Aday Block, Kazakhstan and the Kurmangazy Structure – Kazakh Shelf projects located in Kazakhstan, and also the Turkmen Shelf, blocks 29-31 project, located in Turkmenistan, in 2006 Rosneft provided LLC RN-Kazakhstan with RUR 811.42 million in loans, including RUR 800.2 million for the Kazakh projects and RUR 11.2 million for the project in Turkmenistan.

In 2006, a total of 38 700 tonnes of oil were produced at the Aday Block (with Rosneft's share amounting to 19,300 tonnes of oil). In addition, five exploratory wells were drilled. Electrical exploration work was performed in the amount of 255 linear kilometers. At the Biikzhal deposit construction work on oil treatment facilities with a production capacity of 500 tonnes a day was completed. 2D seismic surveying work was performed. In all, 935 linear kilometers were surveyed.

Analysis of the drilling results at well No. 1 of the Kurmangazy Structure – Kazakh Shelf project has been completed. A new geological surveying strategy has been developed at the block, leading to an upgrade of the geological model; 2D seismic surveying and gravity-magnetic surveying work has been performed in the amount of 452 linear kilometers and 5 700 linear kilometers, respectively; work has been completed on creating the integrated Kurmangazy geological and geophysical project; and the processing and interpretation of available seismic materials in the amount of 2 085 linear kilometers is being performed.

Rosneft has been participating in the Turkmen Shelf, Blocks 29-31 project since 2004. It holds a 37% share in the project, while CJSC ZaRURzhneft and MGK ITERA hold correspondingly 26% and 37%. In 2006, the geological materials of Western Geko were studied. Preparation

work for the signing of a Production Sharing Agreement (PSA) performed in 2004-2005 was analyzed. An official letter was sent to the Minister of the Oil and Gas Industry of Turkmenistan on resuming work on the preparation for the signing of the PSA.

Rosneft has also been participating since 2001 in the Block 245-south, Algeria project (where it holds a 50% equity interest) through the operating company Rosneft-Stroitransgaz Ltd, which has been working under a contract with the Algerian State Oil and Gas Company Sonatrach on the exploration, development and extraction of hydrocarbons at the 245-south Gara Tisselit project in Algeria. The Rosneft holding took out a loan to finance its share in the project. In 2006, it obtained a RUR 473.3 million (USD 17.4 million) loan.

In 2006, a third exploratory well was drilled and tested. Hydrocarbons were discovered for a third time. Two outpost wells, which confirmed previous discoveries and increased the hydrocarbon reserves, were drilled and tested. 3D seismic surveying work was performed at the Northern Tesselit block. The 3D seismic surveying data are currently being processed. Exploration work on the Eastern and Western Takuazet fields has been completed. Applications have been submitted for operating licenses. Contouring work is being performed on the third fields that has been discovered.

Acquisition and disposal of core assets, change in equity shares in subsidiaries.

In 2006, the Parent Company acquired new core assets, and increased its equity interests in the voting shares of subsidiaries and other companies. The following core assets were acquired and/or established:

Acquired:

- 100.00 % of shares in CJSC Promlizing for RUR 10,000;
- 97.51% of ordinary shares in OJSC Nefteport. As of 31 December 2006, the actual value of investments equaled RUR 528,491,000;
- 19,500 ordinary shares in OJSC Russian Regional Development Bank worth RUR 332,718,000, as a result of which Rosneft's share in the bank's charter capital increased from 50.98% to 76.47%. of 31 December 2006, the actual value of investments amounted to RUR 731,868,000;
- 2,317,720 ordinary shares of additional issues of OJSC Daltransgaz. Rosneft's equity share in the company's charter capital equaled 25.0% plus one share. As of 31 December 2006, the actual value of investments equaled RUR 1,571,302,000.

Created:

- LLC RN-Burenie – Rosneft owns 100 percent of the charter capital. As of 31 December 2006, the charter capital amounted to RUR 4,374,924,000;
- LLC Vostok-Energy – a joint venture with the Chinese company CNPC. Rosneft has a 51% shareholding in the charter capital of the company. As of 31 December 2006, the actual cost of the shareholding equaled RUR 5,100,000.

In the reporting year the following shareholdings (equity interests in the charter capital) were sold: LLC Kamchatneftegaz – 99.9%, CJSC FK Rosneft-Finans – 11.53%.

In 2006, the following subsidiaries were liquidated: LLC RN-Teleport, LLC RN-Perspektiva.

The cost of short-term financial investments as of 31 December 2006 equals:

(mln. RUR)

Type of investment	As of 1 January 2006	As of 31 December 2006
Loans provided	6 094.8	11 172.1
Other	30 338.3	22 655.7
Total	36 433.1	33 827.8

9. Long- and short-term loans and borrowings, guarantees issued

As of 31 December 2006 short-term debt on loans of the Group amounted to RUR 37 125.1 million (23 082.5 million as of 1 January 2006); long-term debt on loans of the Group amounted to RUR 373 966.5 million (RUR 289 368.5 million as of 1 January 2006).

Credits resources attracted in 2006 were used to finance the following activities of the Group:

- acquisition of new core assets;
- refinancing of existing debt;
- implementation of investment programs;
- replenishment of working capital.

In the financial statements as of 31 December 2006 the debt on loans was recognized with due account of



accrued interest. Total debt on accrued loan interest of the Group equaled RUR 923.8 million.

As of 31 December 2006 short-term debt on borrowings of the Group amounted to RUR 4 714.8 million (3 842.1 million as of 1 January 2006); long-term debt on borrowings of the Group amounted to RUR 21 363.3 million (RUR 47 824.3 million as of 1 January 2006).

In the financial statements as of 31 December 2006 the debt on borrowings was recognized with due account of accrued interest. Total debt on accrued loan interest of the Group equaled RUR 2 556.5 million.

The weighted average nominal interest rate of the Group's unconsolidated loan portfolio as of year end

2006 equaled 6.06% per annum, while at year end 2005 this figure was 7.12% (not including guarantees and project financing). The reduction in the weighted average interest rate of the loan portfolio compared to the figure at year end 2005 was caused mainly by the establishment of a new minimum of borrowings of the Company on international capital markets of 0.65% per annum above the LIBOR rate and the implementation of programs to reduce the interest rates on existing syndicated loans.

The cost of issued guarantees as of 31 December 2006 totaled RUR 138 687.4 million. The breakdown of issued securities on pledged items looked as follows:

Subjects of the pledge (security)	Percentage of the total
Revenues from the sale of oil and oil products	19.26 %
Guarantees	67.72 %
Promissory notes	10.12 %
Other	2.9 %

10. Assets and liabilities denominated in foreign currency

Changes to exchange rates, in particular to the US dollar, have a material impact on the financial performance of the Group. The table below provides information on rouble/dollar exchange rate dynamics:

As of 31 December	Exchange rate
2006	26.33
2005	28.78
2004	27.75

Exchange differences which arose during the year on transactions with assets and liabilities denominated in a foreign currency and also on their recalculation on the reporting date, were posted to the account of other income and expenses. During 2006 the amount of exchange gains for the Group came to RUR 34 033.4 million, while exchange losses came to RUR 9 763.9 million (12 543.5 million and 20 070.4 million in 2005, respectively).

11. Tax debt

Group Companies are independent taxpayers. The tax liabilities of Group Company are recognized in the

financial statements on an accruals basis.

The rates of the main taxes paid in 2006 equaled:

- profits tax – 24% (reduced rates (as low as 20%) are used for companies in certain regions);
- value-added tax – 18%.

Together with profits tax for 2006, the following are also presented on the line "Current profits tax" of the Income Statement:

- imputed income tax (RUR 5.9 million);
- amounts of profits tax remitted for previous reporting periods that were refunded from the budget (RUR 692.2 million).

Pursuant to accounting data, as of 31 December 2006 the Group's tax debt to the budget equaled RUR 4 989.3 million, and debt to state extra-budgetary funds – RUR 688.5 million.

Yuganskneftegaz (in 2005 and 2006) and Rosneft-Purneftegaz (in 2005) paid profits tax to the budgets of the constituent subjects of the Russian Federation at a rate reduced by 3.5–4% due to the use of profits tax concessions established by regional legislation. According to the law, concessions are granted to companies that produce oil and/or gas condensate, implement regional capital investment programs agreed with the regional administration, and take part in the implementation of other regional programs.

In accordance with the provisions of Chapter 14 "Tax Control" of the RF Tax Code, the tax authorities may perform desk and field tax audits of taxpayers,

payers of contributions and tax agents for the three calendar years preceding the audit. Group management assumes that the Group Companies will calculate tax liabilities in accordance with the requirements of tax legislation. The audit by the tax authorities of tax returns for a specific period does not imply that they will not be subjected to repeat audits within the three-year period.

12. Receivables and payables

The payables of the Group as of 1 January 2006 totaled RUR 171 501.8 million. During 2006 payables increased by RUR 169 443.8 million (or 98.80%) to RUR 340 945.7 million as of 31 December 2006 (according to lines 230 and 240 of the balance sheet).

The relevant provisions were created based on the results of the performed stocktake of receivables and payables for debt which, in the opinion of Group management, is doubtful. Receivables are shown less these provisions in the Group's consolidated balance sheet.

The payables of the Group as of 1 January 2006 totaled RUR 129 236.1 million. During 2006 payables fell by RUR 17 238.4 million (or 13.34%) to RUR 111 997.7 million as of 31 December 2006 (according to line 620 of the balance sheet).

A number of agreements on mutual offsets, the means of debt repayment under which are goods, services to be used in production, promissory notes and state securities, were concluded to reduce the risk of non-payment.

13. Equity

Charter capital

The Group's charter capital consists of the equity of the Parent Company.

As of 31 December 2006 Rosneft's charter capital equaled RUR 105 981 778.17, split into 10 598 177 817 ordinary shares with a par value of one kopeck each.

On 6 December 2006, amendments No. 3 to the Charter of the Parent Company were registered in connection with the registration of the reports on the results of the issue of additional shares, placed in connection with the takeover of subsidiaries (consolidation). As a result, the Parent Company's charter capital equaled RUR 105 981 778.17.

Reserve capital and additional capital

The Group's equity also includes reserve capital and additional capital.

The Group's reserve capital consists of the consolidated reserve capital (aggregate of reserve capitals)

formed in connection with the foundation documents of the Group Companies, less minority shareholdings.

The Group's additional capital consists of the consolidated additional capital of Group Companies, less minority shareholdings.

Retained earnings

Retained earnings and uncovered losses of the reporting year are shown separately in the consolidated balance sheet. Total undistributed profit of previous years as of 31 December 2006, less the amount of uncovered losses of previous years, equaled RUR 44 065.4 million. Total retained earnings of the reporting year as of 31 December 2006, less losses of the reporting year, equaled RUR 261 302.7 million. The Company lost goodwill as a result of the restructuring. A loss (RUR 96 144.2 million) from the reduction of goodwill as a result of the consolidation of 12 subsidiaries is shown in the "Equity" section of the balance sheet.

The size of retained earnings was affected by other income and expenses, of which they were a part.

Income:

- proceeds from equity participation in the charter capitals of other companies (including interest and other income on securities);
- proceeds from the sale of fixed asset and other assets;
- interest received on loans issued;
- bank interest for the use of the Group's cash;
- payables on which the period of limitations has expired;
- fines and penalties under business contracts;
- profit of previous years declared in the reporting year;
- exchange and settlement gains;
- other income.

Expenses:

- expenses on the sale, retirement and other disposal of fixed assets and other assets;
- taxes to be included in operating expenses;
- interest to be paid on cash provided for use (loans, borrowings);
- expenses related to the payment of services provided by credit institutions;
- receivables on which the period of limitations has expired;
- fines, penalties, forfeits and other sanctions for violation of contractual conditions;
- losses of previous years declared in the reporting year;
- exchange and settlement losses;
- other expenses.



Equity of other shareholders in subsidiaries

The line item "Minority shareholding" in the consolidated balance sheet shows the amount of equity of Subsidiaries belonging to other shareholders. The minority shareholding was determined based on the amount of equity of the Subsidiaries as of 31 December 2006 and the share of charter capital that does not belong to the Parent Company. Thus, the percentage of ordinary and preferred shares not belonging to the Parent Company was used when calculating the minority shareholding for Subsidiaries, since both types of shares confirm the right of their holder to part of the assets of the joint-stock company (article 32 of Law No. 208-FZ of 26 December 1995 On Joint-Stock Companies).

When calculating the minority shareholding, the amount of the subsidiary's equity is calculated as the total of the section "Capital and reserves" of its balance sheet less the line items "Social fund" and "Targeted financing and receipts."

Net assets

The Group's net assets at year end 2006 equaled RUR 339 425.8 million. The decrease in net assets in comparison with the opening balance for 2006 (RUR 352 421.7 million) equaled RUR 12 995.9 million, or 3.69%. As of 31 December 2006 the Group's net assets exceeded its charter capital by RUR 339 319.8 million.

14. Profits per share, payment of dividends

Number and par value of shares

Share capital consists of the equity of the Parent Company pursuant to the foundation documents. The holders of ordinary shares are conferred one voting right at the shareholders' meeting for each purchased share.

The Group's net profit for 2006 equaled RUR 261 302.7 million. Net profits per share of the Parent Company for 2006 are expected to be 24.65 rubles.

Dividends

Dividends on shares are determined by the Board of Directors of the Parent Company and approved by the annual general shareholders' meeting. The amount of dividends on the shares of the Parent Company for 2006 will be tentatively determined by the Board of Directors of the Company at the end of May 2007.

The Parent Company paid dividends of RUR 11 336

million based on the results of 2005.

The amount of remuneration payments to the members of the Board of Directors and the Audit Commission of subsidiaries and associates during 2006 equaled RUR 70.2 million.

15. Events after the reporting date

The following events took place in the period between the reporting date and the date of signing of the financial statements for 2006:

Legal proceedings

1. In January 2007, a court of arbitration formed in accordance with the UNCITRAL Arbitration Rules in Brussels ruled in support of the claim of Total EP Vankor against the Anglo-Siberian Oil Company (ASOC) on the performance of its obligations to exercise an option to purchase a 60% equity share in LLC Taimyrneft from ASOC and to exercise of its right of first refusal in relation to a 40% equity share in LLC Taimyrneft sold by Stimul Trading, or, as an alternative, to compensate losses in the amount of USD 709 million.

Based on this ruling, USD 116 368 640 in losses, with interest in the amount of 6.5% per annum accrued from 31 December 2004 to the date of payment, court costs in the amount of USD 2 512 045 and arbitrator fees of USD 250 000, were recovered from ASOC in favor of Total EP Vankor as compensation for the non-performance of obligations under the option agreement in relation to the equity share in LLC Taimyrneft.

2. In May 2005, Moravel Investments Limited, a company affiliated with the YUKOS group, filed suit against OJSC Yuganskneftegaz in the London Court of International Arbitration for the recovery of USD 662 million under a guarantee provided in favor of YUKOS in respect of a loan of USD 1 600 million.

Hearings on this arbitration case were completed in July 2006. Rosneft believes the claims made by Moravel Investments Limited are unfounded, since in March 2006 in a suit brought by Rosneft against YUKOS and several of its associates (including Moravel Investments Limited) the Moscow Court of Arbitration invalidated the guarantee agreement in accordance with Russian law. Two superior courts upheld this decision.

In April 2007, an interim arbitration decision was passed to reject the claim of Moravel Investments Limited against Yuganskneftegaz. A final decision is expected in May 2007.

3. On 28 February 2007, the Moscow Court of Arbitration ruled on the claim of YUKOS against the Fed-



eral Property Management Agency, LLC Baikalfinansgrup, OJSC OC Rosneft, OJSC Gazpromneft, OJSC Gazprom and the Ministry of Finance of Russia on invalidating the auction on the sale of 43 ordinary registered shares in Yuganskneftegaz and the purchase contract concluded on the results of the auction, recovery of the 43 shares in Yuganskneftegaz from LLC Baikalfinansgrup and their transfer to YUKOS, and on the recovery of RUR 388 320 968 474 in losses jointly and severally from the respondents.

Based on this ruling, the claims of YUKOS were rejected in full.

Raising funds (loans)

1. In February 2007, the Parent Company concluded a loan agreement in the amount of USD 2.5 billion with ABN AMRO Bank as a creditor and eight international banks as joint organizers. The loan was taken out for general corporate needs and was used to settle previous, more expensive loans (some of them repaid early).

2. On 15 March 2007, the Board of Directors of Rosneft approved transactions related to the Parent Company's acquisition of a loan of USD 13 billion and the Company's provision of a surety for LLC RN-Razvitie (in which Rosneft indirectly owns a 100% equity holding), which took out a USD 9 billion loan. The loans were taken out to finance the acquisition of core assets in the Russian Federation and abroad, including as part of auctions to sell the assets of YUKOS.

Changes in the composition of long-term investments

1. On 18 January 2007, LLC Burgas–Alexandroupolis Pipeline Consortium was registered with Moscow Inspectorate No. 46 of the Federal Tax Service; shares in the consortium were distributed as follows: OJSC AK Transneft – 33.34%; OJSC OC Rosneft – 33.33%; OJSC Gazpromneft – 33.33%.

2. On 26 January 2007, the Parent Company acquired 55 331 951 ordinary registered shares in OJSC Okhinsaya TETs, which constitutes 85.61% of the company's charter capital, at a price of RUR 11.37 per share.

3. On 12 January 2007, 2000 ordinary shares in OJSC ANTEK-invest (a 16.53% shareholding) were sold for RUR 49 216 200.

4. On 27 March 2007, LLC RN-Razvitie, in which Rosneft indirectly owns a 100% equity share, was declared the winner of an auction on the sale of one billion (9.44%) ordinary shares in Rosneft and promissory notes of Yuganskneftegaz (under which Rosneft is

bound, as the successor of Yuganskneftegaz) belonging to YUKOS. The purchase price of the lot equaled RUR 197 840 million, or RUR 194 282 per share, taking into account that the par value of the promissory notes is RUR 3 558.3 million.

According to Group management, shares in the Parent Company are a highly liquid asset with high growth potential and a good investment target, which bring earnings to the shareholders of the Parent Company. The Parent Company plans to subsequently exchange the acquired shares for core assets in Russia and abroad.

Taxes

1. On 31 October 2006, the Moscow Court of Arbitration issued a ruling invalidating decision No. 52/554/1 of Interregional Inspectorate for Major Taxpayers No. 1 of the Federal Tax Service of Russia dated 12 May 2006, which refused Yuganskneftegaz an increase in losses for 2002 in the amount of RUR 163.1 million. With its ruling of 22 January 2007, the Ninth Arbitration Appellate Court upheld the decision of the Moscow Court of Arbitration on invalidating decision No. 52/554/1 of Interregional Inspectorate for Major Taxpayers No. 1 of the Federal Tax Service of Russia dated 12 May 2006, which refused Yuganskneftegaz an increase in losses for 2002.

2. On 13 February 2007, the Court of Arbitration of Arkhangelsk Region passed a ruling on invalidating decision No. 09-12/6056dsp of Interregional Inspectorate No. 7 for Arkhangelsk Region of the Federal Tax Service of Russia on charging additional taxes, penalties and fines worth a total of RUR 144.9 million from Rosneft, as the successor of OJSC OC Rosneft-Arkhangelsknefteprodukt.

3. On 20 March 2007, the Moscow Court of Arbitration ruled on the application of OJSC Yuganskneftegaz (the predecessor of OJSC OC Rosneft) on invalidating the decision of Interregional Inspectorate for Major Taxpayers No. 1 of the Federal Tax Service of Russia on the recovery of tax in the amount of RUR 1 044 373 500 from the cash of the taxpayer. By this decision the claims of the Company, which is the successor of OJSC Yuganskneftegaz were satisfied in full.

4. On 6 April 2007, based on the results of the consideration of a case after referral for reconsideration by the arbitration tribunal of the court, the Moscow Court of Arbitration ruled to invalidate claim No. 765 of Interregional Inspectorate for Major Taxpayers No. 1 of the Federal Tax Service of Russia dated 25 November 2005 on the payment of the penalty interest accrued on the tax debt of OJSC Yuganskneftegaz for H2 2004 in the amount of RUR 955.1 million.



16. Contingent liabilities and possible losses

On the reporting date and the date of preparation of the financial statements there were several material contingencies which could result in contingent losses or contingent liabilities.

1. In the reporting period, the International Commercial Court of Arbitration under the Chamber of Commerce and Industry of the Russian Federation collected debt under four loan agreements from Yuganskneftegaz (the predecessor of Rosneft) in favor of YUKOS Capital S.a.r.l. under four lawsuits: RUR 11 233.0 million – the loan amount; RUR 1 702.9 million – accrued interest; USD 0.9 million – arbitration fees and court costs.

Rosneft believes that it has grounds to have these decisions overturned and filed petitions with the Moscow Court of Arbitration in February 2007 to overturn the decisions of the ICCA under the Chamber of Commerce and Industry of the Russian Federation.

On 19 December 2006, based on an injunctive motion of YUKOS Capital S.a.r.l. in connection with a subsequent request for enforcement of the decisions of the ICCA in the Netherlands, an Amsterdam court has put a secured arrest on cash that will be received by Rosneft under enforcement proceedings in the Netherlands. In March 2007, YUKOS Capital S.a.r.l. filed a petition with an Amsterdam court (The Netherlands) on recognition and enforcement of the decision of the ICCA under the Chamber of Commerce and Industry of the Russian Federation on the territory of a foreign country.

3. In October 2003, the Czech company Kyklop spol S r.o. filed a primary claim in the Court of Arbitration under the Zurich Chamber of Commerce on collecting debt from Yuganskneftegaz for the payment of spare parts delivered under contract No. 114-01-797 of 27

October 1994, in the amount of USD 3.9 (RUR 105.3 million), plus interest of 5%.

In September 2006, the company Kyklop spol S r.o. attempted to make changes to its “primary statement of claim” in order to add a so-called Oil Suit, which is based on an alleged oil purchase contract, the “original” of which was submitted to the Court by Kyklop spol S r.o. In accordance with the oil purchase contract, Yuganskneftegaz’s debt to Kyklop spol S r.o. was USD 900,000, plus interest and penalties, which Yuganskneftegaz undertook to pay by 31 December 2001. Otherwise, Yuganskneftegaz was to be obligated to compensate Kyklop spol S r.o. in the amount of one million tonnes of oil, and the amount of oil was to increase by 5% for each week of delay in the shipment.

Kyklop spol S.r.o. did not pay the arbitration fee established by the court on time, due to which fact proceedings on the case may be terminated. Rosneft considers the claims made to be unjustified and will continue to defend its rights and lawful interest in the next reporting period.

It is possible that a number of other losses will appear, which the Company believes will be immaterial in size.

17. Related parties

During 2006 the majority of transactions with related parties of the Parent Company consisted of intra-group transactions, which are excluded during the consolidation of the financial statements. The transactions with other related parties are immaterial in size.

18. Indicators by segment

Pursuant to PBU 12/2000 “Information by segment”, general business, currency, credit and price risks that can be confirmed by the company are taken into account when separating information by segment.

Revenue (gross) (mln. RUR)	
Oil	690 178.4
Gas	7 852.7
Oil products	271 638.3
Other sales	14 771.5
Total	984 440.9

Revenue (gross) (mln. RUR)		
	Domestic market	Export
Oil	38 256.2	651 922.2
Gas	7 852.7	
Oil products	127 611.9	144 026.4
Other sales	14 771.5	
Total	188 492.3	795 948.6

In 2006, the Company exported 90.53% of all oil sold, and 58.20% of all oil products sold.

“Other sales” included: sales of material assets, processing services, construction services, R&D and geological surveying work.

19. Other aspects of the Group’s activity

Environmental protection issues

The operations of oil and gas companies are always associated with the risk of environmental damage. Group management is convinced that the activity of the Group Companies complies with the requirements of legislation on environmental protection, and therefore that the Group is not at risk of the appearance of material liabilities.

Insurance

The Group continues to insure property, freight, transportation, construction and assembly work. However, the risk of suspension of a company’s operations is not usually an object of insurance on the Russian market of insurance services.

Financial Director

A.I. Baranovsky

Chief Accountant

S.N. Kim



DATA ON COMPLIANCE
WITH THE CODE OF CORPORATE CONDUCT
BY OJSC **ROSNEFT** OIL COMPANY



No	Provisions of the Code of Corporate Conduct	Complied or not complied	Notes
General meeting of shareholders			
1	Shareholders' notification of a general meeting of shareholders at least 30 days prior to its holding irrespective of issues included in the agenda unless a longer term is set forth by the applicable legislation.	Complied	
2	Shareholders are entitled to acquaint themselves with a list of persons eligible to participate in a general meeting of shareholders starting from the date of notice of a general meeting of shareholders until closing of a physical general meeting and in case of a general meeting of shareholders in absentia until the end date of a final receipt of voting bulletins.	Complied	
3	Shareholders are entitled to acquaint themselves with information (material) which should be furnished in the course of preparing for a general meeting of shareholders through electronic communication, including the Internet.	Complied	
4	A shareholder is entitled to include an issue in the agenda of a general meeting of shareholders or request convening a general meeting of shareholders without furnishing an extract from the shareholders' registrar if rights of a shareholder are registered in the shareholder register system and in case share rights of a shareholder are registered in the custody account it is sufficient to furnish a custody account statement to exercise the foregoing rights.	Complied	
5	There is a requirement in the Charter or in internal documents of the open joint stock company for compulsory attendance by the general director, members of the Management Board, members of the Board of Directors, members of the Audit commission and the auditor of the OJSC in a general meeting of shareholders.	Complied	
6	Compulsory attendance of nominees at a general meeting of shareholders in the discussion of issues of election of members of the Board of Directors, general director, members of the Management Board, members of the Audit commission and also confirmation of appointment of an auditor of the OJSC.	Complied	



No	Provisions of the Code of Corporate Conduct	Complied or not complied	Notes
7	There is a procedure to register participants of a general meeting of shareholders specified in internal documents of the OJSC.	Complied	
Board of Directors			
8	The Board of Directors has the authority, provided in the Charter, to approve the annual financial and economic plan of the OJSC.	Complied	
9	There is a procedure of risk management approved by the Board of Directors of the OJSC.		The risk management procedure of OJSC Rosneft Oil Company was considered by the Audit committee of the Board of Directors.
10	In accordance with the Charter, the Board of Directors is entitled to suspend the mandate of the general director appointed by the general meeting of shareholders.	Not complied	
11	In accordance with the Charter of the OJSC, the Board of Directors is entitled to set requirements for the classification and amount of remuneration of the general director, members of the Management Board, heads of the main organization departments of the OJSC.	Not complied	
12	In accordance with the Charter of the OJSC, the Board of Directors is entitled to approve terms and conditions of contracts with the general director and members of the Management Board.	Complied	
13	There is a requirement set in the Charter or in internal documents of the OJSC that at the approval of terms and conditions of contracts with the general director (management organization, administrator) and members of the Management Board, votes of members of the Board of Directors being the general director and members of the Management Board shall not be counted.	Not complied	
14	The Board of Directors of the OJSC consists of not less than three independent directors in compliance with the requirements of the Code of Corporate Conduct.	Complied	

No	Provisions of the Code of Corporate Conduct	Complied or not complied	Notes
15	Absence in the Board of Directors of the OJSC of persons found guilty in committing economic crimes or crimes against the state authority, interests of government services and local authorities or persons who were subjected to administrative punishments for breaches of law in the entrepreneurial activity or in the area of finance, taxes and stock market.	Complied	
16	Absence in the Board of Directors of the OJSC of persons who are participants, general directors (administrators), members or employees of an entity competing with the OJSC.	Complied	
17	There is a requirement set in the Charter of the JSC for election of the Board of Directors by a cumulative voting.	Complied	
18	Obligations of members of the Board of Directors as set forth in internal documents of the OJSC to refrain from any actions which will lead or potentially may lead to a conflict between their interests and interests of the OJSC and in case of such a conflict to disclose information to the Board of Directors about this conflict.	Complied	
19	In accordance with internal documents of the OJSC, members of the Board of Directors are obliged to notify the Board of Directors in writing of their intent to make transactions in respect of securities of the OJSC whose members of the Board of Directors or its subsidiary (associated) companies they are and also to disclose information on such security transactions made by them.	Complied	
20	There is a requirement set in internal documents of the OJSC to hold meetings of the Board of Directors at least once every six weeks.	Not complied	
21	Holding of meetings of the Board of Directors of the OJSC within a year for which an annual report is prepared at least once every six weeks.	Complied	
22	There is a procedure of meetings of the Board of Directors described in internal documents of the OJSC.	Complied	



No	Provisions of the Code of Corporate Conduct	Complied or not complied	Notes
23	There is a provision set forth in internal documents of the OJSC to approve transactions by the Board of Directors to the amount of 10% and more of the asset value of the company except transactions made in the course of an ordinary business activity.	Complied	
24	In accordance with internal documents of the OJSC, members of the Board of Directors are entitled to receive from executive bodies and heads of the main organization departments of the OJSC any information necessary for discharging their functions. Internal documents also make provisions for the responsibility for failure to furnish such information.	Complied	
25	There is the Strategic Planning Committee of the Board of Directors or the functions of the foregoing committee are assigned to another committee (except the audit committee and the HR and remuneration committee).	Complied	
26	There is the committee of the Board of Director (the Audit Committee) which makes recommendations to the Board of Directors as to an auditor of the OJSC and cooperates with him/her and the Audit commission of the OJSC.	Complied	
27	The audit committee is composed of only independent and non-executive directors.	Complied	
28	The audit committee is headed by an independent director.	Complied	
29	Internal documents of the OJSC provide for a right of access of all members of the audit committee to all documents and information of the OJSC provided that the confidential information is not disclosed by them.	Complied	
30	Setting up of the committee of the Board of Directors (the HR and Remuneration Committee) which is responsible for determining selection criteria of nominees to members of the Board of Directors and developing a policy of the OJSC in respect of remuneration.	Complied	
31	The HR and Remuneration Committee is headed by an independent director.	Complied	
32	Absence of OJSC officials in the composition of the HR and Remuneration Committee.	Complied	



No	Provisions of the Code of Corporate Conduct	Complied or not complied	Notes
33	Setting up of the risk committee of the Board of Directors or assignment of its functions to another committee (except the Audit Committee and the HR and Remuneration Committee).	Not complied	
34	Setting up of the corporate conflict resolution committee of the Board of Directors or assignment of its functions to another committee (except the Audit Committee and the HR and Remuneration Committee).	Not complied	
35	Absence of OJSC officials in the composition of the corporate conflict resolution committee.	Not complied	
36	The corporate conflict resolution committee is headed by an independent director.	Not complied	
37	Availability of internal documents adopted by the Board of Directors of the OJSC providing a procedure of the establishment and work of the committees of the Board of Directors.	Complied	
38	The Charter of the OJSC define a procedure of a quorum of the Board of Directors enabling it to ensure a mandatory participation of independent directors in meetings of the Board of Directors.	Not complied	
Executive bodies			
39	There is a collegial executive body (Management Board) of the OJSC.	Complied	
40	There is a provision set forth in the Charter or internal documents of the OJSC to approve by the Management Board real estate transactions, receipt of credits by the OJSC unless the foregoing transactions are material transactions and attributed to an ordinary activity of the OJSC.	Complied	
41	There is a procedure set in internal documents of the OJSC to agree upon any transactions which are beyond the financial and economic activity of the company.	Complied	
42	Absence in executive bodies of persons who are participants, general directors (administrators), members of an executive body or employees of an entity competing with the OJSC.	Complied	



No	Provisions of the Code of Corporate Conduct	Complied or not complied	Notes
43	Absence in executive bodies of the OJSC of persons found guilty in committing economic crimes or crimes against the state authority, interests of government services and local authorities or persons who were subjected to administrative punishments for breaches of law in the entrepreneurial activity or in the area of finance, taxes and stock market. If a function of the sole executive body is exercised by a management organization or an administrator, the general director and members of the Board of Management of a management organization or an administrator should meet requirements of a general director and members of the Management Board of the OJSC.	Complied	
44	There is a provision set forth in the Charter or in internal documents of the OJSC prohibiting a management organization (administrator) to discharge similar functions in a rival company and also to be in other property relations of whatsoever nature with the OJSC except performing services to a management organization (administrator).	Not complied	
45	Obligations of executive bodies as set forth in internal documents of the OJSC to refrain from any actions which will lead or potentially may lead to a conflict between their interests and interests of the OJSC and in case of such a conflict to disclose information to the Board of Directors about this conflict.	Complied	
46	There are selection criteria set forth in the Charter or in internal documents of the OJSC for a management organization (administrator).	Not complied	
47	Presentation of monthly activity reports by executive bodies to the Board of Directors.	Not complied	
48	There is a provision specified in contracts made by the OJSC with the general director (a management organization, administrator) and members of the Management Board providing the responsibility for any breach of provisions of disclosure of confidential and service information.	Complied	

No	Provisions of the Code of Corporate Conduct	Complied or not complied	Notes
Secretary of the OJSC			
49	There is a specially appointed person in the OJSC (secretary) who is responsible for compliance by bodies and officials of the OJSC with procedural requirements ensuring the execution of rights and rightful interests of shareholders.	Not complied	
50	There is a procedure of appointment (election) of a secretary of the OJSC and his/her obligations set forth in the Articles of association or in internal documents.	Complied	
51	There are requirements of a candidacy of a secretary set forth in the Charter.	Complied	
Substantial corporate actions			
52	There is a requirement set forth in the Charter or in internal documents of the OJSC to approve a material transaction prior to its settlement.	Complied	
53	Mandatory engagement of an independent assessor to assess a property market value which is a subject of a material transaction.	Complied	
54	There is a provision in the Charter prohibiting to take any actions at acquiring large blocks of shares of the OJSC (merger) aimed at protecting interests of executive bodies (members of these bodies) and members of the Board of Directors of the OJSC and also worsening the shareholders' position as compared with the current position (in particular, prohibition of taking a decision by the Board of Directors prior to an expected end date of acquisition of shares on issue of additional shares, issue of securities convertible into shares or securities giving rights to acquire shares of the OJSC, notwithstanding the right to take such decision was granted to it by the Charter).	Not complied	
55	There is a requirement set in the Charter for a mandatory engagement of an independent assessor to assess a current market value of shares and possible changes of their market value in consequence of the merger.	Not complied	
56	Absence of a provision in the Charter exempting an acquirer from the obligation to propose shareholders to sell ordinary shares of the OJSC owned by them (issuing securities convertible into ordinary shares) in the course of merger.	Not complied	



No	Provisions of the Code of Corporate Conduct	Complied or not complied	Notes
57	There is a requirement set in the Charter or in internal documents of the OJSC for a mandatory engagement of an independent assessor to determine a conversion ratio of shares in the course of reorganization.	Not complied	
Information disclosure			
58	There is an internal document adopted by the Board of Directors regulating rules and approaches of the OJSC towards information disclosure (Regulation on information policy).	Complied	
59	There is a requirement in internal documents of the OJSC for information disclosure about the purpose of share placing, persons who are going to acquire shares to be placed, including a large block of shares and also whether high ranking officials of the OJSC are going to participate in acquisition of shares of the OJSC to be placed.	Not complied	
60	There is a list of information, documents and materials in internal documents of the OJSC which should be furnished to shareholders for taking decisions on issues put forward for the general meeting of shareholders.	Complied	
61	Availability of the OJSC website on the Internet and regular disclosure of information about the OJSC on this website.	Complied	
62	There is a requirement in internal documents of the OJSC for the information disclosure about transactions of the OJSC with persons who according to the Charter are high ranking officials of the OJSC and also transactions of the OJSC with entities in which high ranking officials of the OJSC directly or indirectly own 20% and more of the authorized capital of the joint stock company or on which such persons may otherwise exert a significant influence.	Not complied	
63	There is a requirement in internal documents of the OJSC for the information disclosure about all transactions which may affect a market value of shares of the OJSC.	Complied	
64	There is an internal document adopted by the Board of Directors on the use of relevant information on the activity of the OJSC, shares and other securities of the OJSC and transactions with them which is not public domain and which disclosure may exert a significant influence on a market value of shares and other securities of the OJSC.	Complied	



No	Provisions of the Code of Corporate Conduct	Complied or not complied	Notes
Control over the financial and economic activity			
65	There are procedures of internal control over the financial and economic activity of the OJSC adopted by the Board of Directors.	Complied	
66	There is a special organizational unit of the OJSC ensuring procedures of internal control (auditing service).	Complied	
67	There is a requirement set in internal documents of the OJSC for determining the structure and composition of the auditing service of the OJSC by the Board of Directors.	Not complied	
68	Absence in the auditing service of persons found guilty in committing economic crimes or crimes against the state authority, interests of government services and local authorities or persons who were subjected to administrative punishments for breaches of law in the entrepreneurial activity or in the area of finance, taxes and stock market.	Complied	
69	Absence in the auditing service of persons who are included in the compositions of executive bodies of the OJSC and also persons who are participants, general directors (administrators), members of managerial bodies or employees of an entity competing with the OJSC.	Complied	
70	There is a date set in internal documents of the OJSC of submission of documents and materials to the auditing service for the assessment of a financial and economic transaction and also the responsibility of officials and employees of the OJSC for failure to submit them on time.	Not complied	
71	There is an obligation specified in internal documents of the OJSC of the auditing service to inform the audit committee and in case of its absence the Boars of Directors of the OJSC about any detected irregularities.	Complied	
72	There is a requirement set in the Charter for a preliminary assessment by the auditing service of expediency of transactions not provided for by the financial and economic plan of the OJSC (nonstandard transactions).	Not complied	



No	Provisions of the Code of Corporate Conduct	Complied or not complied	Notes
73	There is a procedure set in internal documents of the OJSC according to which a nonstandard transaction should be agreed with the Board of Directors.	Not complied	
74	There is an internal document adopted by the Board of Directors specifying an audit procedure of the financial and economic activity of the OJSC by the auditing commission.	Complied	
75	Assessment by the audit committee of the auditor's report prior to its submission to shareholders during the general meeting of shareholders.	Complied	
Dividends			
76	There is an internal document adopted by the Board of Directors by which the Board of Directors is governed while accepting recommendations on an amount of dividends (Regulation on dividend policy).	Complied	
77	There is a procedure set in the Regulation on dividend policy of determining a minimum share of the net profit of the OJSC aimed at paying dividends and conditions on which dividends are not paid or are not paid in full on preferred shares, which dividend amount is specified in the Charter of the OJSC.	Complied	
78	Publication of data on the dividend policy of the OJSC and amendments thereto in a periodical as provided by the Charter of the OJSC for publishing data on general meetings of shareholders and also publication of the said data on the website of the OJSC on the Internet.	Complied	Data on the dividend policy of OJSC Rosneft Oil Company and amendments thereto are placed on the Company's website.





