IMPORTANT: You must read the following before continuing. The following applies to the prospectus (the "document") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the document. In accessing the document, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access. The document has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein.

THE FOLLOWING DOCUMENT MAY NOT BE FORWARDED OR DISTRIBUTED OTHER THAN AS PROVIDED BELOW AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. THIS DOCUMENT MAY ONLY BE DISTRIBUTED IN "OFFSHORE TRANSACTIONS" AS DEFINED IN, AND AS PERMITTED BY, REGULATION S UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITHIN THE UNITED STATES TO QIBs (AS DEFINED BELOW) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A"). ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES.

Confirmation of your representation: In order to be eligible to view this document or make an investment decision with respect to the securities, you must be (1) a person that is outside the United States or (2) a QIB that is acquiring the securities for its own account or for the account of another QIB. By accepting the e-mail and accessing this document, you shall be deemed to have represented to us that you are outside the United States or that you are a QIB and that you consent to delivery of such document by electronic transmission. You are reminded that this document has been delivered to you on the basis that you are a person into whose possession this document may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this document to any other person. The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers, as named in this document, or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of OJSC OC Rosneft in such jurisdiction. Under no circumstances shall this document constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful. Recipients of this document who intend to subscribe for or purchase the securities are reminded that any subscription or purchase may only be made on the basis of the information contained in the prospectus.

This document has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Managers, as named in this document, nor any person who controls a Manager nor any director, officer, employee nor agent of it or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version available to you on request from ABN AMRO Rothschild, Dresdner Kleinwort, JPMorgan or Morgan Stanley.

OIL COMPANY
ROSNEFT
OPEN JOINT STOCK COMPANY

Offering of 1,380,232,613 Ordinary Shares in the form of Ordinary Shares and Global Depositary Receipts Offer Price: USD 7.55 per Ordinary Share and per Global Depositary Receipt

OJSC Rosneftegaz ("**Rosneftegaz**" or the "**Selling Shareholder**"), an open joint stock company incorporated under the laws of the Russian Federation, is offering 1,126,357,616 ordinary shares ("**Ordinary Shares**"), each with a nominal value of RUB 0.01 per Ordinary Share, of OJSC OC Rosneft (the "**Company**"), an open joint stock company incorporated under the laws of the Russian Federation, including Ordinary Shares in the form of global depositary receipts ("**GDRs**"). In addition, the Company is offering 253,874,997 newly issued Ordinary Shares in the form of GDRs. Each GDR represents one Ordinary Share. The Russian Federation is the 100% indirect owner of the Company.

The GDRs are being offered in the United States of America to qualified institutional buyers ("**QIBs**"), as defined in, and in reliance on, Rule 144A ("**Rule 144A**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and outside the United States of America and the Russian Federation in offshore transactions in reliance on Regulation S ("**Regulation S**") under the Securities Act (the "**GDR Offering**"). The Ordinary Shares are being offered in the Russian Federation, in the United States of America to QIBs in reliance on Rule 144A and outside the United States of America in offshore transactions in reliance on Regulation S (the "**Share Offering**" and, together with the GDR Offering, the "**Global Offering**"). Ordinary Shares and GDRs offered in the Global Offering are collectively referred to herein as the "**Securities**." A significant portion of the Securities is being offered in the Global Offering to certain oil and gas companies and individuals and institutions in the Russian Federation and elsewhere. See "Plan of Distribution."

The Company has granted the Joint Global Coordinators, acting on behalf of the Managers (as set forth in "Plan of Distribution"), an option (the "**Overallotment Option**"), exercisable within 30 days after the announcement of the offer price (the "Offer Price"), to purchase up to an additional 52,980,132 Ordinary Shares (the "**Optional Ordinary Shares**") in the form of GDRs at the Offer Price, solely to cover overallotments in the Global Offering.

Currently, no public market exists for the Securities. The Company has applied to the U.K. Financial Services Authority (the "**FSA**"), in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**FSMA**"), to admit up to 9,399,029,129 GDRs, of which up to 867,172,695 GDRs will be issued on or about 19 July 2006 (the "**Closing Date**") and up to 8,531,856,434 additional GDRs may be issued from time to time against the deposit of Ordinary Shares with J.P. Morgan Europe Limited (the "**Depositary**"), to the official list (the "**Official List**") of the FSA. The Company has also applied to the London Stock Exchange plc (the "**LSE**") to admit the GDRs for trading under the symbol "ROSN" on its market for listed securities through its International Order Book (the "**IOB**"). The IOB is a regulated market for purposes of Investment Services Directive 93/22/EC. Admission to the Official List and to the LSE's market for listed securities constitutes listing on a stock exchange ("**Admission**"). The Company expects that conditional trading in the GDRs through the IOB will commence on a "when and if issued" basis on or about 14 July 2006 and that unconditional trading in the GDRs through the IOB will commence on or about the Closing Date. **All dealings in the GDRs before commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.** The Company has also applied for the GDRs being offered and sold in the United States (the "**Rule 144A GDRs**") to be designated as eligible for trading in The PORTAL Market of The Nasdaq Stock Market, Inc. ("**PORTAL**"). The Company expects trading in the GDRs on PORTAL to commence on or about the Closing Date.

The Company's Ordinary Shares have been listed and admitted to trading on the RTS Stock Exchange (the "**RTS**") and the Moscow Interbank Currency Exchange ("**MICEX**"), and the issuance of the Ordinary Shares has been registered with the Federal Service for the Financial Markets of the Russian Federation (the "**FSFM**"). The Company expects trading in the Ordinary Shares on the RTS and MICEX to commence on or about the Closing Date.

This document, upon approval by the FSA, is a prospectus relating to Rosneft prepared in accordance with the Prospectus Rules of the FSA made under section 73A of the FSMA.

AN INVESTMENT IN THE SECURITIES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS." Prospective investors should be aware that if any of these risks materializes (including in relation to litigation arising out of the acquisition of the Company's subsidiary Yuganskneftegaz, which accounted for 73.4% of Rosneft's proved crude oil reserves as of 31 December 2005 and 70.0% of its crude oil production in 2005), they could lose all or part of their investment. The GDRs are of a specialist nature and should normally only be purchased and traded by investors who are particularly knowledgeable in investment matters.

The Global Offering does not constitute an offer to sell, or solicitation of an offer to buy, securities in any jurisdiction in which such offer or solicitation would be unlawful. The Securities have not been, and will not be, registered under the Securities Act and may not be offered or sold within the United States except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or outside the United States in offshore transactions in reliance on Regulation S. Prospective purchasers are hereby notified that sellers of the Securities may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. Information set forth in this Prospectus does not constitute an advertisement of the GDRs in Russia and must not be passed on to third parties or otherwise be made publicly available in Russia. The GDRs have not been and will not be registered in Russia and are not intended for "placement" or "public circulation" in Russia. For a description of these and certain further restrictions on transfers of the Securities, see "Plan of Distribution."

The Managers will offer the Securities when, as and if delivered to and accepted by them, subject to their right to reject orders in whole or in part. The GDRs will be issued in global form. The Rule 144A GDRs will be evidenced by a Master Rule 144A Global Depositary Receipt (the "**Master Rule 144A GDR**") registered in the name of Cede & Co. as nominee for The Depository Trust Company ("**DTC**") in New York. The GDRs being offered and sold outside the United States (the "**Regulation S GDRs**") will be evidenced by a Master Regulation S Global Depositary Receipt (the "**Master Regulation S GDR**" and, together with the Master Rule 144A GDR, the "**Master GDRs**") registered in the name of BNP Paribas Security Services, Luxembourg Branch, as common depositary for Euroclear Bank N.V./S.A. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their direct and indirect participants. The Company expects that Ordinary Shares will be delivered to purchasers starting on or about the Closing Date through the facilities of the RTS and MICEX and that delivery of the GDRs will be made through DTC with respect to the Rule 144A GDRs and through Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs, in each case on or about the Closing Date.

Joint Global Coordinators & Bookrunners

ABN AMRO Rothschild   Dresdner Kleinwort   JPMorgan   Morgan Stanley

Coordinating Lead Manager of the Russian Offering

Sberbank

The date of this Prospectus is 14 July 2006.

Joint Global Coordinators & Bookrunners

ABN AMRO Rothschild **Dresdner Kleinwort** **JPMorgan** **Morgan Stanley**

Coordinating Lead Manager of the Russian Offering

Sberbank

Senior Co-Lead Managers

Goldman Sachs International **Sberbank**

Co-Lead Managers

Barclays Capital
CA IB
Daiwa Securities SMBC Europe
Fortis
ING Bank
Natexis Bleichroeder

Co-Managers

Alfa-Bank
ATON
Banca Caboto S.p.A. (Gruppo Intesa)
Banca IMI
Bayern LB
BBVA
Deutsche UFG
Erste Bank
Gazprombank
Renaissance Capital
Standard Bank
Troika Dialog
URALSIB

The newly issued Ordinary Shares will be subject to cancellation until the FSFM registers a placement report (the "**Placement Report**") on the issuance of such Ordinary Shares. If the FSFM does not register the Placement Report within 75 calendar days after the Closing Date, or such other time as may be agreed between the Company and the Joint Global Coordinators, the Company will, at or about the time of such cancellation, refund the gross proceeds of the portion of the GDR Offering evidencing newly issued Ordinary Shares, without interest, *pro rata* to all GDR holders, regardless of the then-prevailing price of the GDRs and subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking or securities regulations or practices and may be prevented due to a change in such regulations or practices. Upon payment of such amounts, the Depositary will cancel, on a *pro rata* basis or on such other basis as it deems practicable in its sole discretion, the number of GDRs corresponding to the number of Ordinary Shares to which the Placement Report relates. If the FSFM does not register the Placement Report, the Ordinary Shares being offered by the Selling Shareholder will not be cancelled, and the proceeds of the Share Offering will not be refunded. In addition the Joint Global Coordinators may require the Depositary to execute and deliver Regulation S GDRs on the Closing Date to them or on their behalf prior to the receipt of the Ordinary Shares in respect thereof by the Depositary. Until the Joint Global Coordinators satisfy their obligation to deliver to the Depositary a number of Ordinary Shares and/or GDRs that together equal the number of then-outstanding pre-released GDRs, the Regulation S GDR facility will contain fewer Ordinary Shares than the number of Ordinary Shares purportedly represented by such pre-released Regulation S GDRs. See "Registration of Placement Report and Pre-Release."

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IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This Prospectus is issued in compliance with the listing rules of the FSA (the "**Listing Rules**"), which are compliant with the provisions of Directive 2003/71/EC (the "**Prospectus Directive**"). The Company accepts responsibility for the information provided in this Prospectus. The Company declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. DeGolyer and MacNaughton ("**D&M**") declares that, having taken all reasonable care to ensure that such is the case, the information contained in the reserves reports and the resources reports (as defined in "Presentation of Financial and Other Information") included in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

This Prospectus is based on information provided by the Company and other sources that the Company believes to be reliable. These sources include government agencies such as the Central Bank of Russia (the "**CBR**") and the State Statistics Committee of Russia, market research and other research reports, press releases, securities filings and industry publications, including by publishers such as British Petroleum, Interfax and Platts, as well as other publicly available information. See "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations—Main Factors Affecting Results of Operations—Average Crude Oil and Petroleum Products Prices Worldwide and in Russia" and "The Russian Oil and Gas Industry" and "Regulation of the Russian Oil and Gas Industry." The Company has relied on the accuracy of such information without carrying out an independent verification thereof. Accordingly, the Company accepts responsibility only for accurately reproducing such information. As far as the Company is aware, no facts have been omitted from such information that would render it inaccurate or misleading.

The Company has included its own estimates, assessments, adjustments and judgments in preparing some market information, which has not been verified by an independent third party. Market information included herein is, therefore, unless otherwise attributed exclusively to a third party source, to a certain degree subjective. While the Company believes that its own estimates, assessments, adjustments and judgments are reasonable and that the market information prepared by the Company appropriately reflects the industry and the markets in which it operates, there is no assurance that the Company's own estimates, assessments, adjustments and judgments are the most appropriate for making determinations relating to market information or that market information prepared by other sources will not differ materially from the market information included herein.

The contents of Rosneft's websites do not form any part of this Prospectus.

None of the Managers or the Selling Shareholder makes any representation or warranty, express or implied, as to the accuracy or completeness of information set forth in this Prospectus. None of the Managers or the Selling Shareholder assumes any responsibility for the accuracy or completeness of the information set forth in this Prospectus. Each person contemplating making an investment in the Securities must make its own investigation and analysis of Rosneft and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors that may be relevant to such person in connection with such investment.

A copy of this Prospectus can be obtained at the offices of the Company at 26/1 Sofiyskaya Embankment, Moscow 115035, Russian Federation. For the life of this Prospectus, a copy of the charter of the Company, the Reserves Reports, the Resources Reports and the Financial Statements (and, in the case of the Annual Financial Statements, the Report of Independent Auditors included therein) will also be available at such addresses. The information set forth in this Prospectus is only accurate as of its date. Rosneft's business, financial and legal condition may have changed since that date.

No person is authorized to give any information or to make any representation in connection with the Global Offering other than as contained in this Prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company, the Selling Shareholder, the Depositary or any of the Managers.

No prospective investor should consider any information in this Prospectus to be investment, legal, tax or other advice. Each prospective investor should consult its own counsel, accountant and other advisers for such advice. None of the Company, the Selling Shareholder or any of the Managers makes any representation to any offeree or purchaser of the Securities regarding the legality of an investment in such Securities by such offeree or purchaser.

Except as described below, each of the Managers is acting solely for the Company and the Selling Shareholder and no one else in connection with the Global Offering and is not, and will not be, responsible to any other person for providing advice in respect of the Global Offering or for providing the protections afforded to their respective clients. Sberbank and certain other of the Russian Managers are acting as agents for the purchasers of Ordinary Shares pursuant to separate individual contracts entered into between such Managers and such investors.

In connection with the Global Offering, Morgan Stanley & Co. International Limited (the "**Stabilizing Manager**") or its agents may, in consultation and after agreement with the other Joint Global Coordinators, on behalf of the Managers and for a limited period after the announcement of the Offer Price, overallot or effect transactions in the GDRs with a view to supporting the market price of the GDRs at a level higher than that which might have otherwise prevailed in the open market. However, the Stabilizing Manager or such agents have no obligation to do so. Such stabilization, if commenced, may begin on the date of adequate public disclosure of the Offer Price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 days after the date of such adequate public disclosure of the Offer Price (the "**Stabilization Period**"). The Managers do not intend to disclose the extent of any such stabilization transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The distribution of this Prospectus and the offer and sale of the Securities may be restricted by law in certain jurisdictions. None of the Company, the Selling Shareholder or the Managers is making an offer to sell any Ordinary Shares or GDRs or is soliciting an offer to buy Ordinary Shares or GDRs to any person in any jurisdiction except where such an offer or solicitation is permitted. This Prospectus may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is unauthorized or is unlawful. The Company, the Selling Shareholder and the Managers each require persons into whose possession this Prospectus comes to inform themselves about and to observe such restrictions. None of the Company, the Selling Shareholder or the Managers has taken any action that would permit, other than as part of the Global Offering, an offering of or relating to the Securities in any jurisdiction that requires action for that purpose. Further information with regard to restrictions on offers and sales of the Securities is set forth under "Plan of Distribution."

NOTICE TO CERTAIN INVESTORS

United States

The Securities have not been, and will not be, registered under the Securities Act or any state securities laws and may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE "**SEC**") OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

For so long as any of the Securities are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

The sellers of the Rule 144A GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

New Hampshire

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("**RSA 421-B**") WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE, CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION, MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

United Kingdom

This Prospectus is only being distributed to and is only directed at:

- Persons who are outside the United Kingdom;
- Investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"); or
- High net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order,

(such persons collectively being referred to as "**relevant persons**"). The Securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

Russian Federation

No Manager may offer, transfer or sell the GDRs as part of their initial distribution in the Russian Federation, or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

The GDRs have not been and will not be registered in Russia and are not intended for "placement" or "public circulation" in Russia. This Prospectus does not constitute an advertisement of the GDRs in Russia and may not be made publicly available in Russia.

European Economic Area

This Prospectus has been prepared on the basis that all offers of Securities other than the offer contemplated in the Prospectus in the United Kingdom once the Prospectus has been approved by the competent authority in the United Kingdom and published in accordance with the Prospectus Directive (2003/71/EC) as implemented in the United Kingdom, will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the European Economic Area ("**EEA**"), from the requirement to produce a prospectus for offers of the Securities. Accordingly any person making or intending to make any offer within the EEA of the Securities should only do so in circumstances in which no obligation arises for the Company or any of the Managers to produce a prospectus for such offer. Neither the Company nor the Managers have authorized, nor do they authorize, the making of any offer of Securities through any financial intermediary, other than offers made by the Managers which constitute the final placement of Securities contemplated in this Prospectus.

Each person in a Member State of the EEA that has implemented the Prospectus Directive (each, a "**Relevant Member State**") other than, in the case of the first bullet point below, persons receiving offers contemplated in the Prospectus in the United Kingdom, who receives any communication in respect of, or who acquires any Securities under, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Manager and the Company that:

- It is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- In the case of any Securities acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive:
  - ➢ The Securities acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Global Coordinators has been given to the offer or resale; or
  - ➢ Where Securities have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Securities to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an "**offer of Securities to the public**" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase or subscribe for the Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Japan

The Securities have not been and will not be registered under the Securities and Exchange Law of Japan (the "**Securities and Exchange Law**"). Accordingly, no Manager may, directly or indirectly, offer or sell Securities:

- In Japan;
- To, or for the benefit of, any resident of Japan; or
- To, or for the account or benefit of, any persons for reoffering or resale, directly or indirectly in Japan or to, or for the account or benefit of, any resident of Japan,

except, in each case, pursuant to an exemption from the registration requirements of, or otherwise in compliance with the Securities and Exchange Law and other relevant laws and regulations of Japan.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. No Manager may offer or sell any Securities, cause any Securities to be made the subject of an invitation for subscription or purchase or circulate or distribute this Prospectus or any other document or material in connection with offer or sale, or invitation for subscription or purchase, of such Securities, in each case whether directly or indirectly, to persons in Singapore, other than:

- To an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**");
- To a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; or
- Otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Switzerland

The Securities will not be listed on the SWX Swiss Exchange, and neither the offer to purchase nor any other document related to the Global Offering constitutes a prospectus under the Listing Rules of the SWX Swiss Exchange.

The Company has not applied for a listing of the Securities being offered pursuant to this Prospectus on the SWX Swiss Exchange or on any other regulated securities market in Switzerland, and consequently, the information presented in this document does not necessarily comply with the information standards set forth in the relevant listing rules.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus are not historical facts and are "forward-looking" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. This Prospectus contains certain forward-looking statements in various locations, including, without limitation, under the headings "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." Rosneft may from time to time make written or oral forward-looking statements in reports to shareholders and in other communications. Examples of such forward-looking statements include, but are not limited to statements of:

- Rosneft's plans, targets, objectives or goals, including those related to products or services;
- Future economic performance; and
- Assumptions underlying such statements.

Forward-looking statements that the Company may make from time to time but that are not included in this Prospectus may also include projections or expectations of revenues, income, earnings or loss per share, dividends, capital structure or other financial items or ratios.

Words such as "believes," "anticipates," "expects," "estimates," "intends" and "plans" and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Investors should be aware that several important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- Inflation, interest rate and exchange rate fluctuations;
- The prices of crude oil and gas;
- Prices and availability of alternative fuels;
- The ability of members of the Organization of Petroleum Exporting Countries ("**OPEC**") and of other crude oil producing nations to set and maintain specified levels of production and prices;
- Weather conditions and natural disasters;
- The effects of changes in laws, regulations, taxation or accounting standards or practices;
- The effects of, and changes in, the policy of the Russian government;
- The effects of competition in the geographic and business areas in which Rosneft operates;
- Rosneft's ability to increase market share for its products and to control expenses;
- Rosneft's access to pipelines, railways and other means of transporting crude oil, gas and petroleum products;
- Rosneft's acquisitions or divestitures;
- Technology utilized by Rosneft;
- The effects of international political events on Rosneft's businesses;
- Rosneft's success at finding commercially exploitable quantities of crude oil and gas in its exploration projects;
- Rosneft's success in negotiating a gas supply agreement with OJSC Gazprom (together with its subsidiaries, "**Gazprom**");
- Rosneft's success in contesting various legal claims; and
- Rosneft's success at managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which Rosneft operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, the Company does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise except as otherwise required by applicable law or under the Prospectus Directive and the relevant implementing measures. The Company does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

ENFORCEMENT OF CIVIL LIABILITIES

The Company is an open joint stock company incorporated under the laws of the Russian Federation, and most of the members of its Board of Directors and Management Board are not residents of the United Kingdom or the United States. Furthermore, the Selling Shareholder is also an open joint stock company incorporated under the laws of the Russian Federation, and none of the members of its Board of Directors is a resident of the United Kingdom or the United States. In addition, the Russian government has stated that in the future, it may dissolve Rosneftegaz to become a direct shareholder in the Company. As a result, it may not be possible for securityholders to:

- Effect service of process within the United Kingdom or the United States upon the Company or most members of its Board of Directors or Management Board;
- Effect service of process within the United Kingdom or the United States upon the Selling Shareholder or any member of its Board of Directors; or
- Enforce against most such persons judgments obtained in the courts of the United Kingdom or the United States.

Russian courts may not enforce any judgment obtained in a court in a country other than the Russian Federation unless:

- There is a treaty in effect between such country and the Russian Federation providing for the recognition and enforcement of court judgments; or
- The Russian Federation adopts a federal law providing for the recognition and enforcement of foreign court judgments.

No such treaty exists between the Russian Federation and the United Kingdom or the United States. Even if there were such a treaty, Russian courts could nonetheless refuse to recognize or enforce a foreign court judgment on the grounds set forth in such treaty and in Russian law in effect on the date on which such recognition or enforcement is sought. Moreover, the Russian Federation has adopted no such federal law.

In September 2002, the new Arbitration Procedural Code of the Russian Federation entered into force, setting forth procedures for the recognition and enforcement of judgments and grounds for refusal of such recognition and enforcement in the event that such a treaty or federal law were adopted. However, Russian procedural law may change further, and other grounds for refusal of the recognition and enforcement of foreign court judgments could arise in the future.

The Deposit Agreement, dated 14 June 2006, between the Depositary and the Company (the "**Deposit Agreement**") provides that actions brought by any party thereto be referred to arbitration in London, England, in accordance with the rules of the London Court of International Arbitration. Each of the United Kingdom, the United States and Russia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**"). Consequently, Russian courts should generally recognize and enforce in Russia an arbitral award from an arbitral tribunal in the United Kingdom, on the basis of the rules of the New York Convention, subject to qualifications provided for in the New York Convention and compliance with Russian procedural regulations and law. However, it may be difficult to enforce arbitral awards in Russia due to:

- The inexperience of Russian courts in enforcing international commercial arbitral awards;
- Official and unofficial political resistance to enforcement of awards against Russian companies in favor of foreign investors; and
- The Russian courts' inability or unwillingness to enforce such orders.

The Company has appointed Law Debenture Corporate Services Limited as its agent for service of process in any suit, action or proceeding with respect to the GDRs. However, a Russian court may not give effect to such appointment.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

The Company's audited consolidated financial statements in respect of the financial years ended 31 December 2003, 2004 and 2005 (the "**Annual Financial Statements**") and unaudited consolidated financial statements in respect of the three months ended 31 March 2005 and 2006 included in this Prospectus (the "**Interim Financial Statements**" and together with the Annual Financial Statements, the "**Financial Statements**") have been prepared in accordance with generally accepted accounting principles in the United States ("**U.S. GAAP**"), except as noted in the audit report of the Company's independent auditors included herein.

Presentation of Reserves and Resources

This Prospectus contains information concerning Rosneft's crude oil and gas reserves derived from the reserves reports of DeGolyer and MacNaughton ("**D&M**"), oil and gas consultants based in Dallas, Texas, dated 17 May 2006 and 15 June 2006. Summaries of these reserves reports (such summaries, the "**Reserves Reports**") are attached as appendices to this Prospectus. This Prospectus and the Reserves Reports present information concerning reserves on the basis of the standards set forth by the Society of Petroleum Engineers ("**SPE**"), as well as on the basis of the definitions set forth in SEC Regulation S-X, Rule 4-10(a). SPE standards differ in certain material respects from SEC standards. The Reserves Reports cover SPE standard proved, probable and possible reserves, SEC standard proved reserves (economic lives of fields) and SEC standard proved reserves (expiration of licenses). This Prospectus also includes estimates of reserves under the Russian reserves methodology; this methodology differs materially from both SPE and SEC standards. For a discussion of these matters, see "Appendix I: Classification of Reserves and Resources." Except where otherwise indicated, all reserves information in this Prospectus is presented on the basis of SPE standards. However, for the year 2003 only, proved crude oil and gas reserves are presented on the basis of SEC standards (economic lives of fields). Unaudited supplementary oil and gas disclosure in the Annual Financial Statements is presented on the basis of SEC standards (economic lives of fields).

This Prospectus also contains information concerning Rosneft's crude oil and gas resources derived from the resources reports of D&M, dated 17 May 2006. Summaries of these resources reports (such summaries, the "**Resources Reports**") are attached as appendices to this Prospectus. This Prospectus and the Resources Reports present information concerning resources on the basis of the standards set forth by the SPE. See "Appendix I: Classification of Reserves and Resources." The Resources Reports cover prospective and contingent resources. The information concerning gas resources included in this Prospectus for individual exploration projects was reported on by D&M but is not included in the Resources Reports; however, aggregate information on gas resources is included in the Resources Reports.

The SEC permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that a company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. This Prospectus contains data, such as reserves and resources presented in accordance with SPE standards and reserves presented in accordance with Russian standards, that the SEC's guidelines would prohibit the Company from including in filings with the SEC.

The information on reserves and resources in this Prospectus, the Reserves Reports and the Resources Reports is based on economic assumptions that may prove to be incorrect. The Russian economy is more unstable and subject to more significant and sudden changes than the economies of many other countries and, therefore, economic assumptions in Russia are subject to a high degree of uncertainty. Prospective investors should not place undue reliance on the forward-looking statements in the Reserves Reports or the Resources Reports, on the ability of the Reserves Reports or the Resources Reports to predict actual reserves or resources or on comparisons of similar reports concerning companies established in countries with more mature economic systems.

This Prospectus and, except as noted below, the Reserves Reports present reserves data for both volumes and values:

- For the Company's fully consolidated subsidiaries on a 100%, or gross, basis; and
- For each of the Company's affiliates and joint ventures accounted for using the equity method or the proportional consolidation method on a *pro rata*, or net, basis in proportion to the Company's economic interest in such affiliate or joint venture.

However, certain of the tables in the Reserves Reports also present information for the Company's affiliates and joint ventures on a gross basis, including for Sakhalin-1, Polyarnoye Siyaniye and Verkhnechonskneftegaz.

SPE and SEC crude oil and gas reserves estimates as of 31 December 2003 and 2004 were calculated using crude oil and gas prices in effect as of such dates, respectively. SPE and SEC crude oil reserves estimates, and SEC gas reserves estimates as of 31 December 2005 were calculated using crude oil and gas prices in effect as of such date. SPE gas reserves estimates as of 31 December 2005 were calculated using the gas prices that Rosneft anticipates will be reflected in the long-term agreement it is negotiating with Gazprom.

Unless expressly noted otherwise, this Prospectus and the Resources Reports present:

- Resource volumes for projects in which the Company and the Company's subsidiaries, affiliates and joint ventures have an interest on a 100%, or gross, basis, regardless of their actual interest in the project or whether the entity is fully consolidated or accounted for using the equity or proportional consolidation method;
- The present worth of the resources for projects in which the Company and the Company's subsidiaries, affiliates and joint ventures have an interest on a *pro rata*, or net, basis in proportion to the Company's economic interest in such entity, regardless of whether the entity is fully consolidated or accounted for using the equity or proportional consolidation method. (When resource volumes are presented in this Prospectus on a net basis, the same methodology applies.)

Reserves and resources data generally do not take into account financing arrangements, including carry arrangements. However, for purposes of determining the present worth of the resources attributable to the Company, these carry arrangements were taken into account.

Reserves information in the Supplemental Oil and Gas Disclosure (unaudited) that is presented in the Annual Financial Statements in accordance with SFAS 69, *Disclosures About Oil and Gas Producing Activities*, includes proved reserves based on SEC standards (economic lives of fields) of the Company's subsidiaries but not of its affiliates or joint ventures.

Presentation of Other Operating and Financial Data

Unless expressly noted otherwise and as discussed below, production data presented in this Prospectus include production data for the Company and its fully consolidated subsidiaries on a 100% basis. However, the Company calculates its reserves life and reserves replacement ratios, and determines its production targets, by taking into account not only its consolidated production but also the production of its affiliates and joint ventures accounted for using the equity method or the proportional consolidation method on a *pro rata* basis in proportion to the Company's economic interest in such affiliate or joint venture. Unless expressly noted otherwise, this Prospectus presents other operating data, such as on drilling and wells, on a 100% basis regardless of whether the entity is fully consolidated or accounted for using the equity or proportional consolidation method. Certain tables in the Reserves Reports also present capital and operating expenditures on a 100% basis regardless of whether the entity is fully consolidated or accounted for using the equity or proportional consolidation method.

The Company calculates its reserves replacement ratio for crude oil by comparing net new proved reserves additions in tonnes to yearly production in tonnes as well as by comparing net new proved reserves additions in barrels to yearly production in barrels. The reserves replacement ratio for crude oil varies when calculated in tonnes or in barrels, depending, among other things, on the specific density of the crude oil added compared to that of the crude oil produced. See "Business—Upstream Operations—Reserves and Resources" and "Appendix II: Glossary—Certain Terminology."

For internal purposes, including business planning and the preparation of accounts under Russian accounting standards ("**RAS**"), Rosneft accounts for Polyarnoye Siyaniye on a 100% basis. In addition, in its statistical reporting, the Russian Ministry of Industry and Energy accounts for Polyarnoye Siyaniye as part of Rosneft's production on a 100% basis.

Presentation of Certain Other Information

Legal Entities

In this Prospectus, all references to:

- The "**Company**" are to OJSC OC Rosneft;
- "**Rosneft**" are to the Company and its fully consolidated subsidiaries, taken as a whole, and, where the context so requires, its affiliates and joint ventures accounted for using the equity method or the proportional consolidation method;
- "**Rosneftegaz**" or the "**Selling Shareholder**" are to OJSC Rosneftegaz;
- "**Arkhangelsknefteprodukt**" are to OJSC Arkhangelsknefteprodukt;
- "**Baikalfinancegroup**" are to LLC Baikalfinancegroup;
- "**Dagneft**" are to OJSC Rosneft-Dagneft;
- "**Dagneftegaz**" are to OJSC Dagneftegaz;
- "**Eniseyneft**" are to LLC Eniseyneft;
- "**Grozneftegaz**" are to OJSC Grozneftegaz;
- "**Komsomolskiy Refinery**" are to OJSC Rosneft-Komsomolskiy Refinery;
- "**Komsomolskneft**" are to CJSC Komsomolskneft (formerly Komsomolskoye NGDU LLC);
- "**Krasnodarneftegaz**" are to OJSC Rosneft-Krasnodarneftegaz;
- "**Nakhodkanefteprodukt**" are to OJSC Rosneft-Nakhodkanefteprodukt;
- "**Purneftegaz**" are to OJSC Rosneft-Purneftegaz;
- "**RN-Kazakhstan**" are to LLC RN-Kazakhstan;
- "**Sakhalinmorneftegaz**" are to OJSC Sakhalinmorneftegaz;
- "**Selkupneftegaz**" are to OJSC Selkupneftegaz;
- "**Severnaya Neft**" are to OJSC Severnaya Neft;
- "**Sevmorneftegaz**" are to CJSC Sevmorneftegaz;
- "**Stavropolneftegaz**" are to OJSC Rosneft-Stavropolneftegaz;
- "**Taymirneft**" are to LLC Taymirneft;
- "**Tuapsenefteprodukt**" are to OJSC Rosneft-Tuapsenefteprodukt;
- "**Tuapsinskiy Refinery**" are to OJSC Rosneft-Tuapsinskiy Refinery;
- "**Vankorneft**" are to CJSC Vankorneft;
- "**Verkhnechonskneftegaz**" are to OJSC Verkhnechonskneftegaz;
- "**Vostoknefteprodukt**" are to LLC RN-Vostoknefteprodukt; and
- "**Yuganskneftegaz**" are to OJSC Yuganskneftegaz.

Hydrocarbons

In this Prospectus, all references to:

- "**Crude oil**" are to oil and gas condensate; and
- "**Gas**" are to non-associated gas (*i.e.*, natural gas) and associated gas.

Like many other Russian and European oil companies, Rosneft uses the metric tonne as the standard unit of measurement for quantities of crude oil and the cubic meter (as measured under one atmosphere of pressure at 20°C) as the standard unit of measurement for quantities of gas. For convenience, certain amounts of:

- Crude oil volumes have been converted from tonnes to barrels at a rate of 7.315 barrels per tonne of crude oil, reflecting the weighted average density of Rosneft's crude oil as of 31 December 2005. The actual density of field deposits may deviate from this weighted average, and actual barrel amounts may vary from this conversion rate. In addition, D&M converts tonnes to barrels at a specific rate for each field, which may differ from 7.315. Where this Prospectus quotes amounts of crude oil reserves reported by D&M, Rosneft applies D&M's conversion rates for such amounts; and
- Gas volumes have been converted from cubic meters to cubic feet at a rate of 35.315 cubic feet per cubic meter, except where D&M has originally reported volumes in cubic feet. Certain amounts of gas volumes have been converted from cubic feet to barrels of oil equivalent at a rate of 6,000 cubic feet per barrel of oil equivalent.

Certain Currencies

In this Prospectus, all references to:

- "**EUR**," "**euro**" and "**€**" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European community;
- "**GBP**," "**Great British pound**," "**pound**" and "**£**" are to the currency of the United Kingdom;
- "**RUB**" and "**ruble**" are to the currency of the Russian Federation;
- "**SGD**" are to the currency of Singapore; and
- "**USD**," "**U.S. dollar**," "**dollar**" and "**$**" are to the currency of the United States of America.

Certain Jurisdictions

In this Prospectus, all references to:

- "**Algeria**" are to the Republic of Algeria;
- "**Belarus**" are to the Republic of Belarus;
- "**Chechnya**" are to the Republic of Chechnya within the Russian Federation;
- "**China**" are to the People's Republic of China;
- "**CIS**" are to the Commonwealth of Independent States and its member states as of the date of this Prospectus: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. In this Prospectus, references to "sales to the CIS" (and derivations thereof) mean sales to customers in CIS member states other than Russia;
- "**Customs Union**" refers to the customs union established by Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan;
- "**E.U.**" are to the European Union and its member states as of the date of this Prospectus;
- "**Ireland**" are to the Republic of Ireland;
- "**Kazakhstan**" are to the Republic of Kazakhstan;
- "**Korea**" are to the Republic of Korea;
- "**Russia**" are to the Russian Federation;
- "**Singapore**" are to the Republic of Singapore;
- "**Switzerland**" are to the Swiss Confederation;
- "**U.K.**" and "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland; and
- "**U.S.**" and "**United States**" are to the United States of America.

Market data set forth in this Prospectus, including under "The Russian Oil and Gas Industry" and "Regulation of the Russian Oil and Gas Industry," have been extracted from official and industry sources and other sources the Company believes to be reliable. Throughout this Prospectus, the Company has also set forth certain statistics, including statistics in respect of product sales volumes and market share, from industry sources and other sources that it believes to be reliable. The Company accepts responsibility only for accurately reproducing such information, data and statistics. Such information, data and statistics may be approximations or estimates or use rounded numbers.

Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Exchange Rate Information

The official currency of Russia, where most of Rosneft's assets and operations are located, is the ruble. However, because most of Rosneft's revenues and indebtedness, as well as certain capital and operating expenditures, are either dollar-denominated or otherwise priced or measured in U.S. dollars, the functional currency of the Financial Statements is the U.S. dollar. As a result, fluctuations in the value of the ruble against the U.S. dollar may affect these results set forth in the Financial Statements. See "Risk Factors—Risks Relating to Russia—Rosneft faces foreign exchange risks" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Main Factors Affecting Results of Operations—Inflation and Exchange Rates."

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the ruble and the U.S. dollar, based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rate between the ruble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Financial Statements and other information presented in this Prospectus.

	RUB per USD 1.00			
	High	Low	Period average(1)	Period end
Year ended 31 December				
2005	28.99	27.46	28.28	28.78
2004	29.45	27.75	28.73	27.75
2003	31.88	29.25	30.61	29.45
2002	31.86	30.13	31.39	31.78
2001	30.30	28.16	29.18	30.14
Month ended				
30 June 2006	27.10	26.71	26.98	27.08
31 May 2006	27.24	26.92	27.05	26.98
30 April 2006	27.77	27.27	27.56	27.27
31 March 2006	28.48	27.66	28.08	27.76
28 February 2006	28.26	28.10	28.19	28.12
31 January 2006	28.48	27.97	28.22	28.12

(1) The average of the exchange rates on the last business day of each month for the relevant annual periods, and on each business day for which the CBR quotes the ruble to U.S. dollar exchange rate for the relevant monthly period.

Solely for the convenience of the reader, and except as otherwise stated, this Prospectus contains translations of some ruble amounts into U.S. dollars at a conversion rate of RUB 27.76 to USD 1.00, which was the rate published by the CBR on 31 March 2006.

The ruble is generally not convertible outside Russia. A market exists within Russia for the conversion of rubles into other currencies, but the limited availability of other currencies may inflate their value relative to the ruble. No representation is made that the ruble or dollar amounts referred to herein could have been or could be converted into rubles or dollars, as the case may be, at these rates, at any particular rate or at all. See "Risk Factors—Risks Relating to Russia—Rosneft faces foreign exchange risks" for a description of Russian currency exchange controls.

SUMMARY

This summary must be read as an introduction to this Prospectus, and any decision to invest in the Securities should be based on a consideration of the Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area, no civil liability will attach to the responsible persons in any such Member State solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national laws of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Information is presented in this Prospectus on the basis of certain conventions that are set forth above under "Presentation of Financial and Other Information."

Rosneft

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

Rosneft's largest production and development assets in terms of proved crude oil reserves and crude oil production are Yuganskneftegaz and Purneftegaz in Western Siberia and Severnaya Neft in Timano-Pechora. In 2005, Rosneft produced 1,466.18 thousand barrels of crude oil per day (73.16 million tonnes per year). In 2005, Rosneft produced 13.01 bcm of gas.

Rosneft's total revenues increased from USD 3.64 billion in 2003 to USD 5.28 billion in 2004 and to USD 23.95 billion in 2005. Rosneft's total revenues increased from USD 4.36 billion in the first quarter of 2005 to USD 7.52 billion in the first quarter of 2006. Similarly, Rosneft's net income increased from USD 0.39 billion in 2003 to USD 0.84 billion in 2004 and to USD 4.16 billion in 2005.

Rosneft's total revenues and net income have grown both organically (including as a result of increases in hydrocarbon prices) and by acquisition. The most significant recent acquisition was the December 2004 acquisition of Baikalfinancegroup, which had won an auction for the sale of 76.79% of the shares (100% of the common shares) of Yuganskneftegaz. As of 31 December 2005, Yuganskneftegaz accounted for 73.4% of Rosneft's proved crude oil reserves. It accounted for 70.0% of Rosneft's crude oil production in 2005 and 70.7% in the first quarter of 2006. The acquisition of Yuganskneftegaz contributed significantly to the increases in Rosneft's total revenues and net income in 2005. The increases in Rosneft's total revenues and net income in other periods were due mainly to organic growth.

Competitive Strengths and Strategy

Rosneft has developed several strategies for capitalizing on its core strengths, including:

- *Increasing crude oil production by exploiting existing crude oil reserves.*

  Ranked by total proved crude oil reserves, Rosneft is Russia's second largest oil company and one of the world's largest oil majors. Rosneft seeks to balance the need to monetize its substantial existing reserves with the need to book additional reserves by undertaking exploration projects. As of 31 December 2005, Rosneft had a reserves life of 28 years, which is one of the highest in the global oil industry. In 2005, Rosneft had a crude oil reserves replacement ratio of 108.6% calculated by comparing net new proved reserves additions in tonnes to yearly production in tonnes. Calculated on the basis of barrels, Rosneft's crude oil reserves replacement ratio was 101.1% in 2005. Rosneft considers a crude oil reserves replacement ratio of 100% to be an internal benchmark.

  Rosneft's existing reserves consist of assets that are currently producing or under development. Rosneft believes that, assuming economic conditions remain favorable, its crude oil production should increase to at least 2 million barrels per day (100 million tonnes per year) by 2010 and up to 2.8 million barrels per day (140 million tonnes per year) by 2015. To meet these targets, Rosneft intends to:

  ➢ Apply secondary recovery techniques to increase reserve efficiency at its existing production assets;

  ➢ Exploit proved undeveloped reserves, both by bringing new development assets onstream and by extracting proved undeveloped reserves at its existing production assets; and

  ➢ Convert significant possible and probable reserves to proved reserves to support production growth.

- *Exploiting Rosneft's gas upside potential.*

  As of 31 December 2005, Rosneft's proved gas reserves were 691 bcm, with upside potential provided by an additional 444 bcm of probable reserves and 435 bcm of possible reserves.

  Rosneft sells gas directly to Gazprom and to other customers predominantly through the UGSS, the national gas pipeline network operated by Gazprom. Rosneft is currently negotiating a long-term agreement to sell additional gas to Gazprom, and management believes that Rosneft and Gazprom will execute such an agreement in due course. D&M estimated proved gas reserves to SPE standards on the basis of this belief, assuming for this purpose that this agreement will allow Rosneft to increase volumes of gas sales to the levels set forth in Table 14 of the SPE Reserves Report (SEC standards do not permit the booking of proved reserves in these circumstances in the absence of a legally binding contract). As of 31 December 2005, proved gas reserves to SPE standards exceeded proved gas reserves to SEC standards (economic lives of fields) by 499 bcm (2,940 million boe), mainly due to the booking of additional SPE proved gas reserves on the basis of management's belief that Rosneft will execute the long-term agreement with Gazprom. While management believes Rosneft will be technically able to produce approximately 40 bcm of gas by 2012, attaining this level of production will depend on Rosneft's ability to sell the gas and on its having sufficient access to UGSS capacity, which is currently not assured. In the interim period, Rosneft's strategy in relation to its gas assets is to position itself to react quickly to, and take advantage of, rapidly changing market and regulatory developments. See "Risk Factors—Risks Relating to Rosneft—Rosneft faces several risks in connection with the marketing of the gas it produces."

  In addition to onshore gas reserves, Rosneft has significant offshore gas resources, located primarily on the Sakhalin and West Kamchatka shelf areas. Rosneft's offshore gas sales strategy entails monetizing these resources by selling gas produced offshore to end users, assuming that commercial discoveries are made.

- *Securing shareholder value through operating and capital efficiency and a strict focus on profitability.*

  Rosneft seeks to optimize metrics such as upstream operating expenses per barrel, upstream capital expenditures per barrel, return on average capital employed and return on shareholders' equity.

  Rosneft operates a sophisticated, proprietary integrated production management system based on geological and simulation models of its key fields. These models and Rosneft's understanding of the geology of its fields enable Rosneft to identify wells with the greatest potential and to allocate drilling, hydrofracturing and lifting resources efficiently.

As a result of rigorous internal systems and procedures, and also due to the favorable geological characteristics and physical properties of the crude oil and gas at Rosneft's key fields, Rosneft aims to maintain below-industry average operating expenses and capital expenditures per barrel and deliver attractive shareholder returns.

- *Tailoring Rosneft's value chains to maximize netbacks.*

  Rosneft has created proprietary value chains linking:

  ➢ Rosneft's upstream assets directly to export markets ("**crude oil value chains**"); and

  ➢ Rosneft's upstream assets to refining facilities for onward export or domestic sale of petroleum products ("**petroleum products value chains**").

  At the end of such chains, Rosneft has marketing subsidiaries or export facilities that it either fully controls or in which it has a significant equity share. The ability to route its products through different value chains gives Rosneft the operating flexibility to maximize its netbacks.

  Rosneft has created two crude oil value chains with the purpose of adding value by avoiding the blending of its crude oil with that of other producers in the Transneft pipeline system, thereby preserving its quality. These chains link:

  ➢ Severnaya Neft fields in Timano-Pechora to Arkhangelsk/Belokamenka proprietary marine export terminals for export to northern European ports; and

  ➢ Western Siberian oil fields producing gas condensate and Southern Russian oil fields producing crude oil to the CPC pipeline system, in which Rosneft is an indirect shareholder.

  The petroleum products value chains culminate in a proprietary marine export terminal or a proprietary network of filling stations. Rosneft's proprietary Tuapsinskiy and Komsomolskiy refineries are located close to its proprietary marine export terminals and domestic distribution facilities at the end of these value chains. Rosneft has two such petroleum products value chains:

  ➢ *Southbound value chain*. Rosneft delivers crude oil from its Western Siberian and Southern Russian producing subsidiaries to Tuapsinskiy Refinery. Rosneft then either exports the resulting petroleum products via Tuapsenefteprodukt's proprietary marine export terminal at Tuapse or sells them domestically, principally via its Kubannefteprodukt marketing subsidiary. In 2005, the use of Yukos-controlled refineries in Samara Oblast strengthened this value chain.

  ➢ *Eastbound value chain*. Rosneft delivers crude oil from its Western Siberian producing subsidiaries and Sakhalinmorneftegaz to Komsomolskiy Refinery. Rosneft then either exports the resulting petroleum products via Nakhodkanefteprodukt's proprietary marine export terminal at Nakhodka or sells them domestically via its Vostoknefteprodukt marketing subsidiary. In 2005, the use of Yukos-controlled refineries at Achinsk and Angarsk strengthened this value chain.

- *Realizing Rosneft's exploration project potential.*

  Rosneft has a substantial portfolio of exploration projects located in areas of Russia and the CIS that are, or are poised to become, key hydrocarbon-producing regions. In the Russian Far East, this project portfolio includes the Veninskiy block (Sakhalin-3), the West Schmidtovskiy block (Sakhalin-4), the East Schmidtovskiy and Kaygansko-Vasyukanskiy blocks (Sakhalin-5) and the West Kamchatka block. In Eastern Siberia, this project portfolio includes the license areas surrounding the Vankorskoye field and the Vostochno-Sugdinskiy block, which is near the Verkhnechonskoye field; both the Vankorskoye and the Verkhnechonskoye fields are under development. In Southern Russia and the Caspian Sea, the project portfolio includes Tuapsinskiy Trough on the Black Sea shelf, the Temryuksko-Akhtarskiy block in the Sea of Azov and Kurmangazy in Kazahkstan's territorial waters in the Caspian Sea. In Western Siberia, Rosneft has the potential to explore potential resources in the Yuganskneftegaz and Purneftegaz basins.

  Gross prospective resources of projects in which Rosneft had a share amounted to 47,935.75 million barrels of crude oil as of 31 December 2005, according to D&M's best estimate, prior to taking into account the probability of discovering economic resources. The gross P_e-adjusted best estimate, which adjusts for the probability of discovering economic resources, was 13,364.04 million barrels of crude oil as of 31 December 2005. On a net basis, the P_e-adjusted best estimate was 7,228.75 million barrels of crude oil as of 31 December 2005. Prospective resources relate to undiscovered accumulations and, accordingly, are highly speculative. A possibility exists that the prospects will not result in the successful discovery of economic resources, in which case there would be no commercial development.

- *Expanding Rosneft's footprint in Russia and the CIS.*

  Rosneft's existing reserves and resources are located strategically throughout Russia in areas that either already form part of the Russian oil industry's core resource base, such as Western Siberia, or that are poised to become key hydrocarbon provinces, such as the Russian Far East, Eastern Siberia, and Southern Russia.

  Rosneft will continue to participate actively in license auctions by the Russian Ministry of Natural Resources and the Federal Agency for Subsoil Use. Rosneft already has significant assets and infrastructure in place in many of the regions for which future licenses may be auctioned.

- *Deploying highly qualified personnel and state-of-the-art technology.*

  Rosneft has a team of highly experienced managers led by its president, who has over 25 years of experience in the oil and gas industry. The management team's broad experience allows Rosneft to deploy the latest technology and introduce best practices with minimal disruption to its operations.

- *Committing to high standards of corporate governance.*

  Rosneft is committed to high standards of corporate governance. The Company has three non-executive directors whom it considers meet the standards for independence set forth in the FSFM's corporate governance code; these directors currently comprise one-third of the Company's Board of Directors and chair the Board's Audit Committee, Strategic Planning Committee and Personnel, Remuneration and Benefits Committee. In addition, the Company has written certain provisions of the FSFM's corporate governance code for listed companies directly into its internal regulations. See "Management."

  Rosneft recently adopted a plan for the consolidation of several of the Company's subsidiaries into the Company through a statutory merger and an exchange of shares. The Share Swap will simplify corporate structure and will allow Rosneft to restructure management at the operational level, thereby improving accountability, clarifying responsibilities and streamlining information reporting and decision-making. Lastly, the Share Swap will allow minority shareholders in the Merging Subsidiaries to share in the future success of Rosneft at the level of the listed parent company.

Risk Factors

An investment in the Securities involves a high degree of risk. There are risks relating to Rosneft, to the oil industry, to Russia and other emerging markets and to the Securities and the trading market. Among the risks relating to Rosneft are:

- Risks arising out of Rosneft's acquisition of Yuganskneftegaz. (For a description of the acquisition and its financing, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions—Significant Acquisitions—2004—Yuganskneftegaz");
- Risks relating to the possible enforcement against Rosneft of any arbitral award that may be obtained by certain shareholders of Yukos against the Russian Federation;
- Risks relating to the control of Rosneft by the Russian government; and
- Risks arising out of Rosneft's acquisition of licenses to the Vankorskoye field.

Summary Historical Financial and Other Information

The financial data set forth below as of and for the years ended 31 December 2003, 2004 and 2005 have been derived from the Annual Financial Statements. The financial data set forth below as of and for the three months ended 31 March 2005 and 2006 have been derived from the Interim Financial Statements. The Financial Statements are prepared in accordance with U.S. GAAP. Rosneft's functional and reporting currency for U.S. GAAP purposes is the U.S. dollar. The Interim Financial Statements reflect all normal and recurring adjustments that are necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Results of operations for the three-month period ended 31 March 2006 are not necessarily indicative of results for the full year ending 31 December 2006 or for any other interim period or for any future fiscal year.

The financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Financial Statements and related notes included elsewhere in this Prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Consolidated Balance Sheet Data

	As of 31 December			As of 31 March
	2003	2004	2005	2006
	(USD millions)			
ASSETS				
Current assets				
Cash and cash equivalents	228	1,033	1,173	489
Restricted cash	7	25	23	24
Short-term investments	315	183	165	230
Accounts receivable, net of allowance for doubtful accounts	753	4,799	2,858	2,965
Inventories	331	517	814	911
Deferred tax assets	23	28	48	55
Prepayments and other current assets	155	256	897	944
Total current assets	**1,812**	**6,841**	**5,978**	**5,618**
Non-current assets				
Long-term investments	181	277	436	517
Long-term bank loans granted, net of allowance	24	40	63	50
Acquired debt receivable	—	—	—	456
Oil and gas properties, net	3,292	16,540	20,939	21,309
Property, plant and equipment, net	1,063	1,758	2,030	2,063
Construction-in-progress	372	482	509	581
Goodwill	—	35	35	35
Deferred tax assets	20	5	8	12
Other non-current assets, net of allowance	4	34	18	32
Total non-current assets	**4,956**	**19,171**	**24,038**	**25,055**
Total assets	**6,768**	**26,012**	**30,016**	**30,673**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	670	1,386	1,358	1,589
Short-term loans and current portion of long-term debt(1)	588	4,720	4,005	3,925
Income and other tax liabilities	131	1,560	2,810	2,928
Deferred tax liabilities	4	—	40	47
Other current liabilities	5	42	32	32
Total current liabilities	**1,398**	**7,708**	**8,245**	**8,521**
Asset retirement obligations	126	555	566	588
Long-term debt(1)	1,820	9,022	8,198	7,708
Deferred tax liabilities	71	2,854	3,696	3,760
Other non-current liabilities	2	3	18	19
Total liabilities	**3,417**	**20,142**	**20,723**	**20,596**
Minority interest	**789**	**2,535**	**1,860**	**1,842**
Shareholders' equity				
Common stock par value 0.01 RUR (shares issued and outstanding: 9,092,174,000 as of 31 December 2003, 2004 and 2005)	20	20	20	20
Additional paid-in capital	19	19	19	19
Accumulated other comprehensive income	13	—	—	—
Retained earnings	2,510	3,296	7,394	8,196
Total shareholders' equity	**2,562**	**3,335**	**7,433**	**8,235**
Total liabilities and shareholders' equity	**6,768**	**26,012**	**30,016**	**30,673**

(1) As discussed in Note 18 to the Annual Financial Statements, in the Report of Independent Auditors included therein and in Note 7 to the Interim Financial Statements, as of 31 December 2004, the Company was not in compliance with certain provisions of debt agreements, which constituted events of default, and as a result, the related debt became callable by the respective creditors as of that date. Subsequently, the Company obtained waiver letters from the respective creditors, which provided for a grace period to cure these defaults. This grace period was ultimately extended until 31 December 2006, which is less than one year from the most recent balance sheet date. The Company continues to classify the related debt in the amount of USD 2,831 million as of 31 December 2005 and USD 3,013 million as of 31 March 2006 as non-current. As discussed more fully in the Report of Independent Auditors on the Annual Financial Statements, the Company's independent auditor has concluded that this classification is not in accordance with U.S. GAAP, which require the debt to be classified as current. The Company believes that it will be able to obtain further waivers if necessary.

Consolidated Statements of Income and Comprehensive Income Data

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(USD millions)				
Revenues					
Oil and gas sales	1,714	2,735	16,202	2,991	5,213
Petroleum products and processing fees	1,724	2,233	7,374	1,311	2,219
Support services and other revenues	203	307	375	61	84
Total	**3,641**	**5,275**	**23,951**	**4,363**	**7,516**
Costs and expenses					
Production and operating expenses	442	608	1,623	357	421
Cost of purchased oil and petroleum products	368	547	732	114	541
Selling, general and administrative expenses	305	269	663	86	167
Pipeline tariffs and transportation costs	452	562	2,164	358	693
Exploration expenses	18	51	194	25	35
Depreciation, depletion and amortization	302	307	1,472	337	384
Accretion expense	12	8	35	8	8
Taxes other than income tax	642	957	5,264	1,024	1,574
Excise tax and export customs duty	436	760	6,281	854	2,168
Total costs and expenses	**2,977**	**4,069**	**18,428**	**3,163**	**5,991**
Operating income	**664**	**1,206**	**5,523**	**1,200**	**1,525**
Other income/(expenses)					
Interest income	73	65	81	14	38
Interest expense	(110)	(159)	(775)	(191)	(203)
(Loss)/gain on disposal of property, plant and equipment	(21)	121	(74)	(2)	(4)
(Loss)/gain on disposal of investments	5	(30)	(13)	(10)	—
Gain on disposal of share in CJSC Sevmorneftegaz	—	—	1,303	—	—
Equity share in affiliates' profits	—	52	51	9	8
Dividends and income from joint ventures	16	46	10	8	1
Other expenses, net	(101)	(196)	(137)	(53)	(26)
Foreign exchange gain	63	96	245	14	(159)
Total other income/(expenses)	**(75)**	**(5)**	**691**	**(211)**	**(345)**
Income before income tax and minority interest	**589**	**1,201**	**6,214**	**989**	**1,180**
Income tax expense	(201)	(298)	(1,609)	(257)	(335)
Income before minority interest	388	903	4,605	732	845
Minority interest in subsidiaries' earnings	(52)	(66)	(446)	(8)	(43)
Net income before cumulative effect from change in accounting principle	**336**	**837**	**4,159**	**724**	**802**
Cumulative effect from change in accounting principle, net of income tax	50	—	—	—	—
Net income	**386**	**837**	**4,159**	**724**	**802**
Other comprehensive income	13	—	—	—	—
Comprehensive income	**399**	**837**	**4,159**	**724**	**802**

Consolidated Statements of Cash Flows Data

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(USD millions)				
Operating activities					
Net income	386	837	4,159	724	802
Reconciliation of net income to net cash provided by operating activities:					
Effect of foreign exchange on cash and cash equivalents and deferred tax	(16)	(24)	(115)	28	135
Gain on disposal of share in CJSC Sevmorneftegaz	—	—	(1,303)	—	—
Cumulative effect from change in accounting principle, net of income tax	(50)	—	—	—	—
Depreciation, depletion and amortization	302	307	1,472	337	384
Dry well expenses	—	7	17	4	1
Loss/(gain) on disposal of property, plant and equipment	21	(121)	74	2	4
Deferred income tax	(43)	(11)	(79)	(58)	(78)
Accretion expense	12	8	35	8	8
Equity share in affiliates' profits	—	(52)	(51)	(9)	(8)
Increase in allowance for doubtful accounts and bank loans granted	27	11	4	10	1
Minority interests in subsidiaries' earnings	52	66	446	8	43
Changes in operating assets and liabilities net of acquisitions:					
Decrease/(increase) in restricted cash	—	(4)	2	(6)	(1)
Increase in accounts receivable	(114)	(146)	(1,353)	(982)	(110)
Increase in inventories	(56)	(92)	(297)	(147)	(97)
(Increase)/decrease in prepayments and other current assets	42	(100)	(641)	(76)	(47)
Decrease/(increase) in other non-current assets	(3)	(26)	16	4	(14)
Increase in long-term bank loans granted	(13)	(16)	(23)	(62)	15
Increase/(decrease) in accounts payable and accrued liabilities	169	(44)	(28)	(182)	231
Increase in income and other tax liabilities	53	34	414	309	118
Increase in interest payable	18	35	158	54	25
Increase in other current and non-current liabilities	7	38	5	(18)	1
Net cash provided by operating activities	794	707	2,912	(52)	1,413
Cash flows from investing activities					
Capital expenditures	(821)	(853)	(2,085)	(312)	(848)
Proceeds from disposals of property, plant and equipment	6	206	30	3	4
Acquisition of short-term investments	(614)	(88)	(693)	(36)	(75)
Proceeds from sale of short-term investments	449	253	707	50	10
Acquisition of entities and additional shares in subsidiaries	(728)	(270)	(366)	(112)	(105)
Acquisition of OJSC Yuganskneftegaz	—	(9,398)	—	—	—
Acquisition of debt receivables	—	—	—	—	(463)
Proceeds from sale of long-term investments	463	248	147	21	7
Acquisition of long-term investments	(315)	(267)	(33)	(14)	(36)
Net cash used in investing activities	(1,560)	(10,169)	(2,293)	(400)	(1,506)
Cash flows from financing activities					
Proceeds from short-term debt	548	3,211	977	395	99
Repayment of short-term debt	(588)	(132)	(2,018)	(460)	(518)
Proceeds from long-term debt	1,043	8,092	2,547	163	669
Repayment of long-term debt	(228)	(867)	(1,829)	(129)	(851)
Dividends paid to minority shareholders of subsidiaries	(19)	(10)	(74)	—	—
Common dividends paid	(49)	(51)	(61)	—	—
Net cash (used in)/provided by financing activities	707	10,243	(458)	(31)	(601)
Increase /(decrease) in cash and cash equivalents	(59)	781	161	(483)	(694)
Cash and cash equivalents at beginning of year	271	228	1,033	1,033	1,173
Effect of foreign exchange on cash and cash equivalents	16	24	(21)	(19)	10
Cash and cash equivalents at end of year	228	1,033	1,173	531	489
Supplementary disclosures of cash flow information					
Cash paid for interest (net of amount capitalized)	92	124	617	132	166
Cash paid for income taxes	199	309	1,636	231	374
Supplementary disclosure of non-cash activities					
Income tax offsets	49	6	41	1	9
Non-cash capital expenditures	(61)	(50)	(32)	—	—

Key Operating Data and Financial Ratios

The following table sets forth key operating data and financial ratios that the Company's management uses in assessing Rosneft's performance. The operating data and financial ratios set forth in this table reflect the operations of the Company and its fully consolidated subsidiaries.

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
KEY OPERATING DATA					
Production data[(1)]					
Crude oil (thousand barrels per day)					
Oil	369.42	386.87	1,433.97[(1)]	1,395.70	1,475.06
Gas condensate	7.56	18.22	32.22[(1)]	24.19	37.29
Total crude oil	376.99	405.09	1,466.18[(1)]	1,419.89	1,512.35
Gas (bcm)					
Associated gas	3.644	4.234	5.280[(1)]	1.438	1.275
Non-associated gas	3.354	5.115	7.734[(1)]	1.619	2.248
Total gas	6.998	9.348	13.014[(1)]	3.057	3.523
Crude oil sales and exports (million barrels)					
Crude oil exported outside the CIS	57.95	65.99	283.23	57.93	83.47
Crude oil sold in the CIS	12.41	17.76	48.33	12.58	11.52
Crude oil sold in Russia, including to refineries	63.76	58.84	191.21	52.83	45.29
Gas sales (bcm)	6.01	7.30	9.30	2.30	2.39
Petroleum products (million tonnes)					
Total domestic refining throughput	7.56	7.36	22.13	4.99	5.98
Petroleum products exported outside the CIS	4.73	4.59	13.01	2.59	3.26
Petroleum products sold in the CIS	0.00	0.00	0.30	0.08	0.13
Petroleum products sold in Russia, including those purchased by the Company's marketing subsidiaries					
Petroleum products sales via proprietary and rented retail outlets	0.71	0.83	0.97	0.21	0.25
Total petroleum products sold in Russia	4.10	4.01	8.04	1.89	2.43
KEY FINANCIAL RATIOS					
EBITDA (USD millions)[(2)]	978	1,521	7,030	1,545	1,917
EBITDA margin[(3)]	26.9%	28.8%	29.4%	35.4%	25.5%
Adjusted free cash flow before interest (USD millions)[(4)]	99	0	1,612	(202)	1,025
Adjusted net income margin before minority interest[(5)]	12.0%	17.1%	15.1%	16.8%	11.2%
Return on average capital employed, annualized where appropriate[(6)]	9.6%	7.5%	21.7%	19.7%	22.9%
Return on average equity, annualized where appropriate[(7)]	13.9%	19.6%	47.7%	47.2%	34.9%
Net debt (USD millions)[(8)]	2,180	12,709	11,030	13,114	11,144
Net debt to capital employed ratio[(9)]	0.39	0.68	0.54	0.67	0.53
Net debt to EBITDA ratio, annualized where appropriate[(10)]	2.23	8.36	1.57	2.12	1.45
Current ratio[(11)]	1.30	0.89	0.73	0.93	0.66
EBITDA/bbl (USD)[(12)]	7.11	10.26	13.14	12.09	14.08
EBITDA/boe (USD)[(13)]	5.47	7.48	11.49	10.60	12.22
Upstream capital expenditures/bbl (USD)[(14)]	4.19	3.83	3.27	2.32	5.32
Upstream capital expenditures/boe (USD)[(15)]	3.23	2.79	2.86	2.03	4.62
Upstream operating expenses/bbl (USD)[(16)]	1.96	2.32	2.43	2.23	2.25
Upstream operating expenses/boe (USD)[(17)]	1.51	1.69	2.13	1.96	1.95
Adjusted free cash flow before interest/bbl (USD)[(18)]	0.72	0.00	3.01	(1.58)	7.53
Adjusted free cash flow before interest/boe (USD)[(19)]	0.55	0.00	2.63	(1.39)	6.54

(1) In 2005, Yuganskneftegaz produced 1,026.30 thousand barrels of crude oil per day. In 2005, Yuganskneftegaz also produced 1.42 bcm of gas.

(2) EBITDA, for any relevant period, is operating income for such period plus accretion expense (related to the unwinding of asset retirement obligations) and depreciation, depletion and amortization for such period. Reconciliation of EBITDA to net income is as follows:

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(USD millions)				
Net income	386	837	4,159	724	802
Cumulative effect from change in accounting principle, net of income tax	(50)	—	—	—	—
Minority interest in subsidiaries' earnings	52	66	446	8	43
Income tax expense	201	298	1,609	257	335
Total other income/(expenses)	75	5	(691)	211	345
Operating income	664	1,206	5,523	1,200	1,525
Accretion expense[(1)]	12	8	35	8	8
Depreciation, depletion and amortization	302	307	1,472	337	384
EBITDA	**978**	**1,521**	**7,030**	**1,545**	**1,917**

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

The Company defines EBITDA in this way because it believes that doing so gives it a meaningful measure of its operating performance. EBITDA is a measure of Rosneft's operating performance that is not required by, or presented in accordance with, U.S. GAAP. EBITDA is not a measure of Rosneft's operating performance under U.S. GAAP and is not an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP. EBITDA is not an alternative to net cash flow provided by operating activities as a measure of Rosneft's liquidity. In particular, EBITDA is not a measure of discretionary cash available to Rosneft to invest in the growth of its business.

Rosneft believes that financial analysts, investors and other interested parties frequently use EBITDA-based indicators in the evaluation of oil and gas companies. These indicators have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of Rosneft's operating results as reported under U.S. GAAP. Rosneft's management compensates for the limitations of these indicators by considering U.S. GAAP operating results in addition to these indicators.

Other oil and gas companies may calculate EBITDA differently or use it for different purposes than Rosneft, limiting its usefulness as a comparative measure.

(3) EBITDA margin is EBITDA *divided by* total revenues for the relevant period.

(4) Adjusted free cash flow before interest is net cash provided by operating activities *minus* capital expenditures *plus* subsoil license acquisition costs (which are included in capital expenditures in the statement of cash flows) *plus* cash interest payments. The Company defines adjusted free cash flow before interest in this way because it believes that doing so gives it a meaningful measure of its operating performance and assists in cash flow modeling. Adjusted free cash flow before interest is a measure of Rosneft's operating performance that is not required by, or presented in accordance with, U.S. GAAP. Rosneft believes that financial analysts, investors and other interested parties frequently use free cash flow-based indicators in the evaluation of oil and gas companies. These indicators have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of Rosneft's operating results as reported under U.S. GAAP. Rosneft's management compensates for the limitations of these indicators by considering U.S. GAAP operating results in addition to these indicators. Other oil and gas companies may calculate free cash flow-based indicators differently or use them for different purposes than Rosneft, limiting their usefulness as a comparative measure. Adjusted free cash flow before interest is not a measure of residual cash flow available for discretionary expenditures. The Company has mandatory debt service requirements and may have other non-discretionary expenditures that are not deducted from this measure. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios."

(5) Adjusted net income margin before minority interest is adjusted net income before minority interest for the relevant period *divided by* total revenues for the relevant period. Adjusted net income is as set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios—Calculation of Adjusted Net Income before Minority Interest."

(6) Return on average capital employed is operating income, income tax expense, income tax on the gain on the sale of interest in CJSC Sevmorneftegaz in the relevant period, annualized where appropriate, *divided by* average capital employed from the beginning to the end of the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios—Calculation of Income Used for Calculating Return on Average Capital Employed (ROACE)" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios—Calculation of Capital Employed and Related Indicators."

(7) Return on average equity is adjusted net income before minority interest in the relevant period, annualized where appropriate, *divided by* total average shareholders' equity from the beginning to the end of the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios—Calculation of Return on Average Equity (ROAE)."

(8) Net debt is short-term loans and the current portion of long-term debt *plus* long-term debt *minus* cash and cash equivalents.

(9) The net debt to capital employed ratio is net debt as of the end of the relevant period *divided by* capital employed as of the end of the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios—Calculation of Capital Employed and Related Indicators."

(10) The net debt to EBITDA ratio is net debt as of the end of the relevant period *divided by* EBITDA, annualized where appropriate, for the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios—Calculation of Capital Employed and Related Indicators."

(11) The current ratio is current assets as of the end of the relevant period *divided by* current liabilities as of the end of the relevant period.

(12) EBITDA/bbl is EBITDA for the relevant period *divided by* the number of barrels of crude oil produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios."

(13) EBITDA/boe is EBITDA for the relevant period *divided by* the number of barrels of oil equivalent produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios."

(14) Upstream capital expenditures/bbl is capital expenditures in the upstream segment during the relevant period *divided by* the number of barrels of crude oil produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios."

(15) Upstream capital expenditures/boe is capital expenditures in the upstream segment during the relevant period *divided by* the number of barrels of oil equivalent produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios."

(16) Upstream operating expenses/bbl is production and operating expenses in the upstream segment during the relevant period *divided by* the number of barrels of crude oil produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios."

(17) Upstream operating expenses/boe is production and operating expenses in the upstream segment during the relevant period *divided by* the number of barrels of oil equivalent produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios."

(18) Adjusted free cash flow before interest/bbl is adjusted free cash flow before interest during the relevant period *divided by* the number of barrels of crude oil produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios."

(19) Adjusted free cash flow before interest/boe is adjusted free cash flow before interest during the relevant period *divided by* the number of barrels of oil equivalent produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios."

Key Reserves and Resources Data

The following table sets forth key reserves and resources data for Rosneft:

(Million barrels or bcm, as applicable)	As of 31 December				
		2004		2005	
	2003	Rosneft total	Yuganskneftegaz only	Rosneft total	Yuganskneftegaz only
Crude oil reserves[1],[2] and resources					
SPE proved reserves					
SPE proved developed reserves	—	7,644.96	5,672.95	7,567.69	5,651.46
SPE proved undeveloped reserves	—	7,226.24	5,807.80	7,309.65	5,272.75
Total SPE proved reserves	—	14,871.21	11,480.74	14,877.34	10,924.21
SPE probable reserves[3]	—	7,531.29	4,468.88	8,304.68	5,050.41
SPE proved and probable reserves[3]	5,941.56	22,402.50	15,949.62	23,182.02	15,974.62
SPE possible reserves[3]	4,062.91	7,836.89	3,543.58	7,219.39	3,576.36
SEC proved reserves (economic lives of fields)[4]					
SEC proved developed reserves (economic lives of fields)	1,841.34	7,644.96	5,672.95	7,567.69	5,651.46
SEC proved undeveloped reserves (economic lives of fields)	1,022.72	4,126.15	3,146.91	3,167.08	2,503.50
Total SEC proved reserves (economic lives of fields)	2,864.05	11,771.11	8,819.86	10,734.77	8,154.96
SEC proved reserves (expiration of license)[4]					
SEC proved developed reserves (expiration of license)	—	—	—	3,383.78	2,393.11
SEC proved undeveloped reserves (expiration of license)	—	—	—	1,754.15	1,382.45
Total SEC proved reserves (expiration of license)	—	—	—	5,137.94	3,775.56
Russian ABC1 reserves[5]	6,613.10	17,891.87	11,382.14	18,375.28	11,232.91
Russian C2 reserves[5]	3,380.55	5,877.77	2,125.74	6,354.03	2,224.49
SPE prospective resources[6]					
Gross best estimate	—	—	—	47,935.75	1,764.22
Gross P_e-adjusted best estimate	—	—	—	13,364.04	963.14
Net best estimate	—	—	—	27,486.39	1,354.92
Net P_e-adjusted best estimate	—	—	—	7,228.75	739.69
Gas reserves[1],[2],[7] and resources					
SPE proved reserves[8]					
SPE proved developed reserves	—	124.72	38.42	162.47	19.22
SPE proved undeveloped reserves	—	71.88	44.64	528.05	62.18
Total SPE proved reserves	—	196.60	83.06	690.52	81.40
SPE probable reserves[3]	—	217.67	32.73	444.34	37.92
SPE proved and probable reserves[3]	1,373.65	414.28	115.78	1,134.86	119.32
SPE possible reserves[3]	681.22	756.12	26.51	434.70	24.59
SEC proved reserves (economic lives of fields)[4]					
SEC proved developed reserves (economic lives of fields)	79.93	124.72	38.42	162.47	19.22
SEC proved undeveloped reserves (economic lives of fields)	21.31	48.17	23.66	28.63	3.00
Total SEC proved reserves (economic lives of fields)	101.24	172.89	62.08	191.10	22.23
SEC proved reserves (expiration of license)[4]					
SEC proved developed reserves (expiration of license)	—	—	—	84.72	7.06
SEC proved undeveloped reserves (expiration of license)	—	—	—	8.53	1.25
Total SEC proved reserves (expiration of license)	—	—	—	93.25	8.32
Russian ABC1 reserves[5]	2,851.54	1,655.50	93.70	1,712.80	92.90
Russian C2 reserves[5]	879.20	563.90	16.60	565.96	16.70
SPE prospective resources[6]					
Gross best estimate	—	—	—	794.48	0.00
Gross P_e-adjusted best estimate	—	—	—	156.28	0.00
Net best estimate	—	—	—	402.09	0.00
Net P_e-adjusted best estimate	—	—	—	79.11	0.00

(1) D&M did not estimate proved crude oil and gas reserves as of 31 December 2003 according to SPE standards.

(2) Dagneft and Dagneftegaz were split from one Dagneft subsidiary in 2004. The reserves of these companies were not included in the Reserves Reports before 2005. In addition, the reserves of Polyarnoye Siyaniye were not included as of 31 December 2003.

(3) Probable and possible reserves have not been adjusted for risk.

(4) The Company presents SEC standard proved reserves on the basis of management's belief that it is reasonably certain that Rosneft's licenses will be renewed through the economic lives of its fields. The Company also presents SEC standard proved reserves on the assumption that its licenses will not be renewed. See "Appendix I: Classification of Reserves and Resources—SEC Standards." For a discussion of why SEC standard (economic lives of fields) proved reserves declined from 31 December 2004 to 31 December 2005, see "Business—Upstream Operations—Reserves and Resources."

(5) Russian reserves for Sevmorneftegaz, Sakhalin-1, Polyarnoye Siyaniye and Verkhnechonskneftegaz as well as SPE and SEC reserves reported on by D&M are presented on a *pro rata* basis in proportion to the Company's economic interest in such affiliate or joint venture.

(6) Prospective resources relate to undiscovered accumulations and, accordingly, are highly speculative. A possibility exists that the prospects will not result in the successful discovery of economic resources, in which case there would be no commercial development. For a definition of the terms "best estimate" and "P_e-adjusted best estimate," see "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources—Standard Petroleum Industry Terms for Probabilistic Resource Quantities."

Gross prospective resources include volumes for projects in which the Company and the Company's subsidiaries, affiliates and joint ventures have an interest on a 100% basis, regardless of their actual interest in the project or whether the entity is fully consolidated or accounted for using the equity or proportional consolidation method. Net prospective resources include volumes for projects in which the Company and the Company's subsidiaries, affiliates and joint ventures have an interest on a *pro rata* basis in proportion to the Company's economic interest in such entity, regardless of whether the entity is fully consolidated or accounted for using the equity or proportional consolidation method.

(7) Data for Sevmorneftegaz is included for 2003 but is not included for 2004 and 2005, which explains the significant reduction in probable gas reserves, as well as ABC1 and C2 gas reserves from 2003 to 2004. In 2003, Sevmorneftegaz accounted for 1,066.86 bcm of Rosneft's probable gas reserves. Sevmorneftegaz was disposed of in late December 2004. See Note 10 to the Annual Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

(8) Rosneft sells gas directly to Gazprom and to other customers predominantly through the UGSS, the national gas pipeline network operated by Gazprom. Rosneft is currently negotiating a long-term agreement to sell additional gas to Gazprom, and management believes that Rosneft and Gazprom will execute such an agreement in due course. D&M estimated proved gas reserves to SPE standards as of 31 December 2005 on the basis of this belief, assuming for this purpose that this agreement will allow Rosneft to increase volumes of gas sales to the levels set forth in Table 14 of the SPE Reserves Report (SEC standards do not permit the booking of proved reserves in these circumstances in the absence of a legally binding contract). As of 31 December 2005, proved gas reserves to SPE standards exceeded proved gas reserves to SEC standards (economic lives of fields) by 499 bcm (2,940 million boe), mainly due to the booking of additional SPE proved gas reserves on the basis of management's belief that Rosneft will execute the long-term agreement with Gazprom.

THE GLOBAL OFFERING

The Company	OJSC OC Rosneft, an open joint stock company incorporated under the laws of the Russian Federation. The Russian Federation is the 100% indirect owner of the Company.
The Selling Shareholder	OJSC Rosneftegaz, an open joint stock company incorporated under the laws of the Russian Federation. The Russian Federation is the 100% direct owner of the Selling Shareholder.
The Global Offering	The Company is offering 253,874,997 newly issued Ordinary Shares in the form of GDRs. The Selling Shareholder is offering 1,126,357,616 Ordinary Shares, including Ordinary Shares in the form of GDRs. Each GDR represents one Ordinary Share. The GDRs are being offered in the United States to QIBs, as defined in, and in reliance on, Rule 144A and outside the United States and Russia in offshore transactions in reliance on Regulation S. The Ordinary Shares are being offered in the Russian Federation, in the United States to QIBs in reliance on Rule 144A and outside the United States in offshore transactions in reliance on Regulation S. Newly issued Ordinary Shares will be sold to investors in the Global Offering only in the form of GDRs. A significant portion of the Securities is being offered in the Global Offering to certain oil and gas companies and individuals and institutions in the Russian Federation and elsewhere which will result in such investors holding a significant portion of the Securities. See "Plan of Distribution."
Overallotment Option	The Company has granted to the Joint Global Coordinators, on behalf of the Managers, an Overallotment Option, exercisable within 30 days after the announcement of the Offer Price, to purchase up to an additional 52,980,132 Ordinary Shares in the form of GDRs at the Offer Price, solely to cover overallotments in the Global Offering.
Share Capital	Prior to the issuance of new Ordinary Shares in the Global Offering, the Company's share capital consists of 9,092,174,000 Ordinary Shares, each with a nominal value of RUB 0.01 per Ordinary Share, which are fully paid, issued and outstanding. On 7 June 2006, the General Shareholders' Meeting approved the issuance of up to 400,000,000 Ordinary Shares to be offered in the form of GDRs in the Global Offering. Up to an additional 1,222,059,382 Ordinary Shares will be issued to minority shareholders in the Share Swap. The Ordinary Shares have the rights described under "Description of Capital Stock and Certain Requirements of Russian Law." After the Global Offering, the Selling Shareholder will directly own approximately 85.2% of the outstanding Ordinary Shares. If the Joint Global Coordinators exercise the Overallotment Option in full, the Selling Shareholder will directly own approximately 84.8% of the outstanding Ordinary Shares.
Depositary	J.P. Morgan Europe Limited.
The GDRs	The GDRs will be issued by J.P. Morgan Europe Limited, as Depositary. Subject as described under "Pre-Release" below, each GDR will represent one Ordinary Share on deposit with Sberbank, as Custodian. The Depositary will issue the GDRs pursuant to the Deposit Agreement entered into between the Company and the Depositary. The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR. Pursuant to the Deposit Agreement, the Ordinary Shares represented by the GDRs will be held in Russia by the

	Custodian, for the benefit of the Depositary and for the further benefit of GDR holders.
	Except in the limited circumstances described herein, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreement, interests in GDRs represented by the Master Regulation S GDR may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR, and vice versa. See "Terms and Conditions of the Global Depositary Receipts," "Settlement and Delivery—Clearing and Settlement of GDRs" and "Settlement and Delivery—Global Clearance and Settlement Procedures—Secondary Market Trading."
Offer Price	USD 7.55 per Ordinary Share and per GDR.
Closing Date	On or about 19 July 2006.
Lock-Up	For 180 days after the Closing Date, the Company and the Selling Shareholder will not, subject to certain limited exceptions, without the prior written consent of the Joint Global Coordinators, issue, offer, sell, lend, mortgage, assign, contract to sell or issue, pledge, charge, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option on or right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Locked-Up Securities (as defined below in "Plan of Distribution—Lock-Up Arrangements") or enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares; or enter into any transaction with the same economic effect as, or agree to, or publicly announce any intention to enter into any transaction described above, whether such transaction is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise. See "Plan of Distribution—Lock-Up Arrangements" for the exceptions to this undertaking.
Transfer Restrictions	The Securities will be subject to certain transfer restrictions set forth in "Registration of Placement Report and Pre-Release," "Terms and Conditions of the Global Depositary Receipts" and "Plan of Distribution."
Listing and Market for the Securities	The Company has applied to the FSA, in its capacity as competent authority under the FSMA, to admit up to 9,399,029,129 GDRs, of which up to 867,172,695 GDRs will be issued on or about the Closing Date and up to 8,531,856,434 additional GDRs may be issued from time to time against the deposit of Ordinary Shares with the Depositary, to the Official List of the FSA.
	The Company has also applied to the LSE to admit the GDRs for trading under the symbol "ROSN" on its market for listed securities through the IOB. The IOB is a regulated market for the purposes of Investment Services Directive 93/22/EC. Admission to the Official List and to the LSE's market for listed securities constitutes listing on a stock exchange.
	The Company expects that conditional trading in the GDRs through the IOB will commence on a "when and if issued" basis on or about 14 July 2006 and that unconditional trading in the GDRs through the IOB will commence on or about the Closing Date. **All dealings in the GDRs before commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned.**

The Company has also applied for the Rule 144A GDRs to be designated as eligible for trading on PORTAL. The Company expects trading in the GDRs on PORTAL to commence on or about the Closing Date.

The Company's Ordinary Shares have been listed and admitted to trading on the RTS and MICEX, and the issuance of the Ordinary Shares has been registered with the FSFM. The Company expects trading in the Ordinary Shares on the RTS and MICEX to commence on or about the Closing Date.

Ordinary Shares may be deposited, subject to the provisions set forth under "Terms and Conditions of the Global Depositary Receipts" and in the Deposit Agreement, with the Custodian against which the Depositary shall issue GDRs representing such Ordinary Shares (to the extent permitted by law) up to a maximum aggregate number of 2,140,000,000 GDRs. See also "Risk Factors—Risks Relating to the Securities and the Trading Market—The number of Ordinary Shares that can be issued in GDR form is limited."

Payment by GDR holders for the GDRs is expected to be made in U.S. dollars in same-day funds through the facilities of DTC, Euroclear and Clearstream on or about the Closing Date. The Depositary will apply to DTC to have the Rule 144A GDRs accepted into DTC's book-entry settlement system. Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of BNP Paribas Securities Services, Luxembourg Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by JPMorgan Chase Bank (through Mellon Investor Services) as custodian for DTC. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See "Settlement and Delivery."

Each purchaser of Ordinary Shares in the Global Offering is required to pay for any Ordinary Shares in U.S. dollars or rubles, as the case may be, as agreed between each investor and the relevant Manager. In order to take delivery of the Ordinary Shares, potential purchasers will be required to have a depo account at one or more custodians in Moscow able to hold the Ordinary Shares in accordance with applicable laws and market practice. In addition, in order to trade Ordinary Shares on the RTS and MICEX, purchasers may have to transfer their Ordinary Shares to an account at a different depositary. See "Settlement and Delivery."

Registration of Placement Report . . . . The Company will file the Placement Report on the issuance of the newly issued Ordinary Shares at any time after the earlier of the closing of the sale of GDRs (if any) issued pursuant to exercise of the Overallotment Option and the expiration of the share placement period set forth in the Company's initial approval of the issuance of Ordinary Shares (40 calendar days from the commencement of the placement). The FSFM should make a decision on whether to register the Placement Report within two weeks of this filing. Under Russian law, in order for an issuer to complete a closed subscription for securities, the FSFM must register the Placement Report.

If the FSFM does not register the Placement Report within 75 calendar days after the Closing Date, or such other time as may be agreed between the Company and the Joint Global Coordinators on behalf of the Managers, the Company will, at or about the time of such cancellation, refund the gross proceeds of the portion of the GDR Offering evidencing newly issued Ordinary Shares, without interest, *pro rata* to GDR holders, regardless of the then-prevailing price of the GDRs and subject to applicable withholding taxes. However, the return of funds may be delayed due to Russian currency control, banking or securities regulations or practices and may be prevented due to a change in such regulations or practices. Upon payment of such amounts, the Depositary will cancel, on a *pro rata* basis or on such other basis as it deems practicable in its sole discretion, the number of GDRs corresponding to the number of Ordinary Shares to which the Placement Report relates. If the FSFM does not register the Placement Report, the Ordinary Shares being offered by the Selling Shareholder will not be cancelled, and the proceeds of the Share Offering will not be refunded.

Until registration of the Placement Report, GDR holders cannot withdraw the Ordinary Shares underlying the GDRs or instruct the Depositary to vote their Ordinary Shares, as they would otherwise be able to do. In addition, GDR holders who deposit Ordinary Shares from the Closing Date until the registration of the Placement Report bear the risk that the Depositary may reduce their holdings *pro rata* to the number of Ordinary Shares being cancelled or on such other basis as the Depositary determines. See "Risk Factors—Risks Relating to the Securities and the Trading Market—GDR holders cannot withdraw Ordinary Shares from the deposit facility or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs until the FSFM registers the Company's Placement Report, and a failure to register the Placement Report would result in the newly issued Ordinary Shares being cancelled and reliance by GDR holders on the Company to return the proceeds of that portion of the GDR Offering evidencing newly issued Ordinary Shares" and "Registration of Placement Report and Pre-Release."

Pre-Release . . . . Pursuant to an agreement between the Depositary and the Joint Global Coordinators (the "**First Pre-Release Agreement**"), the Joint Global Coordinators may require the Depositary to execute and deliver Regulation S GDRs on the Closing Date to them or on their behalf prior to the receipt of the Ordinary Shares in respect thereof (the "**Pre-Release Ordinary Shares**") by the Depositary. The number of Pre-Release Ordinary Shares will not exceed the maximum number of Optional Ordinary Shares, or 10% of the total number of Ordinary Shares offered in the Global Offering excluding the Optional Ordinary Shares.

Pursuant to the First Pre-Release Agreement, the Joint Global Coordinators must promptly following the earlier of:

- The exercise of the Overallotment Option and the receipt of the underlying Optional Ordinary Shares; and
- 35 calendar days from the Closing Date (or such later date as the Company, the Depositary and the Joint Global Coordinators may agree),

deliver to the Depositary a number of Ordinary Shares and/or GDRs that together are equal to the number of then-outstanding pre-released

Regulation S GDRs. The Joint Global Coordinators intend to satisfy this delivery obligation by exercising the Overallotment Option and/or purchasing GDRs in permitted stabilization transactions. Before such delivery, or in case of failure by the Joint Global Coordinators to effect such delivery, the Regulation S GDR facility will contain fewer Ordinary Shares than the number of Ordinary Shares purportedly represented by the Regulation S GDRs issued from that facility. Withdrawals of Ordinary Shares from the GDR facility will, therefore, be prohibited until after the receipt by the Depositary of the Ordinary Shares and/or GDRs that together equal the number of then-outstanding pre-released Regulation S GDRs. See "Risk Factors—Risks Relating to the Securities and the Trading Market—Any failure by the Joint Global Coordinators to satisfy their delivery obligation under the First Pre-Release Agreement will result in the Regulation S GDR Facility consisting of fewer Ordinary Shares than the number of Ordinary Shares purportedly represented by those Regulation S GDRs" and "Registration of Placement Report and Pre-Release."

General Information . . . . It is expected that the Rule 144A GDRs will be accepted for clearance through the facilities of DTC and the Regulation S GDRs will be accepted for clearance through Euroclear and Clearstream. The security numbers for the GDRs offered hereby are as follows:

Regulation S GDRs:	CUSIP:	67812M207
	ISIN:	US67812M2070
	Common Code:	025869486
Rule 144A GDRs:	CUSIP:	67812M108
	ISIN:	US67812M1080
	Common Code:	025869605
ISIN for Ordinary Shares:	RU000A0J2Q06	
LSE trading symbol:	ROSN	
PORTAL identification number:	ROSGB1678	
RTS and MICEX trading symbol:	ROSN	

RISK FACTORS

An investment in the Securities involves a high degree of risk. Investors should carefully consider the following information about these risks, together with the information contained in this Prospectus, before they decide to buy Securities. The actual occurrence of any of the following risks could adversely affect Rosneft's operating results and financial condition. In that case, the value of the Securities could also decline and investors could lose all or part of their investment.

The risks and uncertainties discussed below are those that Rosneft believes are material, but these risks and uncertainties may not be the only ones that Rosneft faces. Additional risks and uncertainties, including those Rosneft's management currently is not aware of or deems immaterial, may also result in decreased revenues, increased expenses or other events that could lead to a decline in the value of the Securities.

Information is presented in this Prospectus on the basis of certain conventions that are set forth above under "Presentation of Financial and Other Information."

Risks Relating to Rosneft

Rosneft faces several risks arising out of its acquisition of Yuganskneftegaz

Rosneft faces several risks arising out of its acquisition in late December 2004 of Baikalfinancegroup, which had won an auction for the sale of 76.79% of the shares (100% of the common shares) in Yuganskneftegaz. The auction, held on 19 December 2004, was run by the Russian bailiff service to enforce tax liens against OJSC NK Yukos ("**Yukos**"), which had previously controlled Yuganskneftegaz. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions—Significant Acquisitions—2004—Yuganskneftegaz."

Yuganskneftegaz accounted for 73.4% of Rosneft's proved crude oil reserves as of 31 December 2005 and 70.0% of its crude oil production in 2005.

The risks that Rosneft faces in relation to its acquisition of Yuganskneftegaz include the following:

- *Litigation and arbitration against Rosneft.* Rosneft is currently the defendant or respondent in four lawsuits or arbitrations brought by Yukos or its shareholders or subsidiaries following Rosneft's acquisition of Yuganskneftegaz.

  First, Yukos has brought a claim in the Moscow Arbitration Court against the Company and other persons to invalidate the auction conducted by the Russian bailiff service at which Baikalfinancegroup won 76.79% of the shares (100% of the common shares) of Yuganskneftegaz. In the claim, Yukos argues that the auction was not properly held and seeks to recover the auctioned shares, as well as damages in the amount of approximately RUB 388 billion (USD 14 billion). In January 2006, a lower court ruled on procedural matters against Yukos, which was seeking injunctions in support of its claims. Yukos filed an appeal of that procedural decision, which was denied in March 2006. Yukos then filed a second appeal of that procedural decision, which was denied on 5 June 2006. A hearing on the merits had been postponed pending resolution of these procedural matters. The first hearing on the merits was held on 13 July 2006. The next hearing is now scheduled for 4 September 2006 to allow more time for the production by the Federal Property Fund of certain additional documentary evidence. Related Yukos claims for "reparation, restitution, and damages" have been lodged against the Russian Federation before the European Court of Human Rights. If admitted and if successful, Yukos may apply to Russian courts based on Russian statutory law to reopen any adverse Russian court decision with respect to the above matters or assert in ongoing Russian court proceedings that any judgment of the European Court of Human Rights as to such matter is binding on the Russian courts. See "Business—Litigation and Arbitration—Claims Relating to Yukos—Yuganskneftegaz Auction Litigation."

  Second, in the case of *Allen v. Russian Federation et al.,* which is currently pending in the U.S. District Court for the District of Columbia, certain plaintiffs who are holders of Yukos ADRs allege, among other things, that Rosneft engaged in a conspiracy with several other parties, including the Russian government, Gazprom and Rosneftegaz, to renationalize the assets of Yukos. The plaintiffs allege that they purchased a total of approximately USD 3 million of ADRs and seek compensatory damages, as well as punitive damages, treble damages for certain claims, attorney's fees, costs and interest. Additional plaintiffs could join the lawsuit, increasing the amount at risk. See "Business—Litigation and Arbitration—Claims Relating to Yukos—Allen Litigation."

Third, in a proceeding currently before the London Court of International Arbitration, Moravel Investments Ltd., an affiliate of Yukos, has demanded over USD 662 million pursuant to a guarantee agreement, allegedly binding on Yuganskneftegaz, of a loan made to Yukos. The first part of the hearing in the arbitration is taking place between 3 July 2006 and 14 July 2006, and the second part of the hearing is scheduled for 24 July 2006 to 28 July 2006. Meanwhile, in March 2006, Rosneft, in an action in the Moscow Arbitration Court against Yukos and several Yukos affiliates, including Moravel, successfully obtained a determination that the guarantee was void as a matter of Russian law. The first appeals court upheld this decision on 15 May 2006. Yukos and its affiliates have until 16 July 2006 to file an appeal of that decision. Rosneft believes that the decision will have an impact on the London arbitration, although no assurances can be given on the outcome. See "Business—Litigation and Arbitration—Claims Relating to Yukos—Moravel Arbitration."

Fourth, Yukos Capital S.a.r.l., a subsidiary of Yukos, has filed four arbitral claims against Yuganskneftegaz in the International Court of Commercial Arbitration (the "**ICCA**") at the Russian Federation Chamber of Commerce and Industry. These arbitral claims allege that Yuganskneftegaz defaulted on four ruble-denominated long-term loans in an aggregate principal amount of approximately RUB 11,233 million (USD 405 million) from Yukos Capital S.a.r.l. The loans bear interest at 9% *per annum* and mature in 2007. The claims initially sought to recover from Yuganskneftegaz interest and penalties of approximately RUB 1,814 million (USD 65 million), and subsequently Yukos Capital S.a.r.l. demanded early repayment of these loans. The arbitration hearings ended in June 2006, and the decision is anticipated in August-September 2006. See "Business—Litigation and Arbitration—Claims Relating to Yukos—Yukos Capital S.a.r.l. Arbitration." The Financial Statements classify these loans as current because Yukos Capital S.a.r.l. has demanded their early repayment. See Note 18 to the Annual Financial Statements.

The disposition of these claims against Rosneft could adversely affect Rosneft's operating results and financial condition and could have a material adverse effect on Rosneft and the value of the Securities. Rosneft has not provided for any of these claims in the Financial Statements, is actively contesting all such claims and intends to continue to contest them vigorously.

In addition, there is a theoretical risk that there will be attempts to hold Rosneft liable for certain judgments or arbitral awards that might possibly be obtained against the Russian Federation. See "—If certain shareholders of Yukos are successful in obtaining an arbitral award against the Russian Federation, those shareholders may seek to enforce that award against Rosneft, which may expose Rosneft to substantial liability."

Finally, Rosneft could face additional claims relating to its acquisition of Yuganskneftegaz of which it is currently unaware, and is facing and could continue to face efforts to attach assets in aid of existing or future claims. It is also possible that the Global Offering will lead to further claims, including claims intended to disrupt or delay the settlement of the Global Offering, or to disrupt trading in the GDRs thereafter. For example, Yukos complained to the FSA and to the LSE objecting to the proposed admission of the GDRs to the official list and to the market for listed securities through the IOB, and threatened to seek 'judicial review' of any decision in favor of Admission (see below). Among other things, in the context of its complaint, Yukos has alleged that Rosneft's acquisition of Yuganskneftegaz involved criminal conduct that raises questions under the U.K. Proceeds of Crime Act 2002 ("**POCA**"). POCA imposes on persons in the regulated sector (including financial institutions regulated by the FSA that participate in securities offerings such as the Global Offering), the obligation to make certain disclosures to persons specified in POCA if they know, suspect or have reasonable grounds for knowing or suspecting that another person is engaged in money laundering (defined broadly to include many kinds of criminal conduct) and certain other conditions are met. POCA also has the effect more generally of imposing on persons who participate in securities offerings such as the Global Offering obligations to make precautionary disclosures of, or alternatively to avoid entering into or becoming concerned in, certain arrangements, for example, where they may know or suspect the arrangements facilitate the acquisition, retention, use or control of criminal property (defined broadly to include proceeds of criminal conduct) by or on behalf of another person, or where they convert or transfer criminal property. Neither the Company nor Rosneftegaz believes that the acquisition of Yuganskneftegaz involved criminal conduct. Moreover, Yukos' allegations necessarily impugn the conduct of the Russian Federation, including its courts, for example in relation to the tax claims brought against Yukos and/or the auction of Yuganskneftegaz. As a matter of English law, under the act of State doctrine and related principles of non-justiciability, the English courts will not, as a matter of respect for the sovereignty of a foreign State, enter into an inquiry as to the lawfulness of conduct by that State in its sovereign capacity under its own law within its own territory. Accordingly, there should be no basis under English law for knowing of or suspecting, or having reasonable grounds for knowing of or suspecting, criminal conduct within the meaning of POCA in relation to the acquisition of Yuganskneftegaz. Of course, as is the case for participants in all securities offerings, participants in the Global Offering are themselves responsible for compliance with POCA, but for the reasons set forth above neither the Company nor Rosneftegaz believes that Rosneft's acquisition of Yuganskneftegaz should give rise to disclosure or other obligations under POCA for those who participate in the Global Offering.

On 11 July 2006, the FSA notified Yukos that it would approve the prospectus and admit the GDRs to listing in the normal way. The LSE also rejected Yukos' complaint. On 13 July 2006, as threatened, Yukos filed a claim with the High Court of Justice Administrative Court in London seeking judicial review of the favorable decisions of the FSA and the LSE. Yukos requests the court to quash the FSA and LSE decisions and, if the matter cannot be resolved before Admission, to stay or enjoin their effectiveness pending judicial review and potential appeal. The Company understands that the FSA and LSE are opposing Yukos' claims.

- *Tax dispute.* In five separate proceedings currently before the Moscow Arbitration Court, the Federal Tax Service alleges that Yuganskneftegaz—in violation of Article 40 of the Tax Code of the Russian Federation, which governs transfer pricing—underpriced oil sold by it to Yukos from 1999-2003. The tax authorities initially claimed an aggregate amount of approximately RUB 140.4 billion (USD 4.8 billion) in back taxes, penalties and interest. Based on an expert report that it commissioned, the Moscow Arbitration Court subsequently reduced the total amount of the back tax claims, penalties and interest to approximately RUB 21.9 billion (USD 760 million). The Company provided fully for this amount in the Annual Financial Statements through an adjustment to the fair value of the liabilities assumed as a result of the Yuganskneftegaz acquisition. See Notes 4, 26 and 29 to the Annual Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Other Income/(Expenses)—Income Tax Expenses." The Federal Tax Service did not object to the expert report in the court proceedings and following the court decision classifies the debt at Yuganskneftegaz at the reduced level. The Federal Tax Service has a right to appeal these decisions from 21 July 2006 to 26 July 2006.
- *Yukos bankruptcy proceedings and collection of amounts due or potentially due to Rosneft.* In March 2006, a syndicate of foreign banks, led by Société Generale S.A. ("**Société Generale**"), petitioned the Moscow Arbitration Court to declare Yukos bankrupt for failure to pay over USD 483 million outstanding on a USD 1 billion loan that was purported to have been guaranteed by Yuganskneftegaz. The Moscow Arbitration Court began hearings on this petition in March 2006 and appointed an interim receiver for Yukos. Rosneft purchased from the syndicate of foreign banks all amounts due under their loan and has replaced the syndicate of foreign banks as the claimant in respect of the loan in the bankruptcy proceedings. Additionally, as part of the bankruptcy proceedings, Yuganskneftegaz lodged 16 claims in the aggregate amount of approximately RUB 107.9 billion (USD 3.998 billion) for accounts receivable due from Yukos in respect of oil supplied by Yuganskneftegaz to Yukos before its acquisition by the Company and for the gathering, treatment and transportation of crude oil. In addition to the claims of the Company and Yuganskneftegaz, approximately 50 other claims were filed as part of the bankruptcy proceedings. Most of these claims will be reviewed in the bankruptcy proceedings in June 2006. Fourteen of Yuganskneftegaz' 16 claims, representing RUB 75.0 billion (USD 2.8 billion) have already been approved for inclusion in the bankruptcy proceedings. The hearing on the inclusion of the other claims is expected to take place on 17 July 2006.

  In April 2006, the court rejected several procedural motions by Yukos with respect to the bankruptcy proceedings. The first meeting of the creditors' committee is expected to be held on 20 July 2006. At a bankruptcy hearing scheduled for 1 August 2006, the Moscow Arbitration Court is expected to decide whether to pursue a reorganization plan or to liquidate Yukos through asset sales. If a reorganization plan is adopted, bank guarantees or security will have to be provided to creditors in the amount of 120% of their claims.

  In addition, Rosneft has filed two claims against Yukos in the Moscow Arbitration Court alleging that Yukos engaged in transfer pricing by purchasing crude oil from Yuganskneftegaz at below-market prices in 1999-2003. In the first claim, Rosneft claims out-of-pocket damages of approximately RUB 140.7 billion (USD 5.07 billion), which represents the tax liability payable by Yuganskneftegaz in connection with Yukos' transfer pricing policies. In the second claim, Rosneft claims lost revenues of approximately RUB 226.09 billion (USD 8.14 billion), which represent the amount that Yuganskneftegaz would have received if it sold crude oil to Yukos absent Yukos' transfer pricing policies. Together, these claims seek damages of approximately RUB 366.79 billion (USD 13.21 billion), although this amount will likely be reduced as a result of the Moscow Arbitration Court's reduction of the back tax claim assessed against Yuganskneftegaz described above. The hearing in respect of the first claim is expected on 3 August 2006, while the hearing in respect of the second claim is expected on 27 July 2006.

Furthermore, after Rosneft's purchase from the syndicate of foreign banks of their rights to the more than USD 483 million due under the USD 1 billion loan described above, the hearing for Rosneft to replace the banks as claimant in separate proceedings in the Netherlands to recover such amounts due is scheduled for 17 August 2006. The substantive phase of these proceedings is scheduled for August-September 2006.

Finally, in May 2005, the Moscow Arbitration Court awarded Yuganskneftegaz approximately RUB 62.4 billion (USD 2.2 billion) in respect of a debt owed by Yukos to Yuganskneftegaz under a commission agreement, which is included in the overall bankruptcy claim that Yuganskneftegaz is seeking to have approved in the amount of RUB 107.9 billion (USD 3.998 billion) in respect of accounts receivable discussed above. In addition to filing this claim with the Russian bankruptcy court, Yuganskneftegaz is attempting to recover these damages in Dutch proceedings out of assets owned by Yukos Finance B.V., a non-Russian affiliate of Yukos incorporated under the laws of the Netherlands. Related to this litigation, Yukos has lodged claims against the Russian Federation before the European Court of Human Rights, in which Yukos seeks "reparation, restitution, and damages." If admitted and if successful, Yukos may apply to Russian courts based on Russian statutory law to reopen any adverse Russian court decision with respect to the above matters or assert in ongoing Russian court proceedings that any judgment of the European Court of Human Rights as to such matter is binding on the Russian courts.

As a result of these claims, Rosneft is now a significant creditor of Yukos and its subsidiaries. It is uncertain whether Rosneft will be able to recover any of the amounts owed to it by Yukos, in the Russian bankruptcy proceedings, the Netherlands proceedings or otherwise. Aside from the claim for the more than USD 483 million due under the USD 1 billion bank loan Rosneft acquired from the syndicate of foreign banks, the assets in respect of these claims are not reflected in the Financial Statements.

As a holder of preferred shares in Yuganskneftegaz representing 23.21% of its share capital, Yukos could receive between 9% and 10% of the Company's Ordinary Shares in the Share Swap. The ownership and effective control of these Ordinary Shares after their issuance remains uncertain pending resolution of the bankruptcy proceedings. See "—Risks Relating to the Securities and the Trading Market—Future sales of the Securities may affect their market price." Moreover, Rosneft has also entered into tolling arrangements with certain Yukos-owned refineries for the refining of its crude oil and, in the event these refineries were disposed of as part of the bankruptcy proceedings, might be unable to rely on such tolling arrangements in the future.

- *Leases.* Yuganskneftegaz has leased pursuant to short-term lease agreements a significant number of wells and related equipment and facilities from companies that were, and for the time being still are, subsidiaries of Yukos. These lease agreements are cancelable and renewable by these subsidiaries, and their cancellation or renewal was thus under the control of Yukos. In 2005, all the lease agreements were extended for a period of up to one year. Rosneft brought a claim in the Moscow Arbitration Court to recover the shares in these subsidiaries, and in March 2006 the Moscow Arbitration Court ruled that the shares of such subsidiaries should be transferred to Yuganskneftegaz. This decision was upheld on appeal in June 2006. The decision has now entered into force, but Yukos has filed a second appeal of this decision. The court hearing on Yukos' second appeal is scheduled for 26 July 2006. If the decision is reversed, Yukos will once again be in a position to control whether to cancel these leases, or to renew them when they expire. In this case, if Rosneft is unable to extend the lease agreements or otherwise to obtain rights to use the wells and related equipment, its ability to produce oil at Yuganskneftegaz could be adversely affected.
- *Negative publicity.* Rosneft's image may suffer as a result of negative publicity arising out of the circumstances surrounding its acquisition of Yuganskneftegaz. Any deterioration in Rosneft's image could cause the price of the Securities to fall. Any deterioration in Rosneft's image could have other adverse consequences. For example, it could adversely affect Rosneft's ability to hire and retain

qualified personnel, including key senior managers. Similarly, negative publicity could make it more difficult for Rosneft to raise funds, particularly in the international capital markets, which could adversely affect Rosneft's planned development. See "—Rosneft may be unable to finance its planned capital expenditures."

- *Management time.* Rosneft's senior managers may need to spend significant amounts of time dealing with the risks set forth above, which may distract them from their duties.

Any of the above risks could have a material adverse effect on Rosneft's operating results and financial condition.

If certain shareholders of Yukos are successful in obtaining an arbitral award against the Russian Federation, those shareholders may seek to enforce that award against Rosneft, which may expose Rosneft to substantial liability

In 2005, three shareholders of Yukos—Hulley Enterprises Limited, Yukos Universal Limited and Veteran Petroleum Limited (collectively, the "**ECT Claimants**")—each commenced arbitrations (the "**ECT Arbitrations**") in the Hague, the Netherlands, against the Russian Federation under the Energy Charter Treaty (the "**ECT**") in which they claim an aggregate of USD 33.1 billion in damages plus interest. Rosneft has not been and cannot be named under the ECT as a respondent in these arbitrations. Russia has signed the ECT, but the Duma has not ratified it.

The ECT Claimants allege in their requests for arbitration that the Russian Federation expropriated their shareholding interests in Yukos, and that one of the acts of expropriation was the December 2004 auction at which Baikalfinancegroup won a controlling interest in Yuganskneftegaz, which the ECT Claimants allege was procedurally unfair, for an auction price of USD 9.40 billion that was allegedly significantly below Yuganskneftegaz' market value at that time. Rosneft subsequently acquired Baikalfinancegroup.

Rosneft understands that the Russian Federation will vigorously defend itself against the allegations of the ECT Claimants set forth in the requests for arbitration at the jurisdictional and admissibility phases of the arbitration and, if the arbitral tribunal determines that it has jurisdiction over the merits and that the claims on the merits are admissible, will defend the claims vigorously on the merits. Rosneft also understands that the arbitral tribunal will consider issues relating to jurisdiction and admissibility first, and will address the merits of the ECT Claimants' claims only if the arbitral tribunal first determines that it has jurisdiction over the merits and that the claims on the merits are admissible.

If the ECT Claimants were to obtain one or more arbitral awards on the merits against the Russian Federation in the ECT Arbitrations, they may seek to enforce such awards against Rosneft. Although no assurances can be given, Rosneft believes that any attempt to do so would fail, because Rosneft has a corporate identity independent of the Russian Federation and has observed, and will continue to observe, corporate formalities.

The Russian government, whose interests may not coincide with those of other shareholders, controls Rosneft and may cause Rosneft to engage in business practices that do not maximize shareholder value

The Russian government indirectly owns 100% of the Company's Ordinary Shares and manages this stake through the Federal Agency for Management of State Property. The Russian government's beneficial ownership will decrease to approximately 85.2% after the closing of the Global Offering (and to approximately 84.8% if the Managers exercise the Overallotment Option in full). In addition, six members of the Company's nine-member Board of Directors are officials in the Russian government. The Russian government controls Rosneft's operations through its share ownership and its representation on the Company's Board of Directors, acting within the framework established by Russian corporate law and rules for state-owned companies, and it could, through its share ownership and representation on the Board of Directors, cause Rosneft to take actions that may not coincide with the interests of its minority shareholders.

The Russian government may also exercise substantial influence over Russian oil and gas companies (including Rosneft) through its regulatory, taxation and legislative powers, as well as through informal channels. For example, in the past, the Russian government limited the amount of export sales of crude oil by Russian producers by limiting the share of crude oil that may be transported for export through export oil pipelines and required them to sell a portion of the hard currency proceeds from exports. The Russian government also determined the amounts of crude oil, gas and petroleum products for delivery for state needs and to certain customers, such as the military, agricultural concerns and remote regions, which, though in compliance with Russian law, may have been on non-market terms and may have taken priority over sales in the ordinary course of business. Actions such as these could adversely affect Rosneft.

Rosneft faces legal risks arising out of its acquisition of licenses to the Vankorskoye field

In April 2003, the Company acquired Anglo-Siberian Oil Company (and its subsidiaries) ("**Anglo-Siberian**"), which then held a 54% interest in Eniseyneft and a 100% interest in Taymirneft. The Company subsequently increased its interest in Eniseyneft to 99% and decreased its interest in Taymirneft to 60% by selling a 40% interest to Stimul Trading.

Eniseyneft and Taymirneft held licenses to different portions of the Vankorskoye field, which covers approximately 264 sq. km. in Eastern Siberia. Eniseyneft held the license to the southern portion of the field, while Taymirneft held the license to the northern portion. The license held by Eniseyneft was transferred to Vankorneft, a 100% subsidiary of the Company, in August 2004. The majority of the reserves are in the southern portion of the field licensed to Vankorneft. The development of the Vankorskoye field is an important part of Rosneft's strategy.

In May 2002, Total E&P Vankor ("**Total**") had entered into a purchase agreement with Anglo-Siberian to acquire a 52% interest in Eniseyneft, and in September 2002, Total had entered into an option agreement with Anglo-Siberian that gave Total the option to acquire a 60% interest in Taymirneft.

Rosneft believes that the purchase agreement between Total and Anglo-Siberian with respect to the 52% interest in Eniseyneft has terminated on the grounds that certain conditions precedent were not met as of a specified date and the agreement provided for termination in such event. Specifically, courts granted to an existing shareholder who had declined to waive its pre-emptive rights, interim measures preventing the purchase, and the purchase agreement required, as a condition precedent to the purchase, certain representations by Total to be true and correct, including the absence of any court orders preventing its completion. If the conditions precedent were not met, the agreement was to terminate as of a specified date.

After that specified date, in 2004, Rosneft purchased the existing shareholder's interest in Eniseyneft for approximately USD 69 million and paid approximately USD 10 million to settle its outstanding claims against Anglo-Siberian.

Total argues, however, that the conditions precedent to the purchase were met. Alternatively, it claims that Anglo-Siberian failed to use best efforts to complete the purchase, as the purchase agreement required, by not purchasing the existing shareholder's interest and settling its claims prior to the date for termination specified in the purchase agreement and/or colluding with existing shareholders to prevent the conditions precedent to the purchase being fulfilled.

In 2004, Total filed an ad hoc UNCITRAL arbitration claim in Brussels against Anglo-Siberian for a share in the license to the southern portion of the Vankorskoye field or, alternatively, approximately USD 640 million in damages. Rosneft opposed Total's argument, stating that:

- The conditions precedent were not fulfilled as of a specified date as a matter of fact;
- The consummation of the transaction between Total and Anglo-Siberian was prohibited by the injunctions obtained by the existing shareholder which bound both parties;
- The settlement with the existing shareholder for a substantial payment fell outside the Anglo-Siberian obligation to use best efforts; and
- The assertion of some sort of collusion between Anglo-Siberian and the existing shareholder was based on speculation.

The arbitration proceedings ended in late 2005, and a decision is expected in July 2006. If the arbitral tribunal finds against Anglo-Siberian, Rosneft could have to share the license to the southern portion of the Vankorskoye field or be liable to pay damages to Total. The sharing of the license to the southern portion of the Vankorskoye field could adversely affect Rosneft's development of that field, which is an important part of its strategy. An award for damages could adversely affect Rosneft's financial condition.

With respect to the option to acquire 60% of Taymirneft from Anglo-Siberian, Total believes it has been validly exercised, whereas Rosneft believes it is not exercisable, principally because certain conditions to the commencement of the period within which the option can be exercised have not been met, including the completion of Total's purchase of 52% of Eniseyneft and the attainment of certain exploration drilling milestones by Total. Total also argues that the sale of the 40% interest to Stimul Trading was inconsistent with its alleged pre-emptive rights. In 2005, Total filed an ad hoc UNCITRAL arbitration claim in Brussels against Anglo-Siberian for specific performance or, alternatively, approximately USD 424 million in damages. Total also claims specific performance of pre-emptive rights with respect to the 40% interest in Taymirneft sold to Stimul Trading, which it claims it received through exercise of the option and/or as part of an earlier agreement between the parties or, as an alternative to specific performance, approximately USD 285 million in damages. The arbitration hearing was held in April 2006, the parties filed post-hearing briefs in June 2006, and final briefs were exchanged on 11 July 2006. Total has also obtained injunctions in various jurisdictions to prevent Rosneft from trading in Taymirneft's shares as part of the proceedings that it initiated independently against Stimul Trading. If the arbitral tribunal finds against Anglo-Siberian, Rosneft could be liable to honor Total's purported exercise of the option or to pay damages to Total. The grant of specific performance of the option would result in the loss of the Company's interest in Taymirneft and could adversely affect Rosneft's development of the Vankorskoye field, which is an important part of its strategy. An award of damages could adversely affect Rosneft's financial condition.

Rosneft continues to contest these claims vigorously and has not made provisions for them in the Financial Statements.

Rosneft depends on monopoly providers of crude oil and petroleum product transportation services, and it has no control over the infrastructure they maintain or the fees they charge

In 2005, Russian oil companies utilized approximately 95% of the capacity of the Transneft pipeline system. In the same year, the Transneft pipeline system transported approximately 95% of crude oil produced in Russia, and approximately 92% of crude oil produced by Rosneft, for all or part of its journey. OJSC AK Transneft ("**Transneft**") is a state-owned oil pipeline monopoly. Transneft has generally avoided serious disruptions in the transport of crude oil through its pipeline system, and to date, Rosneft has not suffered significant losses arising from breakdowns or leakages in the Transneft pipeline system. Any significant disruption in the Transneft pipeline system could, however, disrupt Rosneft's ability to transport crude oil, adversely affecting Rosneft's operating results and financial condition.

The Russian government regulates access to Transneft's pipeline network. Pursuant to the Natural Monopolies Law, the Ministry of Industry and Energy, based on information provided by the Federal Energy Agency, allocates Transneft and Transnefteprodukt pipeline network and sea terminal capacity to oil producers for export deliveries on a quarterly basis. The Ministry of Industry and Energy also establishes export quotas for the Transneft system. See "Regulation of the Russian Oil and Gas Industry—Transportation of Crude Oil and Petroleum Products." In recent years, constraints on access to the export pipelines and the ability of producers to export crude oil, and limitations on the use of port, shipping and railway facilities have subsided. Recent upgrades of non-Transneft ports, increase in the railways' capacity to transport crude oil and the opening of new capacity via the Baltic pipeline to the Transneft-controlled port of Primorsk have all enabled oil companies to market crude oil with greater flexibility and steady export share.

In 2001, a Russian court enjoined Transneft from accepting shipments of crude oil by a Russian oil company in response to a lawsuit by one of that company's minority shareholders. In 2002, Russian courts on several occasions granted similar requests in lawsuits against other Russian companies. Such rulings were overturned quickly. Rosneft cannot be certain that similar lawsuits will not be filed against it in the future or that any such lawsuits will be resolved in its favor. Any interruption in access to Transneft's pipeline network resulting from any such lawsuits could have a material adverse effect on Rosneft's operating results and financial condition.

Rosneft, along with all other Russian oil producers, must pay transportation fees to Transneft in order to transport its crude oil through the Transneft network. The Federal Tariff Service ("**FTS**") is responsible for setting Transneft's fees. Failure to pay these fees could result in the termination or temporary suspension of Rosneft's access to the Transneft network, which would adversely affect Rosneft's operating results and financial condition. Transneft periodically increases the fees for the use of its network. Such tariff increases raise Rosneft's costs, adversely affecting its operating results and financial condition.

The Transnefteprodukt pipeline system transports an average of approximately 10% of petroleum products produced in Russia. Before its acquisition of Yuganskneftegaz and the beginning of the processing of crude oil at Yukos-controlled refineries in Samara Oblast, which are located at Transnefteprodukt loading junctions, Rosneft did not utilize the Transnefteprodukt pipeline system, relying instead on the railways. In 2005, Rosneft refined approximately 7.90 million tonnes of crude oil at the Yukos-controlled refineries in Samara Oblast, which represented 35.7% of Rosneft's total throughput and most of which Rosneft transported through the Transnefteprodukt pipeline system.

Transnefteprodukt is a state-owned petroleum product pipeline monopoly. Transnefteprodukt has generally avoided serious disruptions in the transport of petroleum products, and to date, Rosneft has not suffered significant losses arising from breakdowns or leakages in the pipeline system. Any significant disruption in the pipeline system could, however, adversely affect Rosneft's operating results and financial condition.

Rosneft, along with all other Russian petroleum product producers, must pay transportation fees to Transnefteprodukt in order to transport its petroleum products through the Transnefteprodukt network. The FTS is responsible for setting Transnefteprodukt's fees. Failure to pay these fees could result in the termination or temporary suspension of Rosneft's access to the Transnefteprodukt network, which would adversely affect Rosneft's operating results and financial condition. Transnefteprodukt periodically increases the fees for the use of its network. Such tariff increases raise Rosneft's costs, adversely affecting its operating results and financial condition.

Rosneft also depends on railway transportation for its distribution of crude oil and petroleum products, including crude oil produced by Yuganskneftegaz for sale to China. OJSC Russian Railways ("**RZD**") is a state-owned monopoly provider of railway transportation services. Use of the railways exposes Rosneft to risks such as potential delivery disruptions due to the deteriorating physical condition of Russia's railway infrastructure. The incompatibility of Russia's wider railway gauge with the railway gauge of most other countries imposes additional costs and logistical constraints on Rosneft's ability to export its products using the railways. Furthermore, although RZD's tariffs are subject to antimonopoly control, historically they have tended to increase. Further rises in RZD transportation tariffs would increase the costs of transporting crude oil and petroleum products and could adversely affect Rosneft's operating results and financial condition.

Geographic and climatic constraints at marine terminals used by Rosneft may impede shipments through such terminals

In 2005, Rosneft routed approximately 21.1% of its crude oil exports through the Transneft-controlled marine export terminal at Novorossiysk and approximately 29.7% of its petroleum product exports through its Black Sea marine export terminal in Tuapse. In addition, Rosneft routes a significant portion of its crude oil exports to northern European ports through its Belokamenka marine export terminal near Murmansk and the Transneft-controlled port at Primorsk on the Baltic Sea. Crude oil exported through the Belokamenka and Primorsk terminals represented approximately 7.3% and 22.8% of Rosneft's total crude oil exports in 2005, respectively. Furthermore, Rosneft routes a significant portion of its crude oil and petroleum product exports to Asian ports through the De-Kastri and Nakhodka marine export terminals, respectively, in the Russian Far East. Crude oil exported through the De-Kastri marine export terminal represented approximately 4.0% of Rosneft's total crude oil exports in 2005. Petroleum products exported through the Nakhodka marine export terminal represented approximately 30.6% of Rosneft's total petroleum product exports in 2005.

In the case of exports from the Black Sea terminals to Mediterranean ports, the transit capacity of the Bosphorus Strait, which is the only outlet from the Black Sea to the Mediterranean, limits the volume of oil and petroleum products that Rosneft can export through Black Sea marine export terminals. Additionally, climatic conditions can disrupt operations at marine terminals. For example, the Black Sea terminals experience occasional shutdowns due to inclement weather, as does the De-Kastri terminal. In particular, the Novorossiysk export terminal can experience shutdowns due to local windstorms, called the "Novorossiysk Bora," in the fall. The Baltic and De-Kastri export terminals can also experience shutdowns due to ice. Any prolonged delay in exports due to climatic conditions could adversely affect Rosneft's operating results and financial condition.

Rosneft faces several risks in connection with the marketing of the gas it produces

The Unified Gas Supply System (the "**UGSS**"), which Gazprom owns and operates, transports substantially all gas in Russia. Under existing regulations, Gazprom must provide access to the UGSS to all domestic independent suppliers on a non-discriminatory basis so long as Gazprom is not using the UGSS' entire capacity. These "equal access" regulations might not remain in place, however, and Gazprom might fail to comply with them in the future. Moreover, in practice, Gazprom exercises considerable discretion in determining third party access to the UGSS through its priority right to use UGSS capacity.

With the exception of sales by Sakhalinmorneftegaz, Rosneft sells its gas either directly to Gazprom, to independent regional traders or to independent industrial consumers through the UGSS. Rosneft is currently in the process of negotiating a long-term agreement to sell additional gas to Gazprom. See "Business—Downstream Operations—Sales of Hydrocarbons—Sales of Gas." Management believes that Rosneft will conclude such an agreement with Gazprom in due course. D&M estimated proved gas reserves to SPE standards on the basis of this belief, assuming for this purpose that additional gas sales under the agreement would be 3.5 bcm commencing in 2012, increasing to 20 bcm by 2020 (SEC standards do not permit the booking of proved reserves in these circumstances in the absence of a legally binding contract). While management believes Rosneft will be technically able to produce approximately 40 bcm of gas by 2012, attaining this level of production will depend on Rosneft's ability to sell the gas and on its having sufficient access to UGSS capacity, which is currently not assured. Any failure to enter into the long-term agreement with Gazprom could limit Rosneft's ability to sell the gas that it produces and could result in a significant reduction in Rosneft's proved gas reserves.

Gazprom is a monopoly supplier of gas in Russia. The Russian government regulates the prices for the gas that Gazprom sells in Russia. Although the regulated price has been rising in Russia, and is expected to continue to rise to a level closer to parity with export netbacks, it is still significantly below levels that prevail in international markets. The regulated price has affected, and is likely to continue to affect, the pricing of the gas that Rosneft sells to Gazprom from time to time or pursuant to the long-term agreement that it is negotiating. Any increase of the regulated price at a slower-than-expected rate could adversely affect Rosneft's operating results and financial condition.

Rosneft's exploration and production licenses may be suspended, amended or terminated prior to the end of their terms, and Rosneft may be unable to obtain or maintain various permits and authorizations

Law of the Russian Federation No. 2395-1, "On Subsoil," dated 21 February 1992, as amended (the "**Subsoil Law**"), and many regulations issued thereunder govern Russia's licensing regime for the exploration, development and production of crude oil and gas. Rosneft conducts its operations under numerous geological study, exploration and production licenses. The Company's subsidiaries hold substantially all of these licenses, although the Company anticipates holding most of them directly following the Share Swap. See "—Certain contingencies in relation to the elimination of minority interests in certain of the Company's principal subsidiaries through a planned share swap may adversely affect Rosneft's operating results and financial condition." In addition, Rosneft must obtain and maintain other licenses, permits, authorizations, land use rights and approvals to develop its fields. Most of Rosneft's production and combined exploration and production licenses expire between 2013 and 2030. The license to Yuganskneftegaz' Priobskoye field, which is Rosneft's largest producing field, expires in 2019 and the licenses to Yuganskneftegaz' other fields expire in 2014. The licenses to Purneftegaz' fields expire between 2013 and 2019. Most of Rosneft's exploration licenses expire between 2007 and 2009. The Subsoil Law provides that fines may be imposed, and licenses may be suspended, restricted, or terminated, if any of the Company's subsidiaries that holds a license, or the Company itself, fails to comply with license requirements or the Subsoil Law. The Subsoil Law also provides that license holders may renew licenses, so long as they are in compliance with their terms.

Rosneft may be unable to, or may voluntarily decide not to, comply with certain license agreement requirements for some or all of these license areas. If the authorities find that Rosneft has failed to fulfill the terms of its licenses, permits or authorizations, or if Rosneft operates in its license areas in a manner that violates Russian law, they may impose fines on Rosneft or suspend or terminate its licenses. Furthermore, Rosneft may have to increase spending to comply with license terms. Any suspension, restriction or termination of Rosneft's licenses could adversely affect Rosneft's operating results and financial condition.

In addition, because the Company did not own or control all its subsidiaries when they obtained their initial subsoil licenses, it cannot be certain that all of the licenses of its subsidiaries were issued, or the preceding and current licenses were re-issued, in accordance with all applicable law and regulations at the time. If it is determined that any of the mineral licenses held by Rosneft were issued and/or re-issued in violation of applicable laws, such licenses would be subject to revocation. A loss of any such license could adversely affect Rosneft's operating results and financial condition.

If Rosneft fails to integrate future acquisitions successfully, its rate of expansion could slow

Rosneft has expanded its operations significantly through acquisitions since the beginning of 2003, when it purchased Severnaya Neft. The most recent significant acquisition was Rosneft's purchase in December 2004 of 76.79% of the shares (100% of the common shares) of Yuganskneftegaz. See "The Company." The integration of acquired businesses requires significant time and effort of Rosneft's senior management. Integration of new businesses can be difficult, because Rosneft's operational and business culture may differ from the cultures of the businesses it acquires, unpopular cost cutting measures may be required, internal controls may be more difficult to maintain and control over cash flows and expenditures may be difficult to establish. While Rosneft has completed the integration of the businesses it has acquired thus far, including Severnaya Neft and Yuganskneftegaz, it could experience difficulties in integrating future acquisitions as successfully, adversely affecting its rate of expansion.

Certain contingencies in relation to the elimination of minority interests in certain of the Company's principal subsidiaries through a planned share swap may adversely affect Rosneft's operating results and financial condition

In April 2006, the Company's Board of Directors, as well as the boards of directors or other relevant corporate bodies of each of Yuganskneftegaz, Purneftegaz, Selkupneftegaz, Severnaya Neft, Krasnodarneftegaz, Stavropolneftegaz, Sakhalinmorneftegaz, Komsomolskiy Refinery, Tuapsinskiy Refinery, Arkhangelsknefteprodukt, Nakhodkanefteprodukt and Tuapsenefteprodukt (each, a "**Merging Subsidiary**" and collectively, the "**Merging Subsidiaries**"), decided to propose to their respective shareholders the consolidation of each respective Merging Subsidiary into the Company through a statutory merger and an exchange of shares at specified ratios (the "**Share Swap**"). In June 2006, the Company's shareholders, as well as the shareholders of each Merging Subsidiary (other than Sakhalinmorneftegaz), approved the Share Swap. On 2 June 2006, the shareholders of Sakhalinmorneftegaz considered three agenda items, of which two items concerned the approval of the merger of Sakhalinmorneftegaz into the Company and the third concerned approval of the merger agreement as an interested party transaction between Sakhalinmorneftegaz and the Company. The third approval was not obtained due to the absence of a quorum of shareholders entitled to vote at such meeting. On 10 July 2006 the board of directors of Sakhalinmorneftegaz decided to schedule a shareholders' meeting for 8 September 2006 in order to obtain the final approval. Pursuant to the Share Swap, the Merging Subsidiaries will merge into the Company and cease to exist. The Company will be the surviving entity in the merger and the legal successor to each Merging Subsidiary. See "The Company—Planned Consolidation via Share Swap."

As consideration for the merger, the Company will offer, at specified exchange ratios, up to 1,222,059,382 of its Ordinary Shares to minority shareholders in the Merging Subsidiaries in consideration for their ordinary and preferred shares in such Merging Subsidiaries. This amount will represent approximately 11.6% of the Company's total shares following completion of the Share Swap and the Global Offering (or approximately 11.5% assuming that the Managers exercise the Overallotment Option in full). Rosneft expects to complete the Share Swap by the end of 2006. See "The Company—Planned Consolidation via Share Swap—Share Swap Procedure—Corporate Approvals."

Recent press reports have indicated that some minority shareholders might be contemplating litigation against the Company in respect of the Share Swap, on procedural or other grounds. At the end of June 2006, Newport Capital Ltd., a minority shareholder of Komsomolskiy Refinery, filed a claim against Komsomolskiy Refinery (as defendant) and the Company (as a third-party participant) seeking invalidation of Komsomolskiy Refinery's corporate approvals of the merger and the Share Swap by alleging procedural violations and challenging the exchange ratios and the buy-back price of the shares in Komsomolskiy Refinery. The first preliminary hearing on this case has been scheduled for 1 August 2006. Any successful legal challenge to the Share Swap, as well as negative publicity in connection with the Share Swap, could adversely affect Rosneft's financial condition and the trading price of the Securities. Yukos will own approximately 9%-10% of the Company following the Share Swap, and it may challenge the Share Swap or may seek or be prompted to sell its interest, adversely affecting the price of the Securities. See "—Risks Relating to the Securities and the Trading Market—Future sales of the Securities may affect their market price."

In addition, under various Russian laws:

- Buy-back rights are available to the shareholders of any Merging Subsidiary who voted against or did not participate in voting on the Share Swap ("**Dissenting Shareholders**") at a price not less than that determined by an independent appraisal, which is mandatory and was obtained. See "The Company—Planned Consolidation via Share Swap—Share Swap Procedure—Buy-Back Rights." The Joint Stock Companies Law (as defined below), however, caps the aggregate amount payable by any Merging Subsidiary at 10% of its net assets, as measured under RAS.
- Certain of Rosneft's creditors, for a period of 30 days after the date of the notice of the Share Swap, which was 28 June 2006, may accelerate their indebtedness and demand reimbursement for applicable losses. In addition, under certain loan agreements, the Company must obtain waivers from the lenders prior to the Share Swap. Failure to procure such consents may constitute an event of default and may, in some cases, cause the acceleration of Rosneft's indebtedness. See "The Company—Planned Consolidation via Share Swap—Share Swap Procedure—Creditors' Rights." The acceleration of indebtedness under one such agreement may also trigger cross-default provisions in other agreements.

Any acceleration of indebtedness pursuant to the Share Swap procedures or as a result of a failure to obtain consents under the relevant loan agreements could adversely affect Rosneft's operating results and financial condition.

- Under Russian law, certain licenses and permits are non-transferable or do not pass automatically following a corporate reorganization. Thus, certain licenses and permits of the Merging Subsidiaries may not pass to the Company by operation of law, as the surviving entity in the Share Swap. In this case, the Company would need to obtain new licenses and permits currently held by the Merging Subsidiaries. See "The Company—Planned Consolidation via Share Swap— Share Swap Procedure—Transfer of Licenses and Permits." Any failure to obtain such licenses could adversely affect Rosneft's operating results and financial condition.
- The Company must obtain the Federal Antimonopoly Service's ("**FAS**") approval of the Share Swap, which may be subject to certain conditions, such as additional reporting requirements, pricing policy controls and other conditions related to the protection of competition. In addition, the FAS may place limitations on Rosneft's expansion strategy, including limitations on consolidation of other subsidiaries of the Company or acquisitions of third parties. See "The Company—Planned Consolidation via Share Swap—Share Swap Procedure—Approval of the Share Swap by the Federal Antimonopoly Service." Any imposition of such conditions or limitations could adversely affect Rosneft's operating results and financial condition.

Rosneft is relatively highly leveraged and must observe certain financial and other restrictive covenants under the terms of its indebtedness, and any failure to comply with such covenants could put Rosneft into default

Rosneft is relatively highly leveraged, with total short- and long-term borrowings of USD 11,633 million and total shareholders' equity of USD 8,235 million as of 31 March 2006. Rosneft is subject to certain financial and other restrictive covenants under the terms of its indebtedness that limit its ability to, among other things:

- Borrow money;
- Create liens;
- Give guarantees;
- Make acquisitions;
- Sell or otherwise dispose of assets; and
- Engage in mergers, acquisitions or consolidations.

The terms of Rosneft's indebtedness also require it to operate within certain specified financial ratios. For example, some of Rosneft's loan agreements require it to maintain a specified ratio of consolidated gross debt to consolidated EBITDA and of consolidated gross debt to consolidated tangible net assets. As a result of incurring indebtedness to finance the purchase of Baikalfinancegroup on 31 December 2004, Rosneft violated these covenants. In July 2005, Rosneft's creditors waived the covenants that it violated and agreed to amend those covenants to reflect Rosneft's new structure and scope of activities. In addition, Rosneft's creditors waived certain other events of default arising on the condition that by no later than 31 December 2006 the Company furnishes the creditors acceptable evidence that it has discharged in full or restructured:

- Claims against Yuganskneftegaz in connection with Yuganskneftegaz' guarantee of a USD 1,000 million loan from Société Generale to Yukos;
- Yuganskneftegaz' tax liabilities for 2004, which must not exceed a certain limit;
- Yuganskneftegaz' tax liabilities for the period 1999-2003;
- The indebtedness of Yukos Capital S.a.r.l. in the amount of USD 470 million; and
- Claims against Rosneft by Société Generale in connection with Yuganskneftegaz' guarantee of a USD 1,600 million loan from Société Generale to Yukos.

Rosneft has provided its creditors with acceptable evidence of settlement of Société Generale's claims in connection with Yuganskneftegaz' guarantee of the USD 1,000 million loan from Société Generale to Yukos. However, if Rosneft fails to timely fulfill the remaining conditions, it would need to negotiate a further extension of time with its creditors. If its creditors decline to grant such an extension, Rosneft's indebtedness could become due immediately. Management believes that further waivers could be obtained if required. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Debt Obligations."

The need to observe financial ratios and other restrictions could hinder Rosneft's ability to carry out its business strategy. In addition, a breach of the terms of Rosneft's indebtedness could cause a default under the terms of its indebtedness, causing some or all of its indebtedness to become due and payable. Such action could adversely affect Rosneft's operating results and financial condition. It is uncertain whether Rosneft's assets would be sufficient to generate the funds necessary to repay Rosneft's indebtedness in the event of its acceleration.

Finally, Rosneft is exposed to interest rate risk. For a discussion of this exposure, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk—Interest Rate Risk."

Rosneft's accounting systems may not be as sophisticated or robust as those of companies organized in jurisdictions with a longer history of compliance with U.S. GAAP and Rosneft's independent auditor has identified certain material weaknesses in Rosneft's internal controls

Russian companies are not required to adopt U.S. GAAP. Many Russian companies that have only recently adopted U.S. GAAP, including Rosneft, have not implemented accounting systems that are commonplace in countries with a longer history of U.S. GAAP reporting. The lack of such systems may make Rosneft's financial information less reliable than that of companies that have implemented these systems and could jeopardize the quality of decision making by Rosneft's senior management.

The recent introduction of U.S. GAAP standards in Russia also means that many Russian companies, including Rosneft, are not as experienced with or knowledgeable about U.S. GAAP as companies in countries that have a longer history of U.S. GAAP reporting. As a result, Rosneft:

- Lacks sufficient accounting personnel with experience in the application and interpretation of U.S. GAAP;
- Has limited experience in exercising the judgment required by U.S. GAAP;
- Has not fully developed and implemented the methodologies required for the preparation of U.S. GAAP financial statements, such as internal control frameworks, including systems to facilitate the reporting of business transactions and other relevant matters to the personnel responsible for the preparation of U.S. GAAP financial statements, and risk assessment activities; and
- Has limited capacity to implement integrated information technology and business process automation systems that enable dual accounting under RAS and U.S. GAAP, which could otherwise facilitate the preparation of U.S. GAAP financial statements.

Financial statements prepared by the Company's subsidiaries under RAS require significant reprocessing to present financial data in accordance with U.S. GAAP, because RAS differs significantly from U.S. GAAP.

In addition, Rosneft's independent auditor has issued to the Audit Committee of the Board a letter in which it sets forth the above matters as material weaknesses in Rosneft's internal controls. Auditing standards generally accepted in the United States define a material weakness as a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Rosneft's independent auditors considered these deficiencies in determining the nature, timing and extent of the procedures it performed in its audit of Rosneft's 2005 Annual Financial Statements, and they did not affect the Report of Independent Auditors on Rosneft's 2005 Annual Financial Statements.

Rosneft's internal controls relating to preparation of its Financial Statements are not commensurate with the increasing scope and volume of its business. Rosneft's management pays considerable attention to the development of such internal controls in order to minimize the risks that critical business decisions regarding budgeting, planning and other matters may be based on incomplete or inaccurate information. However, Rosneft may be unable to remedy these material weaknesses or prevent future weaknesses from occurring, in which case there is a risk that misstatements in amounts that would be material in relation to the consolidated financial statements of the Company may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Rosneft may be unable to finance its planned capital expenditures

Rosneft's business requires significant capital expenditures, including in exploration and development, production, transport, refining and marketing and to meet its obligations under environmental laws and regulations. Rosneft expects to finance a substantial part of these capital expenditures out of net cash provided by operating activities. If international oil prices fall, however, Rosneft will have to finance more of its planned capital expenditures from outside sources, including bank borrowings and offerings of debt or equity securities in the domestic and international capital markets. If necessary, these financings may be secured by Rosneft's exports of crude oil. As of 31 March 2006, Rosneft had secured approximately 83.5% of its borrowings, with 38.0% of its crude oil exports pledged. Nonetheless, Rosneft may be unable to raise the financing required for its future capital expenditures, on a secured basis or otherwise, on acceptable terms or at all. If Rosneft is unable to raise the necessary financing, it will have to reduce planned capital expenditures, which could adversely affect its operating results and financial condition.

Rosneft does not carry insurance against all potential risks and losses, and its insurance might be inadequate to cover all of its losses or liabilities; insurance may not continue to be available on commercially reasonable terms

Rosneft only has limited, and potentially an insufficient level of, insurance coverage for expenses and losses that may arise in connection with property damage, work-related accidents and occupational disease, natural disasters and environmental contamination. It has no insurance coverage for loss of profits or other losses caused by the death or incapacitation of Rosneft's senior managers or business interruption insurance. Accordingly, losses or liabilities arising from such events could increase Rosneft's costs and could adversely affect its operating results and financial condition.

Risks Relating to the Oil and Gas Industry

Prices for crude oil, gas and petroleum products could decline substantially

Rosneft's operating results and financial condition depend substantially upon prevailing prices of crude oil, gas and petroleum products. Historically, prices for oil have fluctuated widely for many reasons, including:

- Global and regional supply and demand, and expectations regarding future supply and demand, for crude oil and petroleum products;
- Geopolitical uncertainty;
- Weather conditions and natural disasters;
- Access to pipelines, railways and other means of transporting crude oil, gas and petroleum products;
- Prices and availability of alternative fuels;
- Prices and availability of new technologies;
- The ability of the members of OPEC, and other crude oil producing nations, to set and maintain specified levels of production and prices;
- Political, economic and military developments in oil producing regions, particularly the Middle East;
- Russian and foreign governmental regulations and actions, including export restrictions and taxes; and
- Global and regional economic conditions.

Crude oil prices have risen dramatically in recent years. According to the International Energy Agency, the price of Brent crude, an international benchmark oil blend, as of 31 December 2003, 2004 and 2005 was approximately USD 28.83, USD 40.00 and USD 58.33 per barrel, respectively. The price of Brent crude increased to approximately USD 66.14 per barrel as of 31 March 2006. Russia's crude oil exports consist of two main blends: Urals blend and Siberian Light blend, both of which trade at a discount to Brent crude. The Siberian Light blend trades at a premium to Urals blend. However, in the past, the price of Brent crude has been significantly lower. For example, the price of Brent crude as of 31 December 1997 and 1998 was approximately USD 16.41 and USD 10.48 per barrel, respectively.

International gas prices typically follow changes in international oil prices. According to Bloomberg, the average Henry Hub gas price, a benchmark price for U.S. domestic gas, as of 31 December 2003, 2004 and 2005 was approximately USD 212.08, USD 225.19 and USD 343.52 per mcm, respectively. The Henry Hub gas price decreased to approximately USD 254.32 per mcm as of 31 March 2006. However, the Henry Hub gas price as of 31 December 1997 and 1998 was approximately USD 82.47 and USD 70.45 per mcm, respectively. Gazprom, a state-controlled company, currently has a monopoly on the export of Russian gas. See "—Risks Relating to Rosneft—Rosneft faces several risks in connection with the marketing of the gas it produces."

Petroleum product prices have also fluctuated considerably in recent years. According to the International Energy Agency, the international price of kerosene, a benchmark petroleum product, as of 31 December 2003, 2004 and 2005 was approximately USD 290.82, USD 401.91 and USD 576.84 per tonne, respectively. The international price of kerosene increased to approximately USD 676.43 per tonne as of 31 March 2006. However, the price of kerosene as of 31 December 1997 and 1998 was approximately USD 197.08 and USD 144.46 per tonne, respectively. In addition, petroleum product prices are affected significantly by the taxation policies of the jurisdictions in which they are sold.

Crude oil, gas or petroleum product prices may not continue to rise or remain at current levels. A decline in crude oil, gas or petroleum product prices could adversely affect Rosneft's operating results and financial condition. Lower prices could reduce the amount of crude oil and gas that Rosneft can produce economically, thereby decreasing the size of Rosneft's reserves, or reduce the economic viability of exploration projects.

Rosneft does not currently engage in any hedging transactions or other derivatives trading to reduce the impact of fluctuations of crude oil or gas prices on its financial condition.

Crude oil and gas reserves data are only estimates and are inherently uncertain, and the actual size of deposits may differ materially from these estimates

The crude oil and gas reserves data set forth in this Prospectus and in the Reserves Reports are estimates based primarily on internal engineering analyses that were prepared by D&M, Rosneft's independent petroleum engineering consultants.

Petroleum engineering is a subjective process of estimating underground accumulations of crude oil and gas that cannot be measured in an exact manner. Estimates of the value and quantity of economically recoverable crude oil and gas reserves, rates of production, net present value of future cash flows and the timing of development expenditures necessarily depend upon several variables and assumptions, including the following:

- Historical production from the area compared with production from other comparable producing areas;
- Interpretation of geological and geophysical data;
- Assumed effects of regulations adopted by governmental agencies;
- Assumptions concerning future percentages of international sales;
- Assumptions concerning future crude oil and gas prices;
- Capital expenditures; and
- Assumptions concerning future operating costs, tax on the extraction of commercial minerals, development costs and workover and remedial costs.

Because all reserves estimates are subjective, each of the following items may differ materially from those assumed in estimating reserves as set forth in the Reserves Reports:

- The quantities and qualities of crude oil and gas that are ultimately recovered;
- The production and operating costs incurred;
- The amount and timing of additional exploration and future development expenditures; and
- Future crude oil and gas sales prices.

Many of the assumptions used in estimating reserves are beyond Rosneft's control and may prove to be incorrect over time. Evaluations of reserves, as well as their alternative measurements according to Russian reserve standards, necessarily involve multiple uncertainties. The accuracy of any reserves or resources evaluation depends on the quality of available information and petroleum engineering and geological interpretation. Exploration drilling, interpretation, testing and production after the date of the estimates may require substantial upward or downward revisions in Rosneft's reserves or resources data. Moreover, different reservoir engineers may make different estimates of reserves and cash flows based on the same available data. Actual production, revenues and expenditures with respect to reserves and resources will vary from estimates, and the variances may be material.

SPE and SEC crude oil and gas reserves estimates as of 31 December 2003 and 2004 were calculated using crude oil and gas prices in effect as of such dates, respectively. SPE and SEC crude oil reserves estimates and SEC gas reserves estimates as of 31 December 2005 were calculated using crude oil and gas prices in effect as of such date. SPE gas reserves estimates as of 31 December 2005 were calculated using the gas prices that Rosneft anticipates will be reflected in the long-term agreement it is negotiating with Gazprom. Changes in the price of crude oil and gas may also affect the estimates of Rosneft's proved, probable and possible reserves, as well as estimates of the net present value of future cash flows, because the reserves are evaluated, and the future net revenues and present worth are estimated, based on prices and costs as of the appraisal date.

Special uncertainties also exist with respect to Russian reserves methodology. The Russian reserves methodology considers geological factors alone and does not take into account the economic feasibility of extraction of reserves. See "Appendix I: Classification of Reserves and Resources—Russian Standards." Accordingly, the probability that reserves reported in accordance with Russian standards will overstate the amount of commercially viable deposits is considerably higher than for reserves presented using SPE or SEC standards.

Special uncertainties exist with respect to resources

The crude oil and gas prospective and contingent resources data set forth in this Prospectus and in the Resources Reports are estimates by D&M based in part on internal engineering analyses prepared by Rosneft. Special uncertainties exist with respect to the estimation of prospective and contingent resources in addition to those set forth above that apply to reserves. See the Prospective and Contingent Resources Reports and "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources." Prospective resources are defined as those deposits that are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations. Contingent resources are defined as those deposits that are estimated, on a given date, to be potentially recoverable from known accumulations, but that are not currently considered commercially recoverable. Substantially all of Rosneft's resources are prospective resources. The probability that prospective resources will be discovered, or be economically recoverable, is considerably lower than for proved, probable and possible reserves. Volumes and values associated with prospective resources should be considered highly speculative.

Exploration drilling involves numerous risks, including the risk that oil and gas companies will encounter no commercially productive crude oil or gas reserves

Rosneft is exploring in various geographic areas, including Western Siberia, European Russia, the Russian Far East, including Sakhalin Island and the Kamchatka Peninsula, Timano-Pechora and areas in and around the Caspian Sea, where environmental conditions are challenging and costs can be high. The cost of drilling, completing and operating wells is often uncertain. As a result, Rosneft may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of many factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with environmental regulations, governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment.

If Rosneft fails to conduct successful exploration activities or to acquire assets holding proved reserves, its proved reserves will decline as it extracts crude oil and gas, thereby depleting existing reserves. In addition, the volume of production of crude oil and gas generally declines as reserves are depleted. Rosneft's future production depends significantly upon its success in finding or acquiring and developing additional reserves. If Rosneft is unsuccessful, it may not meet its production targets, and its total proved reserves and production would decline, which could adversely affect Rosneft's operating results and financial condition.

Development and exploration projects involve many uncertainties and operating risks that can prevent oil and gas companies from realizing profits and can cause substantial losses

Rosneft's development and exploration projects may be delayed or unsuccessful for many reasons, including cost overruns, lower oil and gas prices, delays in the completion of important infrastructure projects, equipment shortages and mechanical difficulties. These projects will also often require the use of new and advanced technologies, which can be expensive to develop, purchase and implement, and may not function as expected. In addition, some of Rosneft's development projects, and most of its exploration projects, are or will be located on the offshore shelf areas, in permafrost or in other hostile environments, or will involve production from challenging reservoirs, which can exacerbate such problems. The climate and topography of some of the regions where Rosneft's fields are located limit access to certain fields and facilities during certain times of the year. During the summer and early fall, some fields are partially flooded and operating capacity is limited. If warmer weather starts earlier or ends later in the year, then Rosneft's operating capacity becomes more limited than it otherwise would be. In winter, extreme cold or snowstorms could limit access to certain wells, and extreme cold could cause the temporary suspension of operations of wells with a high watercut. Such weather conditions could also limit Rosneft's exploration operations. Unusually warm or severe weather conditions could impede Rosneft's development plans for its fields and facilities and otherwise adversely affect its operating results and financial condition.

The oil and gas industry is intensely competitive

The oil and gas industry is intensely competitive. Rosneft competes principally with other leading Russian oil and gas companies, such as LUKOIL, Surgutneftegaz, TNK-BP and Gazprom.

The key activities in which Rosneft faces competition are:

- Acquisition of exploration and production licenses at auctions or sales run by Russian governmental authorities;
- Acquisition of other Russian companies that may already own licenses or existing hydrocarbon producing assets;
- Engagement of leading third party service providers whose capacity to provide key services may be limited;
- Purchase of capital equipment that may be scarce;
- Employment of the best qualified and most experienced staff;
- Acquisition of existing retail outlets or of sites for new retail outlets; and
- Acquisition of or access to refining capacity.

Rosneft does not compete directly with international oil and gas majors because such companies generally do not compete for licenses within Russia. However, to the extent that international oil and gas majors support the activities of Rosneft's Russian competitors, they may indirectly compete with Rosneft. In addition, international oil and gas majors may directly compete with Rosneft for licenses in countries other than Russia in which Rosneft may be interested.

Any failure by Rosneft to compete effectively could adversely affect Rosneft's operating results and financial condition.

Oil and gas companies may incur material costs to comply with, or as a result of, health, safety and environmental laws and regulations

Rosneft incurs, and expects to continue to incur, substantial capital and operating costs in order to comply with increasingly complex health, safety and environmental laws and regulations. Rosneft has undertaken measures to minimize the effects of its operations on the environment. For example, Rosneft has developed its Complex Environment and Production Safety Program. In 2000, Rosneft entered into an agreement with Emercom to establish Environment Emergency Centers for the remediation of environmental threats in the regions where Rosneft operates, and in 1999, it implemented the Environmental Production Rules for the Oil Industry. Furthermore, Rosneft is subject to regular ecological inspections by Russian state authorities. Rosneft endeavors to comply with applicable environmental laws and regulations but may not always be in compliance. However, Rosneft does not foresee any material impact from the current level of pollution and potential clean up costs. Under its exploration and development licenses, Rosneft also must generally commit to limit the level of pollutants that it releases and to undertake remediation in the event of environmental contamination.

New laws and regulations, the imposition of tougher requirements in licenses, increasingly strict enforcement of, or new interpretations of, existing laws, regulations and licenses, or the discovery of previously unknown contamination may require further expenditures to:

- Modify operations;
- Install pollution control equipment;
- Perform site clean-ups;

- Curtail or cease certain operations; or
- Pay fees or fines or make other payments for pollution, discharges or other breaches of environmental requirements.

In addition, Rosneft participates in the Sakhalin-1 joint venture, where a third party, Exxon Neftegaz Limited, acts as operator. In this joint venture, Rosneft relies on the operator to comply with applicable environmental regulations.

Although the costs of the measures taken to comply with environmental regulations have not had a material adverse effect on Rosneft's financial condition or results of operations to date, in the future, the costs of such measures and liabilities related to environmental damage caused by Rosneft may increase, adversely affecting Rosneft's operating results and financial condition. Furthermore, Rosneft does not have any insurance for environmental damage caused by its activities.

Risks Relating to Russia

The Company is a Russian company, and substantially all its fixed assets are located in, and a significant portion of its revenues are derived from, Russia. There are certain risks associated with an investment in Russia.

Political and governmental instability could adversely affect the value of investments in Russia

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a market-oriented economy. The Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatizations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian government—the prime minister and the other heads of federal ministries—has at times been unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. President Putin became acting President of Russia on 31 December 1999 and was elected President in March 2000. Since that time, Russia has generally experienced a significantly higher degree of governmental stability. In addition, the elections to the lower house of the legislature, the State Duma, in December 2003 resulted in a substantial majority for parties supportive of President Putin.

In February 2004, just prior to his election to a second term as President, President Putin dismissed his cabinet, including the prime minister. He subsequently appointed Mikhail Fradkov as Prime Minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions amongst various agencies of the government and announced plans for a major overhaul of the federal administrative system. Many of these changes have since been implemented. For example, the Ministry of Energy was restructured into the Ministry of Industry and Energy, to which the Federal Energy Agency is subordinate. In addition, a new law was adopted pursuant to which the executives of sub-federal political units (*e.g.* governors) are nominated by the President of Russia and confirmed by the legislature of the sub-federal political unit. Moreover, pursuant to legislation that was adopted on 18 May 2005 and that will take effect on 7 December 2006, single-member-district elections for the State Duma will be eliminated, and all votes will instead be cast on a party-list basis. Elections for the State Duma are scheduled for late 2007, and the next presidential election is scheduled for 2008.

Possible future changes in the government, possible major policy shifts or a possible lack of consensus between the President, the government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and the Securities in particular. In addition, possible changes following the next State Duma or presidential election could affect the policies and practices of the government with respect to Rosneft.

Domestic political conflicts could create an uncertain operating environment that would hinder Rosneft's long-term planning ability

Russia is a federation of 88 sub-federal political units, some of which have the right to manage their internal affairs pursuant to agreements with the federal government and in accordance with federal laws. In practice, the division of authority between federal and regional authorities remains uncertain and contested. This uncertainty could hinder Rosneft's long-term planning efforts and may create uncertainties in its operating environment, any of which may prevent it from effectively and efficiently carrying out its business strategy.

For example, to achieve consistency in the regulation of gas supplies throughout Russia, the federal authorities have assumed responsibility for the development and implementation of state policy with respect to the supply of gas and the industrial and environmental safety of such supplies in Russia. However, regional and local authorities have a certain degree of autonomy in exercising their rights over the use of land and natural resources, including gas. Accordingly, the relationship between the relevant federal, regional and local authorities, as well as between Rosneft and such authorities, can have a significant impact on the conditions under which Rosneft can operate in any particular region. See "—Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and for business activity."

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the continuing conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighboring regions. Various armed groups in Chechnya have engaged in guerrilla attacks in that area. Rosneft has significant operations in Chechnya and in neighboring regions, and its facilities in these regions could potentially be the subject of such attacks; consequently, Rosneft has had to increase security at such facilities. Violence and attacks relating to this conflict have also spread to other parts of Russia, including terrorist attacks in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and exports from Russia, and could adversely affect Rosneft's operating results and financial condition and the value of investments in Russia, such as the Securities.

Economic instability in Russia could adversely affect Rosneft's business

Russia experienced a significant economic crisis in the late 1990s. On 17 August 1998, the Russian government defaulted on its ruble-denominated fixed income securities, the CBR stopped its support of the ruble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the ruble and a sharp increase in the rate of inflation; a dramatic decline in the prices of Russian debt and equity securities; and an inability of Russian issuers to raise funds in the international capital markets. The near collapse of the Russian banking sector, which resulted in the loss of bank deposits in some cases, impaired its ability to act as a reliable and consistent source of liquidity to Russian companies, aggravating these problems.

Since the 1998 crisis, the Russian economy has experienced positive trends, such as an increase in gross domestic product, a relatively stable ruble, a reduced rate of inflation and positive capital and current account balances resulting in part from rising prices in world markets for the crude oil, gas and metals that Russia exports. In addition, the Russian government has achieved budget surpluses in recent years and has accumulated a sizeable "stabilization fund," and the CBR has considerable hard currency reserves. No assurance can be given, however, that this positive situation will continue. For example, according to the Ministry for Economic Development and Trade, economic growth in Russia slowed from 7.2% in 2004 to 6.4% in 2005. A decline in the prices of crude oil, gas or metals could have an adverse effect on Russia's economy.

Rosneft faces inflation risks

In the recent past, the Russian economy has suffered from high rates of inflation. Although the inflation rate decreased to 10.9% in 2005, it was 84.5% in 1998, 36.5% in 1999 and 20.2% in 2000. Certain of Rosneft's costs, such as the amount it pays for pipes, valves and other equipment, as well as salaries, are affected by inflation in Russia. Most of Rosneft's revenues are either denominated in U.S. dollars or are correlated with the U.S. dollar and depend largely on the international prices of crude oil and gas. Accordingly, the inflation of Rosneft's ruble costs in Russia, if not balanced by a corresponding deflation of the ruble against the U.S. dollar or an increase in crude oil prices, could adversely affect Rosneft's operating results and financial condition.

Rosneft faces foreign exchange risks

Over the past ten years, the ruble has fluctuated dramatically against the U.S. dollar. In earlier years, the ruble depreciated against the U.S. dollar, although in each of the past four years, it has, on average, appreciated modestly.

All of Rosneft's export revenues, including the exports of crude oil and petroleum products, are denominated in U.S. dollars or are correlated with U.S. dollar-denominated prices for crude oil and petroleum products. A significant portion of Rosneft's operating costs, other than debt service costs, is denominated in rubles. Any appreciation of the ruble against the U.S. dollar generally adversely affects Rosneft's operating results and financial condition. Conversely, a modest depreciation of the ruble against the U.S. dollar generally positively affects Rosneft's operating results and financial condition.

Restrictive currency regulations may adversely affect Rosneft's business and financial condition

The CBR has, from time to time, imposed various currency control regulations in attempts to support the ruble and may take further actions in the future. For example, Russian companies currently must repatriate proceeds from export sales. In the past, they also had to convert 10%-75% of such proceeds into rubles. The CBR abolished this requirement effective as of 10 May 2006. However, it retains the right to reinstate the requirement for Russian companies to convert up to 30% of the proceeds of export sales into rubles.

Because of the limited development of the foreign currency market in Russia, Rosneft may experience difficulty converting rubles into other currencies. Furthermore, the CBR and the Russian government may impose requirements governing currency operations from time to time, as it has done in the past.

Additionally, any delay or other difficulty in converting rubles into a foreign currency to make a payment or any practical difficulty in the transfer of foreign currency could limit Rosneft's ability to meet its payment and debt obligations, which could result in the acceleration of debt obligations and cross-defaults.

Furthermore, there are only a limited number of available ruble-denominated instruments in which Rosneft may invest its excess cash. Any balances maintained in rubles will give rise to losses if the ruble devalues against major foreign currencies. Moreover, these restrictions could prevent or delay any acquisition opportunities outside of Russia that Rosneft might wish to pursue.

Weaknesses relating to the Russian legal system and Russian law create an uncertain environment for investment and for business activity

The Russian legal framework required by a market economy is still under development. Since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the Civil Code of the Russian Federation (the "**Civil Code**"), by other federal laws and by decrees, orders and regulations issued by the President, the government and federal ministries, which are, in turn, complemented by regional and local rules and regulations. These legal norms, at times, overlap or contradict one another. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian law and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies. In addition, Russian law often leaves substantial gaps in the regulatory infrastructure.

Among the risks of the current Russian legal system are:

- Inconsistencies among:
  - ➢ Federal laws;
  - ➢ Decrees, orders and regulations issued by the President, the government, federal ministries and regulatory authorities; and
  - ➢ Regional and local laws, rules and regulations;
- Limited judicial and administrative guidance on interpretations of Russian law;
- Substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- The relative inexperience of certain judges in interpreting new principles of Russian law, particularly business and corporate law;
- The possibility that certain judges may be susceptible to economic, political or nationalistic influences;
- A high degree of discretion on the part of governmental authorities; and
- Bankruptcy procedures that are not well developed.

All of these weaknesses could affect the ability of Security holders to obtain effective redress in Russian courts.

Government action could create a difficult business climate in Russia

Actions by the Russian government could create a difficult business climate in Russia. The government has considerable discretion with respect to certain actions, such as withdrawal of licenses, tax audits and criminal prosecutions.

Steps have recently been taken to reduce the scope for the exercise of this discretion. A law that reduced the statute of limitations for challenging transactions entered into in the course of a privatization from ten years to three years entered into force in July 2005. President Putin announced in March 2005 that the government was considering plans to reform the system of tax collection and administration, and in his annual address to the Federal Assembly on 25 April 2005, President Putin stated that tax authorities should not "terrorize" taxpayers by repeatedly considering the same problems. Partly in response to this statement, on 2 June 2005, the government submitted to the State Duma draft amendments to the Tax Code. The proposed amendments are intended to facilitate the procedure for tax inspections and to make the activities of tax authorities more transparent. However, these proposed amendments are still under consideration by the State Duma. See also "—Russian tax law is not fully developed and is subject to frequent changes."

Shareholder liability under Russian law could cause the Company to be liable for the obligations of its subsidiaries

The Civil Code, the Russian Federal Law "On Joint Stock Companies" No. 208-FZ dated 26 December 1995 (the "**Joint Stock Companies Law**") and the Russian Federal Law "On Limited Liability Companies" No. 14-FZ dated 8 February 1998 (the "**LLC Law**") generally provide that shareholders in a Russian joint stock company or members of a Russian limited liability company generally are not liable for the company's obligations and bear only the risk of loss of their investment. Shareholder liability may arise, however, if one person (the "**Effective Parent**") can give binding instructions to another person (the "**Effective Subsidiary**"). In addition, the Effective Parent bears secondary liability for the obligations of an Effective Subsidiary that becomes insolvent or bankrupt due to the Effective Parent's actions or inactions. See "Description Of Capital Stock and Certain Requirements of Russian Law—Description of Capital Stock—Shareholder Liability." Accordingly, the Company could be liable for the debts of subsidiaries of whose charter capital it owns more than 50%, or which it otherwise controls, which could adversely affect its operating results and financial condition.

There are weaknesses in legal protections for minority shareholders and in corporate governance standards under Russian law

Corporate governance standards for many Russian companies have proven to be poor, and minority shareholders in Russian companies have suffered losses due to abusive share dilutions, asset transfers and transfer pricing practices. In general, minority shareholder protection under Russian law derives from supermajority shareholder approval requirements for certain corporate actions, as well as from the ability of a shareholder to demand that the company purchase the shares held by that shareholder if that shareholder voted against or did not participate in voting on certain types of action. Russian law also requires companies to obtain the approval of disinterested shareholders for certain transactions with interested parties. See "—Any successful challenge to certain interested party transactions by minority shareholders of the Company's subsidiaries could result in a court invalidating such transactions."

In addition, the supermajority shareholder approval requirement is met by a vote of 75% of all voting shares that are registered at a shareholders' meeting. Thus, controlling shareholders owning less than 75% of the outstanding shares of a company may have 75% or more voting power if certain minority shareholders are not registered at the meeting. In situations where controlling shareholders effectively have 75% or more of the voting power at a shareholders' meeting they are in a position to approve amendments to the charter of the company and other measures requiring supermajority shareholder approval, which could be prejudicial to the interests of minority shareholders.

Although the Joint Stock Companies Law provides that shareholders owning not less than 1% of a company's stock may bring an action for damages on behalf of the company, Russian courts have very limited experience with such lawsuits. Russian law does not provide for class action litigation. Accordingly, investors' ability to pursue legal redress against Rosneft may be limited.

Disclosure and reporting requirements and anti-fraud legislation have only recently been enacted in Russia. Most Russian companies and managers are not accustomed to restrictions on their activities arising from these requirements. The concept of fiduciary duties of management or directors to their companies or shareholders is also relatively new and is not well developed.

Any successful challenge to certain interested party transactions by minority shareholders of the Company's subsidiaries could result in a court invalidating such transactions

Russian law requires a company that enters into interested party transactions to obtain special approvals. See "Description of Capital Stock and Certain Requirements of Russian Law—Certain Requirements of Russian Law—Interested Party Transactions."

In the past, certain transactions between and among the Company and its subsidiaries did not receive approval as interested party transactions in accordance with the procedures set forth in Russian law. Although the Company believes these interested party transactions generally took place on market terms, the Company's subsidiaries or their shareholders could challenge them in court on the grounds that they lacked the requisite corporate approvals. In addition, Rosneft might fail to obtain proper approvals for interested party transactions in the future, including after the Share Swap. A court could invalidate transactions, subjecting Rosneft to damages that could adversely affect its financial condition and limiting Rosneft's operational flexibility.

Russian tax law is not fully developed and is subject to frequent changes

Rosneft is subject to a broad range of taxes imposed at the federal, regional and local levels, including but not limited to export duties, income tax, natural resources production tax, property tax and social taxes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Main Factors Affecting Results of Operations—Changes in Mineral Production Tax and Export Customs Duties."

Laws related to these taxes, such as the Russian Federation Tax Code (the "**Tax Code**"), have been in force for a short period relative to tax laws in more developed market economies, and the government's implementation of these tax laws is often unclear or inconsistent. Accordingly, few precedents with regard to the interpretation of these laws have been established. Often, differing opinions regarding legal interpretation exist both between companies subject to such taxes and the government and within government ministries and organizations, such as the former Ministry of Taxes and Duties (the functions of which have since March 2004 been divided between the Federal Tax Service and the Ministry of Finance) and its various inspectorates, creating uncertainties and areas of conflict. Generally, tax declarations remain open and subject to inspection by tax and/or customs authorities for a period of three years following the tax year. The fact that a year has been reviewed by tax authorities does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

Therefore, because previous tax audits do not preclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, on 14 July 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax inspection. Because the terms "obstructed" and "hindered" are not defined, tax authorities may have broad discretion to argue that a taxpayer has "obstructed" or "hindered" an inspection and ultimately to seek penalties beyond the three-year term. These facts create tax risks in Russia substantially more significant than typically found in countries with more developed tax systems.

Laws governing transfer pricing became effective in Russia on 1 January 1999. These laws allow the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions, provided that the transaction price differs from the market price by more than 20%. "Controlled" transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties with significant price fluctuations (*i.e.*, if the price of such transactions differs from the prices of similar transactions by more than 20% within a short period of time). Transfer pricing adjustments are also applicable to the trading of securities and derivatives. There has been no formal guidance (although some court decisions are available) as to how these rules will be applied.

Rosneft engages in transfer pricing in transactions between and among the Company and its subsidiaries. It is difficult to determine market prices for crude oil in Russia, mainly due to the significant intragroup turnover of the vertically integrated oil companies that dominate the market. Transaction prices for crude oil between Rosneft companies are established taking into consideration market prices and transportation costs but are also affected to a considerable degree by the capital requirements of different enterprises within the upstream segment. Rosneft seeks to ensure that its pricing complies with the transfer pricing rules. Nevertheless, due to the uncertainties in the interpretation of transfer pricing legislation, and the difficulty of determining domestic market prices for crude oil, the tax authorities may challenge Rosneft's transfer prices and propose adjustments. If such price adjustments are upheld by the Russian courts and implemented, Rosneft's future financial results could be adversely affected. In addition, Rosneft could face significant losses associated with the assessment of prior tax underpaid and related interest and penalties, which could have an adverse effect on Rosneft's financial condition and results of operations. For example, the tax authorities have brought significant transfer pricing claims against Yuganskneftegaz arising out of transactions entered into prior to its acquisition by Rosneft. See "—Risks Relating to Rosneft—Rosneft faces several risks arising out of its acquisition of Yuganskneftegaz."

The Federal Tax Service has challenged the use by many Russian companies of tax optimization schemes. In addition to the claims against Yuganskneftegaz described above, significant back tax claims against Yukos resulted in the sale at auction of a controlling stake in its major production subsidiary, Yuganskneftegaz, to Baikalfinansgroup, which Rosneft subsequently acquired. The press has reported significant claims for back taxes against other oil companies, including TNK-BP; telecommunications companies, including OJSC Vimpelcom; and other major companies. It has also been reported that OJSC Sibneft ("**Sibneft**"), now a subsidiary of Gazprom, received a significant back tax claim.

The taxation system in Russia is subject to frequent change and inconsistent enforcement at the federal, regional and local levels. Until the adoption of the Tax Code, the system of tax collection was relatively ineffective, resulting in the continual imposition of new taxes in an attempt to raise state revenues. There can be no assurance that the Tax Code will not be changed in the future in a manner adverse to the stability and predictability of the tax system.

The Russian tax system has recently been revised. The new tax system is intended to reduce the number of taxes and the overall tax burden on businesses and to simplify the tax laws. However, the revised tax system relies heavily on the judgments of local tax officials and fails to address many of the existing problems, and local tax officials have recently made several material tax claims against major Russian companies. Even if further reforms to tax laws are enacted, they may not result in a reduction of the tax burden on Russian companies and the establishment of a more efficient tax system. Conversely, they may introduce additional tax collection measures.

Crime and corruption could create a difficult business climate in Russia

Organized criminal activity and corruption reportedly have increased since the dissolution of the Soviet Union. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further interests of the state and individual officials. The Russian government has pursued a campaign against corruption, the results of which are currently uncertain.

The Company's ownership in its privatized companies may be challenged, and if these challenges are successful, the Company could lose its ownership interests in these companies or their assets

Rosneft's businesses include privatized companies. To the extent that privatization legislation is vague, inconsistent or in conflict with other legislation, including conflicts between federal and local privatization legislation, privatizations are vulnerable to challenge. In the event that any of Rosneft's privatized subsidiaries are subject to challenge as having been improperly privatized and Rosneft is unable to defeat this claim, the Company risks losing its ownership interest in that company or its assets, which could materially adversely affect Rosneft's financial condition and results of operations.

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt Rosneft's business, as well as cause the price of the Securities to decrease

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set forth in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could adversely affect Rosneft's business, as well as result in a decrease in the price of the Securities.

Risks Relating to Other Jurisdictions

Rosneft faces risks associated with conducting business in Kazakhstan and Algeria

Rosneft currently has two exploration projects in Kazakhstan and one in Algeria. Like Russia, these countries are emerging markets and are subject to greater political, economic, social and legal risks than more developed markets. In many respects, the risks associated with conducting business in these countries are similar to, or can be higher than, those associated with conducting business in Russia. See "—Risks Relating to Russia."

Risks Relating to the Securities and the Trading Market

GDR holders cannot withdraw Ordinary Shares from the deposit facility or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs until the FSFM registers the Company's Placement Report, and a failure to register the Placement Report would result in the newly issued Ordinary Shares being cancelled and reliance by GDR holders on the Company to return the proceeds of that portion of the GDR Offering evidencing newly issued Ordinary Shares

Under Russian law, the FSFM must register a Placement Report on the issuance in the Global Offering of the newly issued Ordinary Shares in the form of GDRs. See "Registration of Placement Report and Pre-Release." During the period between the Closing Date and the registration of the Placement Report, GDR holders cannot withdraw the Ordinary Shares underlying any GDRs or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs, as they would otherwise be able to do. In addition, if the FSFM does not register the Placement Report, it can declare the subscription invalid. In that case, Russian law and the Underwriting and Deposit Agreements require the Company to refund the gross proceeds of the portion of the GDR Offering evidencing newly issued Ordinary Shares, without interest, to GDR holders *pro rata* to the number of cancelled GDRs, regardless of the then-prevailing price of the GDRs and subject to applicable withholding taxes. In addition, the return of funds may be delayed due to Russian currency control, banking or securities regulations or practices and may be prevented due to a change in such regulations or practices. Upon payment of such amounts, the Depositary will cancel, on a *pro rata* basis or on such other basis as it deems practicable in its sole discretion, the number of GDRs corresponding to the number of Ordinary Shares to which the Placement Report relates. In addition, GDR holders who deposit Ordinary Shares from the Closing Date until the registration of the Placement Report bear the risk that the Depositary may reduce their holdings *pro rata* to the number of Ordinary Shares being cancelled or on such other basis as the Depositary determines.

Any failure by the Joint Global Coordinators to satisfy their delivery obligation under the First Pre-Release Agreement will result in the Regulation S GDR facility consisting of fewer Ordinary Shares than the number of Ordinary Shares purportedly represented by those Regulation S GDRs

The pre-release of Regulation S GDRs pursuant to the First Pre-Release Agreement will not be collateralized. Accordingly, GDR holders' rights in respect of the Regulation S GDR facility will depend in part on the Joint Global Coordinators' satisfaction of their delivery obligation pursuant to the First Pre-Release Agreement. The Joint Global Coordinators intend to satisfy this delivery obligation by exercising the Overallotment Option and/or purchasing GDRs in permitted stabilization transactions. Any failure by the Joint Global Coordinators to satisfy this delivery obligation will result in the Regulation S GDR facility consisting of fewer Ordinary Shares than the number of Regulation S GDRs issued from that facility, and therefore of fewer Ordinary Shares than the number of Ordinary Shares purportedly represented by those Regulation S GDRs.

Russian law may consider the Depositary the beneficial owner of the Ordinary Shares underlying the GDRs, and a Russian court could order the seizure of such Ordinary Shares in legal proceedings against the Depositary

Most jurisdictions would recognize GDR holders as the beneficial owners of the Ordinary Shares underlying their GDRs. For example, in the United States, although shares may be held in a depositary's name, making the depositary the legal owner of the shares, GDR holders are the beneficial, or real, owners. Therefore, in U.S. or U.K. courts, any action against the Depositary, as the legal owner of the underlying

Ordinary Shares, would not result in the GDR holders, as the beneficial owners of the underlying Ordinary Shares, losing their rights in such underlying Ordinary Shares.

Russian law, however, may not recognize GDR holders as beneficial owners of the Ordinary Shares underlying the GDRs and may instead consider the Depositary the beneficial owner of such Ordinary Shares. Thus, in proceedings against the Depositary, Russian courts might treat the underlying Ordinary Shares as assets of the Depositary open to seizure or attachment.

In one past lawsuit against a depositary bank, a claimant sought the attachment of various Russian companies' shares evidenced by depositary receipts issued by that depositary. If, in a similar lawsuit, a Russian court ordered the seizure or attachment of the Depositary's assets in Russia, GDR holders could lose all of their rights to the Ordinary Shares underlying their GDRs.

An active trading market for the Securities may not develop, and their price may be highly volatile

There is currently no market for the Securities. Although Rosneft has applied to the FSA for approval of this Prospectus and for up to 9,399,029,129 GDRs (of which up to 867,172,695 will be issued on or about the Closing Date) to be admitted to the Official List and to the LSE to admit such GDRs to trading on its market for listed securities and its Ordinary Shares have been listed and admitted to trading on the RTS and MICEX, an active trading market for the Securities may not develop or be sustained after the Global Offering. Furthermore, a significant portion of the Securities is being offered in the Global Offering to certain oil and gas companies and individuals and institutions in the Russian Federation and elsewhere which will result in such investors holding a significant portion of the Securities. See "Plan of Distribution."

In addition to being affected by Rosneft's operating results, the trading prices of the Securities may fluctuate in response to several extraneous factors, including:

- General economic conditions in emerging markets generally, in the CIS, Europe or in Rosneft's business sector;
- Fluctuations in the prices of crude oil and petroleum products;
- Fluctuations in stock prices on Russian or other stock exchanges;
- Fluctuations in exchange rates;
- Changes in laws or regulations; and
- Negative economic and political news.

The market price of the Securities may decline below the Offer Price, which will be determined by negotiation among Rosneft, the Selling Shareholder and the Managers.

Future sales of the Securities may affect their market price

Sales, or the possibility of sales, of material quantities of Securities in the public markets following the Global Offering could adversely affect the trading prices of the Securities. Subsequent equity offerings by the Company may dilute the percentage ownership of Rosneft's current shareholders and of those persons who become shareholders in the Global Offering. Moreover, Rosneft might issue preferred shares with rights, preferences or privileges senior to those of the Ordinary Shares.

In addition, in its planned Share Swap, the Company plans to issue its Ordinary Shares to the minority shareholders of its Merging Subsidiaries as consideration for the merger of the Merging Subsidiaries into the Company. Consequently, the minority shareholders of the Merging Subsidiaries will become shareholders of the Company, and they will be able to sell their shares in the Company freely. As a result, Yukos will own approximately 9%-10% of the Company following the Share Swap. See "—Risks Relating to Rosneft—Certain contingencies in relation to the elimination of minority interests in certain of the Company's principal subsidiaries through a planned share swap may adversely affect Rosneft's operating results and financial condition." Yukos may sell its interest, adversely affecting the price of the Securities.

Finally, certain oil and gas companies and certain individuals and institutions in Russia and elsewhere are being allocated a significant portion of Securities in the Global Offering. See "Plan of Distribution." Such persons may subsequently elect to sell such Securities, which may adversely affect the price of the Securities.

The number of Ordinary Shares that can be issued in GDR form is limited

According to the Law on the Securities Market and the FSFM Regulations, the organizing of and trading in shares of a Russian company in the form of GDRs (including deposits of shares into a GDR facility) requires the FSFM's permission. The FSFM has granted permission for the deposit of up to 2,140,000,000 Ordinary Shares into the Company's GDR facility. Any deposit of Ordinary Shares over this number (up to the maximum limit of 35% of the Company's charter capital) would require additional permission from the FSFM. There can be no assurance that such permission would be granted. The FSFM may withhold such permission if, among other reasons:

- More than 35% of the class of shares eligible for deposit into the GDR program will circulate outside Russia, including in the form of GDRs; or
- The GDR program contemplates the voting of the shares underlying the GDRs other than in accordance with the instructions of the GDR holders.

The Company must calculate amounts available for distribution as dividends in accordance with RAS, and such amounts may differ from those calculated in accordance with U.S. GAAP

The Company may pay dividends on its Ordinary Shares out of net profits calculated in accordance with RAS, which differ in significant respects from U.S. GAAP. Any amounts available for distribution as dividends on the Ordinary Shares as determined under RAS may differ from the amounts that would have been determined under U.S. GAAP.

The Deposit Agreement for the GDRs and relevant provisions of Russian law limit GDR holders' voting rights with respect to the shares evidenced by the GDRs

GDR holders will have no direct voting rights with respect to the Ordinary Shares evidenced by the GDRs. GDR holders will be able to exercise voting rights with respect to the shares represented by GDRs only in accordance with the provisions of the Deposit Agreement relating to the GDRs and relevant requirements of Russian law. However, there are practical limitations upon GDR holders' ability to exercise their voting rights due to the additional procedural steps involved in communicating with GDR holders. For example, the Company's charter requires it to notify shareholders at least 30 days before any meeting and at least 50 days before an extraordinary meeting to elect the Company's Board of Directors. Holders of the Company's Ordinary Shares will receive notice directly from the Company and will be able to exercise their voting rights by either attending the meeting in person or voting by power of attorney.

GDR holders, by contrast, will not receive notice directly from the Company. Rather, in accordance with the Deposit Agreement, the Company will provide the notice to the Depositary. The Depositary has undertaken, in turn, as soon as reasonably practicable thereafter, if requested by the Company in writing in a timely manner and at the Company's expense, and provided there are no U.S., English or Russian legal prohibitions, including, without limitation, the rules of the LSE or the rules of any Russian stock exchange on which the shares are listed or admitted to trading, to mail to GDR holders notice of such meeting, copies of voting materials, if and as received by the Depositary from the Company, and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, GDR holders must then instruct the Depositary how to vote the Ordinary Shares evidenced by the GDRs they hold. Because of this additional procedural step involving the Depositary, the process for exercising voting rights may take longer for GDR holders than for holders of the Ordinary Shares. GDR holders may not receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner, and GDRs for which the Depositary does not receive timely voting instructions will not be voted.

In addition, although Russian securities regulations expressly permit the Depositary to split the votes with respect to the Ordinary Shares underlying the GDRs in accordance with instructions from GDR holders, such regulations remain untested, and the Depositary may, if the Company so requests, refrain from voting altogether unless it receives instructions from all GDR holders to vote the Ordinary Shares in the same manner. GDR holders may thus have significant difficulty in exercising voting rights with respect to the shares underlying the GDRs. There can be no assurance that holders and beneficial owners of GDRs will:

- Receive notice of shareholder meetings to enable the timely return of voting instructions to the Depositary;
- Receive notice to enable the timely cancellation of GDRs in respect of shareholder actions, which would primarily take place for reasons set forth below; or

- Be given the benefit of dissenting or minority shareholders' rights in respect of any event or action in which the holder or beneficial owner has voted against, abstained from voting or not given voting instructions.

In addition, GDR holders will be unable to exercise their voting rights until the FSFM registers the Placement Report. See "—GDR holders cannot withdraw Ordinary Shares from the deposit facility or instruct the Depositary to vote the Ordinary Shares evidenced by their GDRs until the FSFM registers the Company's Placement Report, and a failure to register the Placement Report would result in the newly issued Ordinary Shares being cancelled and reliance by GDR holders on the Company to return the proceeds of that portion of the GDR Offering evidencing newly issued Ordinary Shares" and "—Any failure by the Joint Global Coordinators to satisfy their delivery obligation under the First Pre-Release Agreement will result in the Regulation S GDR facility consisting of fewer Ordinary Shares than the number of Ordinary Shares purportedly represented by those Regulation S GDRs."

See "Terms and Conditions of the Global Depositary Receipts" for a description of the voting rights of GDR holders.

GDR holders will not be able to introduce proposals for the agenda of shareholders' meetings, request the calling of a shareholder meeting, nominate candidates for the Company's Board of Directors or Audit Commission or otherwise exercise the rights of minority shareholder arising under the Joint Stock Companies Law. GDR holders who wish to take such actions must timely request the cancellation of their GDRs and take delivery of Ordinary Shares, thus becoming the owner of Ordinary Shares on the Company's share register.

GDR holders may be unable to repatriate distributions made on the Ordinary Shares

The Company intends to pay dividends on Ordinary Shares in rubles, and Russian law currently permits such ruble funds to be converted into U.S. dollars by the Depositary without restriction. The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing market within Russia for the conversion of rubles into U.S. dollars, including the interbank currency exchange and over-the-counter and currency future markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and the CIS and no viable market in which to hedge ruble and ruble-denominated investments.

GDR holders may be unable to obtain benefits to which they are entitled under the relevant income tax treaties in respect of Russian withholding taxes on dividends paid to the Depositary

Under Russian law, dividends paid to a non-resident holder of the Ordinary Shares generally will be subject to Russian withholding tax at a rate of 15% for legal entities and organizations and at a rate of 30% for individuals. Russian tax rules applicable to the holders of the GDRs are characterized by significant uncertainties and, until recently, by an absence of interpretive guidance. In 2005 and 2006, the Ministry of Finance of the Russian Federation expressed an opinion that holders of global depositary receipts should be treated as the beneficial owners of the underlying shares for the purposes of double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that the tax residence of the holders of the global depositary receipts is duly confirmed. However, in the absence of any specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners, it is unclear how the Russian tax authorities will ultimately treat the GDR holders in this regard.

Unless the Company receives adequate clarification from the Russian tax authorities that it is permitted under Russian law to withhold Russian withholding tax in respect of dividends it pays to the Depositary at a lower rate than the domestic rate applicable to such payments (currently 15%), the Company intends to withhold Russian withholding tax at the domestic rate applicable to such dividends, regardless of whether the Depositary (the legal owner of the shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant income tax treaty if it were the beneficial owner of the shares for purposes of that treaty. Although non-resident GDR holders may apply for a refund of a portion of the amount so withheld by the Company under the relevant income tax treaty, the Company cannot make any assurances that the Russian tax authorities will grant any refunds. See "Taxation—Russian Federation Tax Considerations—Taxation of Dividends—Non-Resident Holders."

Non-resident investors may be subject to Russian tax withheld at source on trades of the Ordinary Shares or GDRs through or to certain Russian payors

Under Russian tax law, gains arising from a sale, exchange or other disposition by non-resident holders that are legal entities or organizations of Russian securities, such as the Ordinary Shares, as well as financial instruments derived from such securities, such as the GDRs, may be subject to Russian profits tax to be withheld at source by the Russian payor of the income.

However, no procedural mechanism currently exists to withhold and remit this tax with respect to sales made to persons other than Russian companies and foreign companies with a registered presence in Russia. Gains arising from a sale, exchange or other disposition of the foregoing types of securities on foreign stock exchanges by non-resident holders that are legal entities are, as a practical matter, not subject to taxation in Russia. Therefore, so long as the GDRs remain listed on the LSE, gains arising from a sale, exchange or other disposition on the LSE of the GDRs by non-resident legal entities or organizations to other non-resident legal entities or organizations should not be subject to taxation in Russia.

Capital gains derived by individual non-resident holders from their disposition of Russian shares or securities, such as Ordinary Shares or GDRs, will be considered Russian-source income, and generally will be subject to Russian tax withheld at source if the disposition is made through or to a professional dealer or broker that is a Russian legal entity or a foreign company with a permanent establishment in Russia.

REGISTRATION OF PLACEMENT REPORT AND PRE-RELEASE

Registration of Placement Report

Under Russian law, in order for an issuer to complete a closed subscription for securities, it must file, and the FSFM must register, a report on the placement of such securities. Consequently, the FSFM must register a Placement Report on the issuance by the Company of the newly issued Ordinary Shares in the form of GDRs as part of the Global Offering. The Company may file the Placement Report at any time after the earlier of the closing of the sale of GDRs issued pursuant to exercise of the Overallotment Option and the expiration of the share placement period (40 calendar days from commencement of placement). Under Russian law, the FSFM must make its decision on whether to register the Placement Report within two weeks after its filing, although in practice, this decision may take longer or may not be taken at all.

During the period between the closing of the GDR Offering and the registration of the Placement Report, the newly issued Ordinary Shares will be subject to cancellation. GDR holders will be unable to withdraw the Ordinary Shares underlying the GDRs or instruct the Depositary to vote the Ordinary Shares underlying the GDRs, as they would otherwise be able to do. Neither the Depositary nor the Custodian will exercise any voting rights as a shareholder. However, these limitations on voting and withdrawal of the Ordinary Shares will not prohibit trading in the GDRs.

The FSFM may refuse to register the Placement Report if the Company violated Russian law during the issuance process or if the Placement Report contains false information. In this case, the FSFM must notify the Company of the violation or false information, and it may delay registration of the Placement Report. Although it is not uncommon for the FSFM to refuse to register a placement report on technical grounds, no such refusals have been reported in relation to major international initial public offerings of Russian companies. During any such delay, GDR holders would not be able to withdraw the Ordinary Shares underlying the GDRs or instruct the Depositary to vote their Ordinary Shares, as they would otherwise be able to do.

Absent eventual rectification, the FSFM will hold the placement invalid. Moreover, the FSFM may declare the subscription invalid immediately if it deems it necessary for the protection of investors' rights. In either event, the FSFM will not register the Placement Report, and the newly issued Ordinary Shares will be cancelled. If the FSFM does not register the Placement Report within 75 calendar days after the Closing Date, or such other time as may be agreed between the Company and the Joint Global Coordinators on behalf of the Managers, the Company will issue a press release announcing, and notify the Depositary and the LSE of, this fact.

If the FSFM does not register the Placement Report within 75 calendar days after the Closing Date, the Company will refund the gross proceeds of the portion of the GDR Offering evidencing newly offered Ordinary Shares. This refund will be denominated in rubles at then-current exchange rates, without interest, subject to applicable withholding taxes and regardless of the then-prevailing market price of the GDRs. The Company would pay such ruble amount to the Depositary for conversion into U.S. dollars and subsequent remittance to GDR holders. Upon payment of such amounts, the Depositary will cancel, on a *pro rata* basis or on such other basis as it deems practicable in its sole discretion, the number of GDRs corresponding to the number of Ordinary Shares to which the Placement Report relates. Therefore, GDR holders who were the record holders of GDRs on the date of the announcement that the Placement Report was not registered would receive, *pro rata* to the number of cancelled GDRs, an amount in U.S. dollars that the Depositary could buy with the rubles it received in such refund. GDR holders bear the risk of a depreciation of the ruble against the U.S. dollar during the period between the closing of the GDR Offering and the date on which the Ordinary Shares are cancelled. However, in the Underwriting Agreement, the Company has agreed that it would pay such additional amounts (if any) as may be necessary to ensure that the U.S. dollar funds received by the Depositary for remittance to GDR holders will be equal to the original gross U.S. dollar proceeds received in the GDR Offering relating to the newly issued Ordinary Shares. The Depositary will promptly, through DTC, Euroclear and Clearstream, Luxembourg, as applicable, distribute the funds it receives to GDR holders.

In addition, the reimbursement of funds may be delayed or prevented due to Russian currency control, banking and securities regulations or practices, including a change in such regulations or practices. Furthermore, GDR holders bear the credit risk that the Company would lack the liquidity or otherwise be unable to reimburse the proceeds of the GDR Offering relating to the newly issued Ordinary Shares as anticipated.

If the FSFM does not register the Placement Report, the existing Ordinary Shares being offered by the Selling Shareholder will not be cancelled, and the proceeds of the offering of such Ordinary Shares by the Selling Shareholder will not be returned. GDR holders who deposit Ordinary Shares from the Closing Date until the registration of the Placement Report bear the risk that the Depositary may reduce their holdings *pro rata* to the number of Ordinary Shares being cancelled or on such other basis as the Depositary determines.

Description of the First Pre-Release Agreement

Pursuant to an agreement between the Depositary and the Joint Global Coordinators (the "**First Pre-Release Agreement**"), the Joint Global Coordinators may require the Depositary to execute and deliver Regulation S GDRs to them or on their behalf prior to the receipt of Ordinary Shares in respect thereof (the "**Pre-Release Ordinary Shares**") by the Depositary. The number of Pre-Release Ordinary Shares will not exceed the maximum number of Optional Ordinary Shares, or 10% of the total number of Ordinary Shares offered in the Global Offering, excluding the Optional Ordinary Shares.

Pursuant to the First Pre-Release Agreement, the Joint Global Coordinators must, promptly following the earlier of:

- The exercise of the Overallotment Option and the receipt of the underlying Optional Ordinary Shares; and
- 35 calendar days from the Closing Date (or such later date as the Company, the Depositary and the Joint Global Coordinators may agree),

deliver to the Depositary a number of Ordinary Shares and/or GDRs that together equal to the number of then-outstanding pre-released Regulation S GDRs. The Joint Global Coordinators intend to satisfy this delivery obligation by exercising the Overallotment Option and/or purchasing GDRs in permitted stabilization transactions. Before such delivery, or in case of a failure by the Joint Global Coordinators to effect such delivery, the Regulation S GDR facility will contain fewer Ordinary Shares than the number of Regulation S GDRs issued from that facility, and therefore will contain fewer Ordinary Shares than purportedly represented by those Regulation S GDRs. Withdrawals of Ordinary Shares from the GDR facility will, therefore, be prohibited until after the receipt by the Depositary of the Ordinary Shares and/or GDRs that together equal the number of then-outstanding pre-released Regulation S GDRs. See "Risk Factors—Risks Relating to the Securities and the Trading Market—Any failure by the Joint Global Coordinators to satisfy their delivery obligation under the First Pre-Release Agreement will result in the Regulation S GDR facility consisting of fewer Ordinary Shares than the number of Ordinary Shares purportedly represented by those Regulation S GDRs."

REASONS FOR THE GLOBAL OFFERING AND USE OF PROCEEDS

The Selling Shareholder is selling Securities to raise funds to repay indebtedness. On 8 September 2005, the Selling Shareholder entered into a USD 7,500,000,000 syndicated bridge term loan facility bearing interest at LIBOR plus 1.55% *per annum*, secured by, among other things, 49% of the Ordinary Shares of the Company (the "**Facility**"). The Joint Global Coordinators are lead arrangers of, and lenders in, the Facility. The Selling Shareholder used the proceeds of the Facility to finance its acquisition of 10.74% of Gazprom in June 2005. In December 2005, the Company entered into a warranty agreement with the lenders in the Facility, pursuant to which the Company guaranteed (the "**Facility Guarantee**") the obligations of Rosneftegaz under the Facility. The net proceeds of the Global Offering to the Selling Shareholder will be approximately USD 8,392,761,273 (after the payment of commissions but prior to the deduction of out-of-pocket expenses and any other fees). The Selling Shareholder intends to use most of such net proceeds to repay the Facility, accrued interest, tax on profit realized from the sale and fees to the Managers.

The Company is conducting the Global Offering, and applying for the GDRs to be admitted to trading on the LSE's regulated market for listed securities and has had its Ordinary Shares listed and admitted to trading on the RTS and MICEX to raise funds and to create a public trading market for such securities, which will enhance the Company's ability to raise additional funds in the future, as well as to facilitate the repayment by Rosneftegaz of the Facility, the release of the security in the form of Ordinary Shares of the Company and the discharge of the Facility Guarantee. The net proceeds of the Global Offering to the Company will be approximately USD 1,891,683,612 (after the payment of commissions but prior to any other fees and assuming full reimbursement of out-of-pocket expenses and no exercise of the Overallotment Option). The Company intends to use such net proceeds to retire existing debt and fund its ongoing investment program and for general corporate purposes.

CAPITALIZATION

The following table sets forth Rosneft's cash and cash equivalents, short-term loans and current portion of long-term debt and total capitalization as of 31 March 2006 and as adjusted for the proceeds to the Company from the Global Offering. The following table should be read in conjunction with "Selected Historical Financial and Other Information," "Reasons for the Global Offering and Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and the Financial Statements and the accompanying notes thereto.

		As adjusted for the proceeds to the Company from	
	As of 31 March 2006	The Global Offering	The Global Offering and exercise of the Overallotment Option
		(USD millions)	
Cash and cash equivalents	**489**	2,381	2,775
Short-term loans and current portion of long-term debt	**3,925**	3,925	3,925
Long-term debt, net of current portion	**7,708**	7,708	7,708
Minority interest	**1,842**	1,842	1,842
Shareholders' equity			
Common stock	20	20	20
Additional paid-in capital	19	1,911	2,305
Retained earnings	8,196	8,196	8,196
Total shareholders' equity	**8,235**	10,127	10,521
Total capitalization(1)	**17,785**	19,677	20,071

(1) Total capitalization is the sum of long-term debt, net of current portion, minority interest, and total shareholders' equity.

As discussed in Note 13 to the Interim Financial Statements, in April 2006, the Company received the remaining USD 1,425 million under a USD 2,000 million loan agreement with a syndicate of Western banks. Approximately 30% of these proceeds were used to retire existing debt. Primarily as a result of this draw down, long-term debt, net of current portion increased by approximately USD 879 million as of the date of this Prospectus.

Except as set forth above, there has been no material change in the Company's long-term debt, net of current portion, since 31 March 2006.

As discussed in Note 18 to the Annual Financial Statements, in the Report of Independent Auditors included therein and in Note 7 to the Interim Financial Statements, as of 31 December 2004, the Company was not in compliance with certain provisions of debt agreements, which constituted events of default, and as a result, the related debt became callable by the respective creditors as of that date. Subsequently, the Company obtained waiver letters from the respective creditors, which provided for a grace period to cure these defaults. This grace period was ultimately extended until 31 December 2006, which is less than one year from the most recent balance sheet date. The Company continues to classify the related debt in the amount of USD 3,013 million as of 31 March 2006 as non-current. As discussed more fully in the Report of Independent Auditors on the Annual Financial Statements, the Company's independent auditor has concluded that this classification is not in accordance with U.S. GAAP, which require the debt to be classified as current. As of the date of this Prospectus, the amount of this debt increased to USD 4,065 million primarily as a result of the draw down in April 2006 under the USD 2,000 million loan agreement described above. The Company believes that it will be able to obtain further waivers if necessary.

DILUTION

As of 31 March 2006, Rosneft's net tangible book value was approximately USD 8,200 million. "**Net tangible book value**" is:

- Rosneft's total tangible assets(1); *minus*
- The sum of Rosneft's total liabilities and minority interest.

As of 31 March 2006, Rosneft's net tangible book value per Ordinary Share was approximately USD 0.90. "**Net tangible book value per Ordinary Share**" is:

- Rosneft's net tangible book value; *divided by*
- The number of Ordinary Shares outstanding.

"**Dilution of net tangible book value per Ordinary Share**" is:

- The amount paid per Ordinary Share by purchasers of newly issued Ordinary Shares in the Global Offering; *minus*
- Rosneft's net tangible book value per Ordinary Share immediately after the issuance of such Ordinary Shares.

After giving effect to the issuance of the newly issued Ordinary Shares (excluding any Ordinary Shares that may be issued pursuant to the Overallotment Option) as if such Ordinary Shares were issued on 31 March 2006, and after deducting the underwriting fees (but not any other fees) and assuming full reimbursement of offering expenses payable by the Company as of such date, Rosneft's net tangible book value as of 31 March 2006 would have been USD 10,092 million, and its net tangible book value per Ordinary Share would have been USD 1.08. These calculations assume an Offer Price of USD 7.55 per Ordinary Share.

These figures represent an immediate accretion in net tangible book value per Ordinary Share to existing investors, and an immediate dilution in net tangible book value per Ordinary Share to investors purchasing Securities in the Global Offering, of USD 6.47, or 85.7%.

The following table summarizes such calculations:

	USD, except %
Offer Price per GDR	7.55
Net tangible book value per Ordinary Share as of 31 March 2006	0.90
Increase in net tangible book value per Ordinary Share attributable to the issuance of the newly issued Ordinary Shares as if such Ordinary Shares were issued on 31 March 2006(2)	0.18
Net tangible book value per Ordinary Share immediately after the issuance of the newly issued Ordinary Shares as if such Ordinary Shares were issued on 31 March 2006(2)	1.08
Dilution per Ordinary Share to investors purchasing Securities in the Global Offering	85.7%

(1) Total assets exclusive of goodwill.

(2) Newly issued Ordinary Shares will be sold to investors in the Global Offering only in the form of GDRs.

DIVIDEND POLICY

The Joint Stock Companies Law and the Company's charter set forth the procedure for determining the dividends that the Company distributes to its shareholders. The Joint Stock Companies Law allows dividends to be paid out only of net profits calculated under RAS. According to its charter, the Company may distribute dividends based on its three-month, six-month, nine-month or annual results according to RAS. A majority of the Board of Directors recommends dividends to the General Shareholders' Meeting, which then approves the dividends by majority vote. A decision on three-month, six-month and nine-month dividends must be taken within three months of the end of the respective period; a decision on annual dividends must be taken at the Annual General Shareholders' Meeting. The dividend approved at the shareholders' meeting may not exceed the amount recommended by the Board of Directors. Dividends are distributed to holders of the Company's Ordinary Shares as of the record date for the shareholders' meeting approving the dividends. The shareholders' right to receive dividends, once declared, does not lapse. See "Description of Capital Stock and Certain Requirements of Russian Law—Description of Capital Stock—Dividends."

In accordance with the decisions of the Annual General Shareholders' Meetings in 2002, 2003, 2004 and 2005, the Company paid aggregate dividends in the amounts of:

- RUB 1,100 million (USD 35.3 million), or RUB 0.12 (USD 0.004) per Ordinary Share, for the year ended 31 December 2001;
- RUB 1,500 million (USD 48.9 million), or RUB 0.17 (USD 0.006) per Ordinary Share, for the year ended 31 December 2002;
- RUB 1,500 million (USD 51.7 million), or RUB 0.16 (USD 0.006) per Ordinary Share, for the year ended 31 December 2003; and
- RUB 1,755 million (USD 60.9 million), or RUB 0.19 (USD 0.007) per Ordinary Share, for the year ended 31 December 2004.

On 7 June 2006, the Annual General Shareholders' Meeting approved annual dividends in the amount of RUB 11,336 million (USD 408 million), or RUB 1.25 (USD 0.04) per Ordinary Share, for the year ended 31 December 2005. These dividends will be payable only to the holders of Ordinary Shares as of the applicable record date and will not be available to purchasers of Securities in the Global Offering.

The Company currently intends to pay dividends of no less than 10% of RAS net profit. See "Description of Capital Stock and Certain Requirements of Russian Law—Description of Capital Stock—Dividends." The Company may adjust this amount to reflect one-time gains or losses. In determining the amount of any annual dividends to propose to the shareholders of the Company, the Board of Directors will take into account the dividend payment practices of other oil and gas companies. In any given year, several factors may affect the Company's determination of whether to pay dividends and the amount of such dividends, including Rosneft's business prospects, cash requirements, financial performance, the condition of the market and the general economic climate, and other factors, including tax and other regulatory considerations.

Any dividends the Company may pay in the future in respect of the Ordinary Shares evidenced by the GDRs will be declared and paid to the Custodian for the Depositary in rubles. The Depositary will convert such dividends into U.S. dollars and distribute them to holders of the GDRs, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by holders of the GDRs will be subject to fluctuations in the exchange rate between the ruble and the U.S. dollar and to reduction due to deduction of depositary fees and expenses.

For further information on dividends and certain general restrictions of Russian law with respect to the payment of dividends, see "Description of Capital Stock and Certain Requirements of Russian Law—Description of Capital Stock—Dividends."

SELECTED HISTORICAL FINANCIAL AND OTHER INFORMATION

The financial data set forth below as of and for the years ended 31 December 2003, 2004 and 2005 have been derived from the Annual Financial Statements. The financial data set forth below as of and for the three months ended 31 March 2005 and 2006 have been derived from the Interim Financial Statements. The Financial Statements are prepared in accordance with U.S. GAAP. Rosneft's functional and reporting currency is the U.S. dollar for U.S. GAAP financial reporting purposes. The Interim Financial Statements reflect all normal and recurring adjustments that are necessary for a fair presentation of the financial position and results of operations for the interim periods presented. Results of operations for the three-month period ended 31 March 2006 are not necessarily indicative of results for the full year ending 31 December 2006 or for any other interim period or for any future fiscal year.

The financial data set forth below should be read in conjunction with, and are qualified in their entirety by reference to, the Financial Statements and related notes included elsewhere in this Prospectus and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Consolidated Balance Sheet Data

	As of 31 December			As of 31 March
	2003	2004	2005	2006
		(USD millions)		
ASSETS				
Current Assets				
Cash and cash equivalents	228	1,033	1,173	489
Restricted cash	7	25	23	24
Short-term investments	315	183	165	230
Accounts receivable, net of allowance for doubtful accounts	753	4,799	2,858	2,965
Inventories	331	517	814	911
Deferred tax assets	23	28	48	55
Prepayments and other current assets	155	256	897	944
Total current assets	**1,812**	**6,841**	**5,978**	**5,618**
Non-current assets				
Long-term investments	181	277	436	517
Long-term bank loans granted, net of allowance	24	40	63	50
Acquired debt receivable	—	—	—	456
Oil and gas properties, net	3,292	16,540	20,939	21,309
Property, plant and equipment, net	1,063	1,758	2,030	2,063
Construction-in-progress	372	482	509	581
Goodwill	—	35	35	35
Deferred tax assets	20	5	8	12
Other non-current assets, net of allowance	4	34	18	32
Total non-current assets	**4,956**	**19,171**	**24,038**	**25,055**
Total assets	**6,768**	**26,012**	**30,016**	**30,673**
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	670	1,386	1,358	1,589
Short-term loans and current portion of long-term debt(1)	588	4,720	4,005	3,925
Income and other tax liabilities	131	1,560	2,810	2,928
Deferred tax liabilities	4	—	40	47
Other current liabilities	5	42	32	32
Total current liabilities	**1,398**	**7,708**	**8,245**	**8,521**
Asset retirement obligations	126	555	566	588
Long-term debt(1)	1,820	9,022	8,198	7,708
Deferred tax liabilities	71	2,854	3,696	3,760
Other non-current liabilities	2	3	18	19
Total liabilities	**3,417**	**20,142**	**20,723**	**20,596**
Minority interest	**789**	**2,535**	**1,860**	**1,842**
Shareholders' equity				
Common stock par value 0.01 RUR (shares issued and outstanding: 9,092,174,000 as of 31 December 2005, 2004 and 2003)	20	20	20	20
Additional paid-in capital	19	19	19	19
Accumulated other comprehensive income	13	—	—	—
Retained earnings	2,510	3,296	7,394	8,196
Total shareholders' equity	**2,562**	**3,335**	**7,433**	**8,235**
Total liabilities and shareholders' equity	**6,768**	**26,012**	**30,016**	**30,673**

(1) As discussed in Note 18 to the Annual Financial Statements, in the Report of Independent Auditors included therein and in Note 7 to the Interim Financial Statements, as of 31 December 2004, the Company was not in compliance with certain provisions of debt agreements, which constituted events of default, and as a result, the related debt became callable by the respective creditors as of that date. Subsequently, the Company obtained waiver letters from the respective creditors, which provided for a grace period to cure these defaults. This grace period was ultimately extended until 31 December 2006, which is less than one year from the most recent balance sheet date. The Company continues to classify the related debt in the amount of USD 2,831 million as of 31 December 2005 and USD 3,013 million as of 31 March 2006 as non-current. As discussed more fully in the Report of Independent Auditors on the Annual Financial Statements, the Company's independent auditor has concluded that this classification is not in accordance with U.S. GAAP, which require the debt to be classified as current. The Company believes that it will be able to obtain further waivers if necessary.

Consolidated Statements of Income and Comprehensive Income Data

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(USD millions)				
Revenues					
Oil and gas sales	1,714	2,735	16,202	2,991	5,213
Petroleum products and processing fees	1,724	2,233	7,374	1,311	2,219
Support services and other revenues	203	307	375	61	84
Total	**3,641**	**5,275**	**23,951**	**4,363**	**7,516**
Costs and expenses					
Production and operating expenses	442	608	1,623	357	421
Cost of purchased oil and petroleum products	368	547	732	114	541
Selling, general and administrative expenses	305	269	663	86	167
Pipeline tariffs and transportation costs	452	562	2,164	358	693
Exploration expenses	18	51	194	25	35
Depreciation, depletion and amortization	302	307	1,472	337	384
Accretion expense	12	8	35	8	8
Taxes other than income tax	642	957	5,264	1,024	1,574
Excise tax and export customs duty	436	760	6,281	854	2,168
Total costs and expenses	**2,977**	**4,069**	**18,428**	**3,163**	**5,991**
Operating income	**664**	**1,206**	**5,523**	**1,200**	**1,525**
Other income/(expenses)					
Interest income	73	65	81	14	38
Interest expense	(110)	(159)	(775)	(191)	(203)
(Loss)/gain on disposal of property, plant and equipment	(21)	121	(74)	(2)	(4)
(Loss)/gain on disposal of investments	5	(30)	(13)	(10)	—
Gain on disposal of share in CJSC Sevmorneftegaz	—	—	1,303	—	—
Equity share in affiliates' profits	—	52	51	9	8
Dividends and income from joint ventures	16	46	10	8	1
Other expenses, net	(101)	(196)	(137)	(53)	(26)
Foreign exchange gain	63	96	245	14	(159)
Total other income/(expenses)	**(75)**	**(5)**	**691**	**(211)**	**(345)**
Income before income tax and minority interest	**589**	**1,201**	**6,214**	**989**	**1,180**
Income tax expense	(201)	(298)	(1,609)	(257)	(335)
Income before minority interest	388	903	4,605	732	845
Minority interest in subsidiaries' earnings	(52)	(66)	(446)	(8)	(43)
Net income before cumulative effect from change in accounting principle	**336**	**837**	**4,159**	**724**	**802**
Cumulative effect from change in accounting principle, net of income tax	50	—	—	—	—
Net income	**386**	**837**	**4,159**	**724**	**802**
Other comprehensive income	13	—	—	—	—
Comprehensive income	**399**	**837**	**4,159**	**724**	**802**

Consolidated Statements of Cash Flows Data

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(USD millions)				
Operating activities					
Net income	386	837	4,159	724	802
Reconciliation of net income to net cash provided by operating activities:					
Effect of foreign exchange on cash and cash equivalents and deferred tax	(16)	(24)	(115)	28	135
Gain on disposal of share in CJSC Sevmorneftegaz	—	—	(1,303)	—	—
Cumulative effect from change in accounting principle, net of income tax	(50)	—	—	—	—
Depreciation, depletion and amortization	302	307	1,472	337	384
Dry well expenses	—	7	17	4	1
Loss/(gain) on disposal of property, plant and equipment	21	(121)	74	2	4
Deferred income tax	(43)	(11)	(79)	(58)	(78)
Accretion expense	12	8	35	8	8
Equity share in affiliates' profits	—	(52)	(51)	(9)	(8)
Increase in allowance for doubtful accounts and bank loans granted	27	11	4	10	1
Minority interests in subsidiaries' earnings	52	66	446	8	43
Changes in operating assets and liabilities net of acquisitions:					
Decrease/(increase) in restricted cash	—	(4)	2	(6)	(1)
Increase in accounts receivable	(114)	(146)	(1,353)	(982)	(110)
Increase in inventories	(56)	(92)	(297)	(147)	(97)
(Increase)/decrease in prepayments and other current assets	42	(100)	(641)	(76)	(47)
Decrease/(increase) in other non-current assets	(3)	(26)	16	4	(14)
Increase in long-term bank loans granted	(13)	(16)	(23)	(62)	15
Increase/(decrease) in accounts payable and accrued liabilities	169	(44)	(28)	(182)	231
Increase in income and other tax liabilities	53	34	414	309	118
Increase in interest payable	18	35	158	54	25
Increase in other current and non-current liabilities	7	38	5	(18)	1
Net cash provided by operating activities	794	707	2,912	(52)	1,413
Cash flows from investing activities					
Capital expenditures	(821)	(853)	(2,085)	(312)	(848)
Proceeds from disposals of property, plant and equipment	6	206	30	3	4
Acquisition of short-term investments	(614)	(88)	(693)	(36)	(75)
Proceeds from sale of short-term investments	449	253	707	50	10
Acquisition of entities and additional shares in subsidiaries	(728)	(270)	(366)	(112)	(105)
Acquisition of OJSC Yuganskneftegaz	—	(9,398)	—	—	—
Acquisition of debt receivables	—	—	—	—	(463)
Proceeds from sale of long-term investments	463	248	147	21	7
Acquisition of long-term investments	(315)	(267)	(33)	(14)	(36)
Net cash used in investing activities	(1,560)	(10,169)	(2,293)	(400)	(1,506)
Cash flows from financing activities					
Proceeds from short-term debt	548	3,211	977	395	99
Repayment of short-term debt	(588)	(132)	(2,018)	(460)	(518)
Proceeds from long-term debt	1,043	8,092	2,547	163	669
Repayment of long-term debt	(228)	(867)	(1,829)	(129)	(851)
Dividends paid to minority shareholders of subsidiaries	(19)	(10)	(74)	—	—
Common dividends paid	(49)	(51)	(61)	—	—
Net cash (used in)/provided by financing activities	707	10,243	(458)	(31)	(601)
Increase /(decrease) in cash and cash equivalents	(59)	781	161	(483)	(694)
Cash and cash equivalents at beginning of year	271	228	1,033	1,033	1,173
Effect of foreign exchange on cash and cash equivalents	16	24	(21)	(19)	10
Cash and cash equivalents at end of year	228	1,033	1,173	531	489
Supplementary disclosures of cash flow information					
Cash paid for interest (net of amount capitalized)	92	124	617	132	166
Cash paid for income taxes	199	309	1,636	231	374
Supplementary disclosure of non-cash activities					
Income tax offsets	49	6	41	1	9
Non-cash capital expenditures	(61)	(50)	(32)	—	—

Key Operating Data and Financial Ratios

The following table sets forth key operating data and financial ratios that the Company's management uses in assessing Rosneft's performance. The operating data and financial ratios set forth in this table reflect the operations of the Company and its fully consolidated subsidiaries.

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
KEY OPERATING DATA					
Production data[1]					
Crude oil (thousand barrels per day)					
Oil	369.42	386.87	1,433.97[1]	1,395.70	1,475.06
Gas condensate	7.56	18.22	32.22[1]	24.19	37.29
Total crude oil	376.99	405.09	1,466.18[1]	1,419.89	1,512.35
Gas (bcm)					
Associated gas	3.644	4.234	5.280[1]	1.438	1.275
Non-associated gas	3.354	5.115	7.734[1]	1.619	2.248
Total gas	6.998	9.348	13.014[1]	3.057	3.523
Crude oil sales and exports (million barrels)					
Crude oil exported outside the CIS	57.95	65.99	283.23	57.93	83.47
Crude oil sold in the CIS	12.41	17.76	48.33	12.58	11.52
Crude oil sold in Russia, including to refineries	63.76	58.84	191.21	52.83	45.29
Gas sales (bcm)	6.01	7.30	9.30	2.30	2.39
Petroleum products (million tonnes)					
Total domestic refining throughput	7.56	7.36	22.13	4.99	5.98
Petroleum products exported outside the CIS	4.73	4.59	13.01	2.59	3.26
Petroleum products sold in the CIS	0.00	0.00	0.30	0.08	0.13
Petroleum products sold in Russia, including those purchased by the Company's marketing subsidiaries					
Petroleum products sales via proprietary and rented retail outlets	0.71	0.83	0.97	0.21	0.25
Total petroleum products sold in Russia	4.10	4.01	8.04	1.89	2.43
KEY FINANCIAL RATIOS					
EBITDA (USD millions)[2]	978	1,521	7,030	1,545	1,917
EBITDA margin[3]	26.9%	28.8%	29.4%	35.4%	25.5%
Adjusted free cash flow before interest (USD millions)[4]	99	0	1,612	(202)	1,025
Adjusted net income margin before minority interest[5]	12.0%	17.1%	15.1%	16.8%	11.2%
Return on average capital employed, annualized where appropriate[6]	9.6%	7.5%	21.7%	19.7%	22.9%
Return on average equity, annualized where appropriate[7]	13.9%	19.6%	47.7%	47.2%	34.9%
Net debt (USD millions)[8]	2,180	12,709	11,030	13,114	11,144
Net debt to capital employed ratio[9]	0.39	0.68	0.54	0.67	0.53
Net debt to EBITDA ratio, annualized where appropriate[10]	2.23	8.36	1.57	2.12	1.45
Current ratio[11]	1.30	0.89	0.73	0.93	0.66
EBITDA/bbl (USD)[12]	7.11	10.26	13.14	12.09	14.08
EBITDA/boe (USD)[13]	5.47	7.48	11.49	10.60	12.22
Upstream capital expenditures/bbl (USD)[14]	4.19	3.83	3.27	2.32	5.32
Upstream capital expenditures/boe (USD)[15]	3.23	2.79	2.86	2.03	4.62
Upstream operating expenses/bbl (USD)[16]	1.96	2.32	2.43	2.23	2.25
Upstream operating expenses/boe (USD)[17]	1.51	1.69	2.13	1.96	1.95
Adjusted free cash flow before interest/bbl (USD)[18]	0.72	0.00	3.01	(1.58)	7.53
Adjusted free cash flow before interest/boe (USD)[19]	0.55	0.00	2.63	(1.39)	6.54

(1) In 2005, Yuganskneftegaz produced 1,026.30 thousand barrels of crude oil per day. In 2005, Yuganskneftegaz also produced 1.42 bcm of gas.

(2) EBITDA, for any relevant period, is operating income for such period plus accretion expense (related to the unwinding of asset retirement obligations) and depreciation, depletion and amortization for such period. Reconciliation of EBITDA to net income is as follows:

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(USD millions)				
Net income	386	837	4,159	724	802
Cumulative effect from change in accounting principle, net of income tax	(50)	—	—	—	—
Minority interest in subsidiaries' earnings	52	66	446	8	43
Income tax expense	201	298	1,609	257	335
Total other income/(expenses)	75	5	(691)	211	345
Operating income	664	1,206	5,523	1,200	1,525
Accretion expense[(1)]	12	8	35	8	8
Depreciation, depletion and amortization	302	307	1,472	337	384
EBITDA	**978**	**1,521**	**7,030**	**1,545**	**1,917**

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

The Company defines EBITDA in this way because it believes that doing so gives it a meaningful measure of its operating performance. EBITDA is a measure of Rosneft's operating performance that is not required by, or presented in accordance with, U.S. GAAP. EBITDA is not a measure of Rosneft's operating performance under U.S. GAAP and is not an alternative to net income, operating income or any other performance measures derived in accordance with U.S. GAAP. EBITDA is not an alternative to net cash flow provided by operating activities as a measure of Rosneft's liquidity. In particular, EBITDA is not a measure of discretionary cash available to Rosneft to invest in the growth of its business.

Rosneft believes that financial analysts, investors and other interested parties frequently use EBITDA-based indicators in the evaluation of oil and gas companies. These indicators have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of Rosneft's operating results as reported under U.S. GAAP. Rosneft's management compensates for the limitations of these indicators by considering U.S. GAAP operating results in addition to these indicators.

Other oil and gas companies may calculate EBITDA differently or use it for different purposes than Rosneft, limiting its usefulness as a comparative measure.

(3) EBITDA margin is EBITDA *divided by* total revenues for the relevant period.

(4) Adjusted free cash flow before interest is net cash provided by operating activities *minus* capital expenditures *plus* subsoil license acquisition costs (which are included in capital expenditures in the statement of cash flows) *plus* cash interest payments. The Company defines adjusted free cash flow before interest in this way because it believes that doing so gives it a meaningful measure of its operating performance and assists in cash flow modeling. Adjusted free cash flow before interest is a measure of Rosneft's operating performance that is not required by, or presented in accordance with, U.S. GAAP. Rosneft believes that financial analysts, investors and other interested parties frequently use free cash flow-based indicators in the evaluation of oil and gas companies. These indicators have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of Rosneft's operating results as reported under U.S. GAAP. Rosneft's management compensates for the limitations of these indicators by considering U.S. GAAP operating results in addition to these indicators. Other oil and gas companies may calculate free cash flow-based indicators differently or use them for different purposes than Rosneft, limiting their usefulness as a comparative measure. Adjusted free cash flow before interest is not a measure of residual cash flow available for discretionary expenditures. The Company has mandatory debt service requirements and may have other non-discretionary expenditures that are not deducted from this measure. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios."

(5) Adjusted net income margin before minority interest is adjusted net income before minority interest for the relevant period *divided by* total revenues for the relevant period. Adjusted net income is as set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios—Calculation of Adjusted Net Income before Minority Interest."

(6) Return on average capital employed is operating income, income tax expense, income tax on the gain on the sale of interest in CJSC Sevmorneftegaz in the relevant period, annualized where appropriate, *divided by* average capital employed from the beginning to the end of the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios—Calculation of Income Used for Calculating Return on Average Capital Employed (ROACE)" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios—Calculation of Capital Employed and Related Indicators."

(7) Return on average equity is adjusted net income before minority interest in the relevant period, annualized where appropriate, *divided by* total average shareholders' equity from the beginning to the end of the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios—Calculation of Return on Average Equity (ROAE)."

(8) Net debt is short-term loans and the current portion of long-term debt *plus* long-term debt *minus* cash and cash equivalents.

(9) The net debt to capital employed ratio is net debt as of the end of the relevant period *divided by* capital employed as of the end of the relevant period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Financial

Ratios—Calculation of Capital Employed and Related Indicators.” See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios—Calculation of Capital Employed and Related Indicators.”

(10) The net debt to EBITDA ratio is net debt as of the end of the relevant period *divided by* EBITDA, annualized where appropriate, for the relevant period. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios—Calculation of Capital Employed and Related Indicators.”

(11) The current ratio is current assets as of the end of the relevant period *divided by* current liabilities as of the end of the relevant period.

(12) EBITDA/bbl is EBITDA for the relevant period *divided by* the number of barrels of crude oil produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios.”

(13) EBITDA/boe is EBITDA for the relevant period *divided by* the number of barrels of oil equivalent produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios.”

(14) Upstream capital expenditures/bbl is capital expenditures in the upstream segment during the relevant period *divided by* the number of barrels of crude oil produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios.”

(15) Upstream capital expenditures/boe is capital expenditures in the upstream segment during the relevant period *divided by* the number of barrels of oil equivalent produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios.”

(16) Upstream operating expenses/bbl is production and operating expenses in the upstream segment during the relevant period *divided by* the number of barrels of crude oil produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios.”

(17) Upstream operating expenses/boe is production and operating expenses in the upstream segment during the relevant period *divided by* the number of barrels of oil equivalent produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios.”

(18) Adjusted free cash flow before interest/bbl is adjusted free cash flow before interest during the relevant period *divided by* the number of barrels of crude oil produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios.”

(19) Adjusted free cash flow before interest/boe is adjusted free cash flow before interest during the relevant period *divided by* the number of barrels of oil equivalent produced in the relevant period. No adjustment to production is made to take into account the effect of changes in inventories during the relevant period. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Financial Ratios.”

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of Rosneft's financial condition and results of operations should be read in conjunction with the Company's Financial Statements, the notes thereto and the other information included elsewhere in this Prospectus. This section contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Forward-Looking Statements."

Overview

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

In 2005 and during the first quarter of 2006, Rosneft produced 1,466.18 thousand barrels of crude oil per day (73.16 million tonnes a year) and 1,512.35 thousand barrels of crude oil per day (18.61 million tonnes a quarter), respectively. Rosneft sells approximately 60% of this crude oil to customers outside Russia, which includes both sales to CIS countries and exports to international markets other than the CIS. Most of the remainder is refined at Rosneft's two main refineries and at third party refineries in Russia and then sold in the form of petroleum products in international and domestic markets. Rosneft has an integrated production, transportation, refining and marketing strategy and seeks to maximize netbacks by optimizing its product mix and available transport routes.

Rosneft's total revenues increased from USD 3,641 million in 2003 to USD 5,275 million in 2004 and to USD 23,951 million in 2005. Rosneft's total revenues increased from USD 4,363 million in the first quarter of 2005 to USD 7,516 million in the first quarter of 2006. Similarly, Rosneft's net income increased from USD 386 million in 2003 to USD 837 million in 2004 and to USD 4,159 million in 2005. Rosneft's net income increased from USD 724 million in the first quarter of 2005 to USD 802 million in the first quarter of 2006.

Rosneft's total revenues and net income have grown both organically (including as a result of increases in hydrocarbon prices) and by acquisition. The most significant recent acquisition was the December 2004 acquisition of Baikalfinancegroup, which had won an auction for the sale of 76.79% of the shares (100% of the common shares) of Yuganskneftegaz, the second largest oil production enterprise in Russia. As of 31 December 2005, Yuganskneftegaz accounted for approximately 73.4% of Rosneft's proved crude oil reserves. It accounted for approximately 70.0% of Rosneft's crude oil production in 2005 and 70.7% in the first quarter of 2006. The acquisition of Yuganskneftegaz contributed significantly to the increases in Rosneft's total revenues and net income in 2005. The increases in Rosneft's total revenues and net income in other periods were due mainly to organic growth.

Business Segments and Intersegment Sales

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

Business Segments

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

- *Exploration and production ("upstream").* Geological exploration and development of fields, and crude oil and gas production; and

• *Refining, marketing and distribution ("downstream").* Refining of crude oil, as well as the purchase, transportation, sale and transshipment of crude oil and petroleum products.

Rosneft does not separate its distribution and transportation divisions into a "midstream" segment. These activities are reflected in the "downstream" segment. Other types of activities are incorporated in the "other activities" segment and include banking and other non-core activities.

Intersegment Sales

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

It is difficult to determine market prices for crude oil in the Russian domestic market, mainly due to the significant intragroup turnover within the vertically integrated oil companies that dominate the market. Moreover, to the extent they exist, crude oil market prices in Russia can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances. Transaction prices for crude oil between Rosneft companies are established taking into consideration market prices and transportation costs, but are also affected to a considerable degree by the capital requirements of different enterprises within the upstream segment. Accordingly, an analysis of individual segments in isolation from the analysis of other activities could give a distorted view of Rosneft's financial and operating performance. For this reason, the Company's management does not analyze each main business segment in isolation. The Company does, however, provide financial data by segment in Note 12 to the Interim Financial Statements and in Note 27 to the Annual Financial Statements.

Acquisitions

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

Significant Acquisitions

2003

Severnaya Neft

In June 2003, Rosneft purchased 100% of Severnaya Neft for RUB 18,990 million (USD 623 million as of the payment date). The principal activity of Severnaya Neft is the exploration and development of hydrocarbon deposits within Timano-Pechora. The primary reason for the acquisition was to acquire licenses for the proved, probable and possible oil and gas reserves located in the Val Gamburtseva group of fields.

Anglo-Siberian Oil Company

In April 2003, the Company acquired Anglo-Siberian, which then held a 54% interest in Eniseyneft and a 100% interest in Taymirneft. The Company subsequently increased its interest in Eniseyneft to 99% and decreased its interest in Taymirneft to 60% by selling a 40% interest to Stimul Trading. Eniseyneft and Taymirneft held licenses to different portions of the Vankorskoye field, which covers approximately 264 sq. km. in Eastern Siberia. Eniseyneft held the license to the southern portion of the field, while Taymirneft held the license to the northern portion. The license held by Eniseyneft was transferred to Vankorneft, a 100% subsidiary of the Company, in August 2004. The majority of the reserves are in the southern portion of the field licensed to Vankorneft.

2004

Yuganskneftegaz

On 22 December 2004, Rosneft acquired for nominal consideration a 100% interest in Baikalfinancegroup, which had won an auction for the sale of 76.79% of the shares (100% of the common shares) of Yuganskneftegaz at a price of RUB 260.78 billion (USD 9.40 billion at the CBR exchange rate in effect as at the settlement date). The auction was conducted on 19 December 2004 by the Russian bailiff service to enforce tax liens against Yukos, which had previously controlled Yuganskneftegaz.

Following Rosneft's acquisition of Baikalfinancegroup, Rosneft made loans to Baikalfinancegroup to enable it to repay the principal of and interest on the debt it had incurred to finance its deposit for the auction, and to purchase and pay for the shares of Yuganskneftegaz it had won in the auction. Baikalfinancegroup purchased and paid for these shares on 31 December 2004.

The sources of the funds Rosneft loaned to Baikalfinancegroup and also used to meet Yuganskneftegaz' immediate working capital requirements included:

- Borrowings characterized as long-term loans in the aggregate amount of USD 6,465 million;
- Short-term borrowings in the aggregate amount of USD 1,442 million;
- Funds, in the aggregate amount of approximately USD 1,746 million, accumulated from the sale of Rosneft's interests in the Prirazlomnoye and Shtokmanovskoye projects, including USD 1,344 million from the sale of Rosneft's 50% interest in CJSC Sevmorneftegaz described in more detail below under "—Results of Operations—Other Income/(Expenses)—Gain on disposal of share in CJSC Sevmorneftegaz."

The borrowings characterized as long-term loans included USD 6,000 million obtained from Vnesheconombank, initially through the sale of promissory notes by the Company and its subsidiaries in December 2004. The financing was intended to be, and was, put on a long-term basis in January 2005, when Vnesheconombank raised funds from two Chinese banks, China Development Bank and the Export-Import Bank of China, and loaned these funds to Rosneft, which used them to repay the promissory notes. The loan from Vnesheconombank is repayable in monthly installments, with the final installment being due in 2011. It initially carried interest at a rate of LIBOR plus 3% *per annum*, but in the first quarter of 2006 the interest rate was reduced to LIBOR plus 0.7% *per annum*. Rosneft secured this arrangement by entering into, and pledging its receivables under, a long-term contract for the supply of crude oil to China National United Petroleum Corporation ("**United**") in a total amount of 48.4 million tonnes to be delivered from 2005 through 2010 (4 million tonnes in 2005 and 8.88 million tonnes in each of the five years thereafter) at prices determined on the basis of a formula that takes into account standard international crude oil price indicators and adjusts for quality and other factors. Payments by United under the contract are guaranteed by United's parent company, China National Petroleum Corporation, and China Development Bank and Export-Import Bank of China. The remaining USD 465 million of borrowings characterized as long-term loans came from Sberbank.

The short-term borrowings, obtained mainly from Sberbank and Vnesheconombank, were repaid, or refinanced in 2005 with other loans, including a portion of a 5-year loan raised in July 2005 from a syndicate of foreign banks in the amount of USD 2,000 million and carrying interest at a rate of LIBOR plus 1.8% *per annum*. This loan is repayable in monthly installments and is secured by contracts for the export of crude oil. The interest rate on this loan was reduced to LIBOR plus 0.65% in April 2006.

The acquisition of Yuganskneftegaz contributed significantly to Rosneft's reserves, production and results of operations. However, it also increased Rosneft's indebtedness considerably and resulted in significant contingencies. These include contingencies relating to, among other things: challenges to the acquisition itself; tax claims against Yuganskneftegaz; guarantee claims against Yuganskneftegaz; loan claims against Yuganskneftegaz; and breaches by Rosneft of covenants in its loan agreements arising from the incurrence of the acquisition indebtedness (subsequently waived by Rosneft's creditors). See "Risk Factors—Risks Relating to Rosneft—Rosneft faces several risks arising out of its acquisition of Yuganskneftegaz," "Risk Factors—Risks Relating to Rosneft—If certain shareholders of Yukos are successful in obtaining an arbitral award against the Russian Federation, those shareholders may seek to enforce that award against Rosneft, which may expose Rosneft to substantial liability" and "Risk Factors—Risks Relating to Rosneft—Rosneft is relatively highly leveraged and must observe certain financial and other restrictive covenants under the terms of its indebtedness, and any failure to comply with such covenants could put Rosneft into default." Following the merger of Yuganskneftegaz into Rosneft pursuant to the Share Swap, expected to be completed by the end of 2006, claims against Yuganskneftegaz will become claims against Rosneft. See "—Planned Consolidation via Share Swap."

2005

Verkhnechonskneftegaz

In the fourth quarter of 2005, the Company acquired 25.94% of the shares of OJSC Verkhnechonskneftegaz, which holds the license for the development of the Verkhnechonskoye oil and gas condensate deposit, which is the largest deposit in Irkutskaya Oblast. The purchase price was USD 230 million. The Company's interest in OJSC Verkhnechonskneftegaz is accounted for using the equity method.

2006

OJSC Nakhodkinskiy Neftenalivnoy Morskoy Torgoviy Port

In June 2006, the Company purchased 97.51% of the common shares in OJSC Nakhodkinskiy Neftenalivnoy Morskoy Torgoviy Port for RUB 528 million (USD 19.5 million as of the payment date).

Udmurtneft

On 20 June 2006, TNK-BP announced that it had reached an agreement to sell a 96.9% interest in OJSC Udmurtneft ("**Udmurtneft**") to the China Petroleum and Chemical Corporation ("**Sinopec**"). Earlier, in May 2006, Sinopec had granted the Company an option to purchase a 51% interest in Udmurtneft. This option is exercisable only if Sinopec actually completes the acquisition of the 96.9% interest from TNK-BP. On 20 June 2006, the Company announced its intention to exercise the option once Sinopec completes this acquisition. Sinopec will be responsible for financing the acquisition by Rosneft of the 51% interest, and the financing is to be repaid out of cash flows derived from the 51% interest, without recourse to the Company.

Increased Stakes in Subsidiaries

2004

Eniseyneft

In the first half of 2004, the Company acquired 100% of Losiem Commercial for USD 69 million. Losiem Commercial held a 40.00% minority interest in Eniseyneft LLC. The purpose of the transaction was to increase the Company's stake in Eniseyneft from 59% to 99.00%.

Tuapsinskiy Refinery

In December 2004, Rosneft acquired 39.38% of the common shares and 49.79% of the preferred shares in OJSC Rosneft-Tuapsinskiy Refinery, increasing its stake in the common shares from 52.70% to 90.62% and in the total share capital from 39.53% to 81.23%. The purchase price was USD 184 million.

2005

Krasnodarneftegaz

In the first half of 2005, the Company acquired 38.66% of the common shares and 61.63% of the preferred shares in OJSC Rosneft-Krasnodarneftegaz, increasing its stake in the common shares from 58.97% to 97.91% and in the total share capital from 50.78% to 95.46%. The purchase price was USD 110 million.

Selkupneftegaz

In the third quarter of 2005, the Company acquired 34% of OJSC Selkupneftegaz, increasing its stake from 66.00% to 100.00%. The purchase price was USD 20 million.

First Quarter of 2006

Tuapsenefteprodukt

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

Daltransgaz

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

Second Quarter of 2006

VBRR (All-Russian Bank of Regional Development)

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

Licenses Won at Auctions

2005

On 19 May 2005, Rosneft won an auction for licenses for exploration and production of the Vorgamusurskoe oil and gas field in Timano-Pechora. The consideration for these licenses was RUB 3,750 million (USD 134 million as of the payment date).

First Quarter of 2006

In February 2006, the Company won auctions for licenses for exploration in the Tukolandskiy, Vadinskiy and Pendomayakhskiy oil and gas license blocks in Krasnoyarskiy Kray. The total cost of the licenses amounted to RUB 5,375 million (USD 190 million as of the auction date). These blocks are located in close proximity to Vankorskoye field, which Rosneft started to develop in 2003. They will be able to share certain infrastructure with the Vankorskoye field, thereby reducing development costs should commercial volumes of hydrocarbons be discovered.

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

Second Quarter of 2006

In April 2006, the Company won an auction for licenses for the development and production of crude oil and gas in the Mogdinskiy and Sanarskiy oil and gas license blocks in Irkutskaya Oblast. The total cost of the licenses was RUB 2,523 million (USD 92 million as of the auction date). In June 2006, the Company won an auction for licenses for the development and production of crude oil and gas in the Danilovskoye oil and gas blocks in Irkutskaya Oblast. The total cost of the licenses was RUB 1,210 million (USD 45 million as of the auction date). These blocks are located in close proximity to Verkhnechonskoye field, which is currently under development. They will be able to share certain infrastructure with the Verkhnechonskoye field, thereby reducing development costs should commercial volumes of hydrocarbons be discovered.

Third Quarter of 2006

On 4 July 2006, Rosneft won an auction for the exploration and development rights to the Severo-Charskiy area located in the border region between the Taymir and Yamalo-Nenets Autonomous Okrugs. The successful bid was for 4.73 billion rubles (USD 176 million as of the auction date).

This acquisition will bring Rosneft's total number of licenses in areas around the Vankorskoye field in Eastern Siberia to 14.

Planned Consolidation via Share Swap

The Company's principal subsidiaries have significant minority interests. See "—Results of Operations—Minority Interest in Subsidiaries' Earnings." As described above under "The Company—Planned Consolidation via Share Swap," the Company will exchange its Ordinary Shares for shares of these subsidiaries held by third parties, and these subsidiaries (the "**Merging Subsidiaries**") will then be merged into the Company. The Share Swap, which is expected to be completed by the end of 2006, is designed to eliminate the minority interests in these subsidiaries and confer several operational advantages.

There are certain contingencies associated with the Share Swap. The Merging Subsidiaries may be required to repurchase the shares held by dissenting minority shareholders (up to 10% of each subsidiary's net assets, as measured under RAS) or prepay their creditors. The Company believes that the exercise of buy-back rights by dissenting minority shareholders is unlikely to be in material amounts. Moreover, the Company does not expect that creditors of the Merging Subsidiaries will demand prepayment of amounts that are material to Rosneft. The Company must also arrange for the transfer of licenses from the Merging Subsidiaries to the Company or their re-issue to the Company. In addition, the Company or its subsidiaries may face legal challenges to the Share Swap, on procedural or other grounds. See "Risk Factors—Risks Relating to Rosneft—Certain contingencies in relation to the elimination of minority interests in certain of the Company's principal subsidiaries through a planned share swap may adversely affect Rosneft's operating results and financial condition." For example, at the end of June 2006, Newport Capital Ltd., a minority shareholder of Komsomolskiy Refinery, filed a claim against Komsomolskiy Refinery (as defendant) and the Company (as third-party participant) seeking invalidation of Komsomolskiy Refinery's corporate approvals of the merger and the Share Swap by alleging procedural violations and challenging the exchange ratios and the buy-back price of the shares in Komsomolskiy Refinery. The first preliminary hearing on this case has been scheduled for 1 August 2006.

Key Financial Ratios

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

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
EBITDA margin	26.9%	28.8%	29.4%	35.4%	25.5%
Adjusted net income margin before minority interest	12.0%	17.1%	15.1%	16.8%	11.2%
Return on average capital employed (ROACE), annualized where appropriate	9.6%	7.5%	21.7%	19.7%	22.9%
Return on average equity (ROAE), annualized where appropriate	13.9%	19.6%	47.7%	47.2%	34.9%
Net debt to capital employed ratio	0.39	0.68	0.54	0.67	0.53
Net debt to EBITDA ratio, annualized where appropriate	2.23	8.36	1.57	2.12	1.45
Current ratio	1.30	0.89	0.73	0.93	0.66
			(USD)		
EBITDA/bbl	7.11	10.26	13.14	12.09	14.08
EBITDA/boe	5.47	7.48	11.49	10.60	12.22
Upstream capital expenditure/bbl	4.19	3.83	3.27	2.32	5.32
Upstream capital expenditure/boe	3.23	2.79	2.86	2.03	4.62
Upstream operating expenses/bbl	1.96	2.32	2.43	2.23	2.25
Upstream operating expenses/boe	1.51	1.69	2.13	1.96	1.95
Adjusted free cash flow before interest/bbl	0.72	0.00	3.01	(1.58)	7.53
Adjusted free cash flow before interest/boe	0.55	0.00	2.63	(1.39)	6.54

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

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

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

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

Adjusted free cash flow before interest/bbl and adjusted free cash flow before interest/boe are calculated for any period by dividing adjusted free cash flow before interest during that period by the barrels of crude oil or barrels of oil equivalent, respectively, produced during that period. Adjusted free cash flow before interest is net cash provided by operating activities minus capital expenditures plus subsoil license acquisition costs (which are included in capital expenditures in the statement of cash flows) plus cash interest payments. No adjustments to these measures are made to take into account the effect of changes in inventories during the period.

Upstream operating expenses include lifting costs, and the costs of gathering, treating, processing and storing the crude oil and gas in the fields and delivering the crude oil and gas to a main pipeline (e.g., a Transneft trunk pipeline transshipment point). Upstream operating expenses exclude a portion of the costs relating to intersegment transactions, mainly operating leases relating to certain oil and gas facilities. Upstream operating expenses include for 2005 similar operating leases between Yuganskneftegaz and service entities controlled by Yukos. These entities may be transferred to Rosneft pursuant to a court decision and, if they are, amounts in respect of these operating leases will be excluded as intersegment transactions going forward. The Company believes these exclusions are appropriate because if the leased oil and gas facilities had been owned by the upstream segment instead of being leased by it from another segment, depreciation expense would have accrued instead of lease expense, and that depreciation expense would not have been included in upstream operating expenses.

The following tables set forth relevant figures relating to these measures:

Upstream Measures

	For the year ended 31 December			For the three months ended 31 March	
	2003	**2004**	**2005**	**2005**	**2006**
Upstream capital expenditures (USD millions)	577	568	1,752	296	724
Upstream operating expenses (USD millions)	270	344	1,303	285	306
Barrels of crude oil produced (millions)	137.60	148.26	535.16	127.79	136.11
Barrels of oil equivalent produced (millions)	178.79	203.28	611.76	145.78	156.85

Calculation of Adjusted Free Cash Flow before Interest

	For the year ended 31 December			For the three months ended 31 March	
	2003	**2004**	**2005**	**2005**	**2006**
	(USD millions)				
Net cash provided by operating activities	794	707	2,912	(52)	1,413
Capital expenditures	(821)	(853)	(2,085)	(312)	(848)
Free cash flow	(27)	(146)	827	(364)	565
Subsoil license acquisition costs[(1)]	0	0	134	0	261
Adjusted free cash flow	(27)	(146)	961	(364)	826
Cash interest payments[(2)]	126	146	651	162	199
Adjusted free cash flow before interest	99	0	1,612	(202)	1,025

(1) These acquisition costs are included in capital expenditures in the statement of cash flows.

(2) Cash interest payments, whether capitalized or expensed, as reflected in the statement of cash flows.

Calculation of EBITDA Margin

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(USD millions, except %)				
Net income	386	837	4,159	724	802
Cumulative effect from change in accounting principle, net of income tax	(50)	—	—	—	—
Minority interest in subsidiaries' earnings	52	66	446	8	43
Income tax expense	201	298	1,609	257	335
Total other income/(expenses)	75	5	(691)	211	345
Operating income	664	1,206	5,523	1,200	1,525
Accretion expense[1]	12	8	35	8	8
Depreciation, depletion and amortization	302	307	1,472	337	384
EBITDA	978	1,521	7,030	1,545	1,917
Total revenues	3,641	5,275	23,951	4,363	7,516
EBITDA margin	26.9%	28.8%	29.4%	35.4%	25.5%

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

Calculation of Adjusted Net Income Margin before Minority Interest

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(USD millions, except %)				
Net income	386	837	4,159	724	802
Minority interest in subsidiaries' earnings	52	66	446	8	43
Gain on disposal of share in CJSC Sevmorneftegaz[1]	—	—	(1,303)	—	—
Tax on gain on disposal of share in CJSC Sevmorneftegaz[1]	—	—	313	—	—
Adjusted net income before minority interest in subsidiaries' earnings	438	903	3,615	732	845
Total revenues	3,641	5,275	23,951	4,363	7,516
Adjusted net income margin before minority interest in subsidiaries' earnings	12.0%	17.1%	15.1%	16.8%	11.2%

(1) These items are excluded because they are unusual both in terms of their magnitude and nature.

Calculation of Capital Employed and Related Indicators

	As of 31 December			As of 31 March	
	2003	2004	2005	2005	2006
	(USD millions)				
Short-term loans and current portion of long-term debt	588	4,720	4,005	4,977	3,925
Long-term debt	1,820	9,022	8,198	8,668	7,708
Cash and cash equivalents	(228)	(1,033)	(1,173)	(531)	(489)
Net debt	2,180	12,709	11,030	13,114	11,144
Shareholders' equity	2,562	3,335	7,433	4,059	8,235
Minority interest in subsidiaries' earnings	789	2,535	1,860	2,491	1,842
Equity	3,351	5,870	9,293	6,550	10,077
Capital employed	**5,531**	**18,579**	**20,323**	**19,664**	**21,221**
Average equity, including minority interest[1]	**3,151**	**4,611**	**7,582**	**6,210**	**9,685**
Average capital employed[2]	**4,835**	**12,055**	**19,451**	**19,122**	**20,772**

(1) Average equity including minority interest is calculated as a simple average of the equity including minority interest at the start and end of the given period.

(2) The average capital employed is calculated as a simple average of the capital employed at the start and end of the given period. In 2004, the acquisition of Yuganskneftegaz took place at the end of the year and this acquisition significantly increased the capital employed at 31 December 2004 and hence the average capital employed in 2004 shown in the above table.

Calculation of Income Used for Calculating Return on Average Capital Employed (ROACE)

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(USD millions, except %)				
Operating income	664	1,206	5,523	1,200	1,525
Income tax expense	(201)	(298)	(1,609)	(257)	(335)
Tax on gain on disposal of share in CJSC Sevmorneftegaz[1]	—	—	313	—	—
Return used for calculation of ROACE	463	908	4,227	943	1,190
Average capital employed	4,835	12,055	19,451	19,122	20,772
ROACE, annualized where appropriate	**9.6%**	**7.5%**	**21.7%**	**19.7%**	**22.9%**

Note: As described above, the average capital employed in 2004 increased because of the acquisition of Yuganskneftegaz at the end of the year. As Yuganskneftegaz made no contribution to Rosneft's consolidated income in 2004, ROACE shown in the above table for 2004 is accordingly reduced by this effect.

(1) This item is excluded because it is unusual both in terms of its magnitude and nature.

Calculation of Return on Average Equity (ROAE)

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(USD millions, except %)				
Adjusted net income before minority interest in subsidiaries' earnings	438	903	3,615	732	845
Average equity, including minority interest	3,151	4,611	7,582	6,210	9,685
ROAE, annualized where appropriate	**13.9%**	**19.6%**	**47.7%**	**47.2%**	**34.9%**

Main Factors Affecting Results of Operations

In addition to the acquisition of Yuganskneftegaz described above under "—Acquisitions," the main factors that have affected Rosneft's results of operations during the periods being analyzed, and that can be expected to affect its results of operations in the future, are:

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

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

The integration of Yuganskneftegaz began in the first quarter of 2005 and was completed later in the year.

Changes in Crude Oil and Petroleum Product Prices; Gas Prices

The prices of crude oil and petroleum products internationally and in Russia have a significant impact on the Company's results of operations. World prices for crude oil are characterized by significant fluctuations that are determined by the global balance of supply and demand. These prices have increased in recent years, and are currently high. The crude oil that Rosneft exports through the Transneft pipeline system is blended with oil of other producers that is of a different quality. The resulting Urals blend is traded at a discount to Brent. Russian domestic market prices for crude oil are difficult to determine, mainly due to the significant intragroup turnover of the vertically integrated oil companies that dominate the market. Moreover, to the extent they exist, crude oil market prices in Russia can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances.

The dynamics of petroleum product prices in the international and Russian markets are determined by a number of factors, the most important among them being the level of world prices of crude oil, supply and demand for petroleum products, competition in the different markets and distances separating them from the refineries where the crude oil is refined into useable end products or intermediate products.

Average Crude Oil and Petroleum Products Prices Worldwide and in Russia

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December 2003 and 2004	% change between the years ended 31 December 2004 and 2005	% change between the three months ended 31 March 2005 and 2006
	2003	**2004**	**2005**	**2005**	**2006**			
	(in USD per barrel)							
World market								
Brent	28.84	38.21	54.38	47.50	61.75	32%	42%	30%
Urals (CIF Med)	27.09	34.27	50.47	42.77	58.20	27%	47%	36%
	(in USD per tonne)							
Fuel oil 3.5% (CIF Med)	145.00	147.00	222.00	173.37	283.90	1%	51%	64%
Gasoil 0.2% (CIF Med)	255.00	356.00	508.00	432.47	551.73	40%	43%	28%
High octane gasoline (FOB Med)	296.00	400.00	534.00	436.51	561.67	35%	34%	29%
Russian market	(in USD per tonne)							
Fuel oil	86.26	84.16	145.30	74.61	205.92	(2)%	73%	176%
Diesel fuel	240.58	333.78	495.15	421.77	526.86	39%	48%	25%
High octane gasoline	362.23	485.89	606.76	504.68	651.45	34%	25%	29%
Low octane gasoline	276.30	400.62	494.48	425.69	541.74	45%	23%	27%

(1) Including VAT.

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

Rosneft's gas sales have been limited to date, but the Company's strategy anticipates a significant increase in its gas business. See "Business—Overview—Competitive Strengths and Strategy." Gazprom controls access to the UGSS, is a monopoly supplier of gas in Russia and is the only exporter of gas produced in Russia. Rosneft sells the gas it produces to Gazprom from time to time and is currently in the process of negotiating a long-term agreement to sell additional gas to Gazprom. The Russian government regulates the prices for the gas Gazprom sells in Russia. While the regulated price has been rising in Russia, and is expected to continue to rise to a level closer to parity with export netbacks, it is still significantly below world levels. The regulated price has affected, and is likely to continue to affect, the pricing of the gas Rosneft sells to Gazprom from time to time or pursuant to the contract it is negotiating. Rosneft's average gas sale price was USD 13.15 per thousand cubic meters, USD 16.16 per thousand cubic meters and USD 18.82 per thousand cubic meters in 2003, 2004 and 2005, respectively, and USD 17.39 per thousand cubic meters and USD 20.91 per thousand cubic meters in the first quarters of 2005 and 2006, respectively.

For a discussion of the risks associated with crude oil, gas and petroleum products prices, see "Risk Factors—Risks Relating to the Oil and Gas Industry—Prices for crude oil, gas and petroleum products could decline substantially" and "Risk Factors—Risks Relating to Rosneft—Rosneft faces several risks in connection with the marketing of the gas it produces."

RUB/USD Exchange Rate Movements and Inflation

The ruble-U.S. dollar exchange rate and inflation trends in the Russian Federation affect the Company's results of operations since most of Rosneft's revenues from sales of crude oil and petroleum products are denominated in U.S. dollars, while a substantial portion of its expenses are denominated in Russian rubles. Accordingly, the real appreciation of the ruble versus the U.S. dollar negatively affects Rosneft's margins. The ruble has appreciated against the U.S. dollar in real terms throughout the periods being analyzed, and in nominal terms on average as well. Rosneft does not currently use currency hedging mechanisms.

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

Inflation and Exchange Rates

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Ruble inflation (CPI)	12.0%	11.7%	10.9%	5.3%	5.0%
Ruble/U.S. dollar exchange rate at the end of the period	29.45	27.75	28.78	27.83	27.76
Average ruble/U.S. dollar exchange rate during the period	30.69	28.81	28.29	27.84	28.16
Nominal appreciation/(depreciation) of the ruble	7.9%	6.1%	(3.6)%	(0.3)%	3.5%
Real appreciation/(depreciation) of the ruble	9.9%	8.2%	7.2%	5.0%	8.7%

Source: CBR, State Statistics Committee of Russia.

Changes in Mineral Production Tax and Export Customs Duty

Mineral production tax and export customs duty represented from approximately 25% to 48% of Rosneft's total revenues during the periods being analyzed. The table below sets out the mineral production tax and export customs duty payable by Rosneft during this period. As discussed under "—Impact" below, when volumes remain unchanged, the mineral production tax and export customs duty reduce to a considerable degree the impact of upward or downward movements in crude oil export prices on the Company's net income from the export of crude oil.

Rates of Mineral Production Taxes and Export Customs Duty

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December 2003 and 2004	% change between the years ended 31 December 2004 and 2005	% change between the three months ended 31 March 2005 and 2006
	2003	2004	2005	2005	2006			
Mineral production tax								
Crude oil (RUB per tonne)	791	1,042	1,883	1,509	2,224	32%	81%	47%
Gas (RUB per thousand cubic meters)	107	107	135	135	147	0%	26%	9%
Export customs duty (USD per tonne)								
Crude oil	30.40	55.77	130.02	89.00	167.10	83%	133%	88%
Light and medium distillates	27.36	39.15	91.53	58.39	129.20	43%	134%	121%
Fuel oil	27.36	37.22	52.43	44.10	69.60	36%	41%	58%

Mineral Production Tax

The rate of mineral production tax for crude oil in 2005 and the first quarter of 2006 was calculated by multiplying the base rate per tonne of crude oil produced by the adjustment ratio equal to $(P - 9) * R_t / 261$, where "P" is the average Urals price per barrel during the previous month, and "R_t" is the average ruble/dollar exchange rate established by the CBR during the previous month. In 2003 and 2004, the following formula was used to calculate the adjustment ratio: $(P - 8) * R_t / 252$. The base rate was 340 rubles in 2003, 347 rubles in 2004 and 419 rubles in 2005 and the first quarter of 2006. The rate of mineral production tax per thousand cubic meters of gas produced was 107 rubles in 2003 and 2004, 135 rubles in 2005 and 147 rubles in the first quarter of 2006.

In the first quarter of 2006, the rate of mineral production tax for crude oil increased by 47%, primarily due to increases in crude oil prices (by more than 36%). The rate of mineral production tax for gas increased by 9% to RUB 147 per thousand cubic meters.

In 2005, the rate of mineral production tax for crude oil increased by 81%, primarily due to increases in crude oil prices (by more than 47%), and an increase in the base rate.

In 2004, the rate of mineral production tax for crude oil increased by 32%, primarily due to increases in crude oil prices (by more than 27%) and an increase in the base rate.

Mineral production tax was USD 3.35 per barrel of crude oil produced and USD 2.58 per barrel of oil equivalent produced in 2003, USD 4.98 and USD 3.64, respectively, in 2004, USD 8.81 and USD 7.71, respectively, in 2005, USD 7.19 and USD 6.30, respectively, in the first quarter of 2005 and USD 10.52 and USD 9.13, respectively, in the first quarter of 2006.

On 2 May 2006, a bill was introduced to the State Duma proposing changes to the mineral production tax regime. Subject to approval by the Federal Assembly and the President, the new legislation is likely to take effect around 1 January 2007. The key provisions of the draft bill are:

- Certain mineral production tax-free periods for "greenfield" crude oil projects in Eastern Siberia for up to 10 years for new production licenses and 15 years for new combined exploration and production licenses. Qualifying producers could extract up to 25 million tonnes of crude oil per license without paying mineral production tax. These mineral production tax-free periods do not apply to the extraction of natural gas; and
- Lower mineral production tax rates for "brownfield" fields that are 80% or more depleted.

Rosneft has extensive "greenfield" interests in Eastern Siberia. See "Business—Upstream Operations—Exploration Projects—Eastern Siberia Resource Base." Accordingly, the proposed legislation may benefit Rosneft.

Export Customs Duty

As described in the following table, the rate of export customs duty is linked to the average Urals price in U.S. dollars per barrel of extracted crude oil (expressed in U.S. dollars per tonne).

Calculation of Export Customs Duty (from August 2004)

Urals price (USD/barrel)	Export customs duty (USD/tonne)
Below or equal to 15	Export customs duty is not levied
Above 15 but less than or equal to 20	35% of the difference between Urals price in USD per tonne and USD 109.5
Above 20 but less than or equal to 25	USD 12.78 per tonne plus 45% of the difference between Urals price in USD per tonne and USD 146
Above 25	USD 29.2 per tonne plus 65% of the difference between Urals price in USD per tonne and USD 182.5

Calculation of Export Customs Duty (before August 2004)

Urals price (USD/barrel)	Export customs duty (USD/tonne)
Below or equal to 15	Export customs duty is not levied
Above 15 but less than or equal to 25	35% of the difference between USD 15 per barrel and the current oil price
Above 25	40% of the difference between USD 25 per barrel and the current oil price plus USD 35 per barrel

In line with the rise in oil prices, the level of export customs duty for crude oil has increased dramatically in recent years, from USD 4.16 in 2003 to USD 22.8 in the first quarter of 2006 per barrel of crude oil exported.

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

Impact

For companies that pay profits tax at 24% on marginal revenue, when crude oil prices are in excess of USD 25 per barrel, the overall marginal rate of tax for exports of crude oil outside the CIS at the average Urals price was as follows:

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	%	%	%	%	%
Mineral production tax	18.44	18.82	21.95	21.95	21.95
Export customs duty rate above USD 25 per barrel	40.00	65.00[(1)]	65.00	65.00	65.00
	58.44	83.82	86.95	86.95	86.95
Profits tax at 24% on USD 1 of marginal revenue after mineral production tax and export duty	3.97	3.88	3.13	3.13	3.13
Overall marginal rate	62.41	87.70	90.08	90.08	90.08

(1) Before August 2004, the relevant export customs duty rate was 40.00%.

For any price increase above USD 25 per barrel, the marginal rate of tax is higher than the effective rate, as export customs duty is a progressive tax. Based on a USD 50 per barrel Urals crude oil price and the 2005 tax rates, the effective combined rate of mineral production tax and export customs duty would be 58.48% compared with the marginal rate of 86.95% shown in the table above.

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

Changes in Transport Tariffs

Rosneft transports most of its crude oil through the pipeline network owned and operated by Transneft, a state-owned oil pipeline monopoly. Transneft's tariffs for the transportation of Rosneft's crude oil through Transneft's pipeline network are set by the FTS. The overall expense per tonne for the transport of crude oil depends on the length of the transport route from the producing field to the ultimate destination and the number of Transneft "districts" through which the oil is transported. Transneft raised its tariffs by 19% on average in 2003, by 18% on average in 2004, by 11% on average in 2005 and by 14% on average in the first quarter of 2006.

Rosneft seeks to utilize alternative means of transportation, including a northern route via Rosneft's Belokamenka export transshipment facility, a Far Eastern route via Rosneft's pipeline to De-Kastri and a southern route via the CPC pipeline. See "Risk Factors—Risks Relating to Rosneft—Rosneft depends on monopoly providers of crude oil and petroleum product transportation services, and it has no control over the infrastructure they maintain or the fees they charge," "Business—Downstream Operations—Transportation and Logistics—Transportation of Crude Oil and Petroleum Products—Transneft and Transnefteprodukt" and "Regulation of the Russian Oil and Gas Industry—Transportation of Crude Oil and Petroleum Products."

In 2005, Rosneft transported through the Transnefteprodukt pipeline system approximately 12% of its petroleum products, all of which were refined by third parties in the Samara region under tolling agreements. Transnefteprodukt is a state-owned petroleum product pipeline monopoly. Rosneft, along with all other Russian petroleum product producers, must pay transportation fees to Transnefteprodukt in order to transport its petroleum products through the Transnefteprodukt network. The FTS is responsible for setting these fees.

Rosneft also depends on railway transportation for approximately 24% of its export and domestic sales of crude oil, including crude oil produced by Yuganskneftegaz and Purneftegaz for sale to China and approximately 80% of its export and domestic sales of petroleum products. The Russian railway system, or RZD, is a state-owned monopoly provider of railway transportation services. Rosneft's railway tariff per tonne of crude oil products shipped increased by 23% on average in 2004, but declined by 9% on average in 2005, due to the favorable pricing Rosneft was able to negotiate on the basis of the high volume of crude oil it transports by rail to Komsomolskiy Refinery in the Russian Far East. Rosneft's railway tariff per tonne of crude oil products shipped increased by 17% on average in the first quarter of 2006 compared to the first quarter of 2005 generally due to more distant deliveries to China.

Production of Crude Oil, Petroleum Products and Gas

Rosneft's ability to generate revenues depends on its production of crude oil and petroleum products. In addition, as noted elsewhere, an important part of Rosneft's strategy is to expand its production and sale of gas.

Production of Crude Oil

Rosneft produces crude oil at 11 production and development subsidiaries, which it fully consolidates, and at two joint ventures, which it accounts for using the equity method. Yuganskneftegaz and Purneftegaz in Western Siberia and Severnaya Neft in Timano-Pechora are Rosneft's most important production and development subsidiaries, collectively accounting for close to 90% of Rosneft's production in 2005 and the first quarter of 2006. Yuganskneftegaz accounted for approximately 70.0% and 70.7%, Purneftegaz 12.9% and 11.8% and Severnaya Neft 6.7% and 7.3% of Rosneft's production in 2005 and the first quarter of 2006, respectively. The following table sets forth Rosneft's crude oil production during the periods being analyzed:

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December 2003 and 2004	% change between the years ended 31 December 2004 and 2005	% change between the three months ended 31 March 2005 and 2006
	2003	2004	2005	2005	2006			
	(millions of bbl)							
Crude oil production by fully consolidated subsidiaries	137.60	148.26	535.16	127.79	136.11	7.8%	261.0%	6.5%
Crude oil production, including the share in production of affiliated enterprises	140.37	153.14	540.39	128.92	137.99	9.1%	252.9%	7.0%

In the first quarter of 2006, Rosneft increased its production of crude oil by 6.5%, to 136.11 million barrels compared with 127.79 million barrels in the first quarter of 2005. This growth was largely attributable to increased production by Yuganskneftegaz and Severnaya Neft. Yuganskneftegaz increased its production from 89.94 million barrels to 96.21 million barrels, or by 7.0%, and Severnaya Neft increased its production from 7.72 million barrels to 9.88 million barrels, or by 28.0%. Severnaya Neft has been producing out of relatively new oil fields, where production has grown rapidly and is expected to peak in 2007. The decline in the rate of Rosneft's production growth in the first quarter of 2006 compared to the first quarter of 2005 was mainly due to difficult climatic conditions and abnormally low temperatures (below -50º celsius) in certain parts of Western Siberia where Rosneft produces crude oil.

In 2005, Rosneft increased its production of crude oil by 261.0%, to 535.16 million barrels, mainly as a result of the acquisition of Yuganskneftegaz. Without Yuganskneftegaz, crude oil production increased by approximately 8.3% in 2005, to 160.56 million barrels. This organic growth was largely attributable to the oil fields of Severnaya Neft, where crude oil production grew by 43.2%, to 35.66 million barrels.

Yuganskneftegaz' 2005 crude oil production declined by 1.1% compared to 2004, primarily due to the substantial reduction of capital expenditures during the second half of 2004, while it was still owned by Yukos. From January to May 2005, Rosneft focused on integrating the production of Yuganskneftegaz into Rosneft's operations, stabilizing the production decline that commenced in 2004 mainly associated with a lack of investment, optimizing the logistics and improving the profitability of the crude oil production by the enterprise. As a result, the Company managed to reverse the production decline during the second quarter of 2005.

In 2004, Rosneft increased its production of crude oil by 7.9%, to 148.26 million barrels. This growth was largely attributable to the oil fields of Severnaya Neft, where crude oil production grew by 50.1%, to 24.89 million barrels.

Production of Petroleum Products

Rosneft refines the crude oil it produces at its two major refineries, Tuapsinskiy Refinery on the Black Sea in the South of Russia and Komsomolskiy Refinery in the Russian Far East. It also arranges for the crude oil it produces to be processed at refineries owned by third parties. The following table sets forth Rosneft's petroleum product production from its crude oil during the periods being analyzed:

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December 2003 and 2004	% change between the years ended 31 December 2004 and 2005	% change between the three months ended 31 March 2005 and 2006
	2003	2004	2005	2005	2006			
	(millions of tonnes)							
Petroleum products output by Tuapsinskiy, Komsomolskiy and mini-refineries	6.82	6.64	10.38	2.44	2.70	(2.6)%	56.3%	10.7%
Petroleum products output by third party refineries	0.44	0.44	10.88	2.30	3.04	0.0%	2,372.7%	32.2%
Total	**7.26**	**7.08**	**21.26**	**4.74**	**5.74**	**(2.5)%**	**200.3%**	**21.1%**

In the first quarter of 2006, Tuapsinskiy and Komsomolskiy refineries processed 19.78 million barrels of Rosneft-produced crude oil, 8.3% more than in the first quarter of 2005. Depth of refining by Komsomolskiy Refinery increased from 60.1% in the first quarter of 2005 to 62.2% in the first quarter of 2006, and by Tuapsinskiy Refinery from 55.9% in the first quarter of 2005 to 56.5% in the first quarter of 2006, yielding 2.6 million tonnes of petroleum products in the first quarter of 2006. The total output of petroleum products from Rosneft-produced crude oil, including output of mini-refineries and refineries controlled by third parties, increased by 21.1%, from 4.74 million tonnes in the first quarter of 2005 to 5.74 million tonnes in the first quarter of 2006. In the first quarter of 2006, 23.75 million barrels of Rosneft-produced crude oil were refined at third party refineries including Yukos-controlled refineries, yielding approximately 3.14 million tonnes of petroleum products.

In 2005, Rosneft refineries processed 75.81 million barrels of Rosneft-produced crude oil, 53.0% more than in 2004. Depth of refining by Komsomolskiy Refinery increased from 59.6% in 2004 to 60.1% in 2005, and by Tuapsinskiy Refinery from 55.4% in 2004 to 55.8% in 2005, yielding 10.03 million tonnes of petroleum products in 2005. The total output of petroleum products from Rosneft-produced crude oil, including output of refineries owned by third parties, increased by 200.3%, from 7.08 million tonnes in 2004 to 21.26 million tonnes in 2005. In 2005, 85.42 million barrels of Rosneft-produced crude oil were refined at third-party refineries, yielding approximately 11.1 million tonnes of petroleum products. The increase in petroleum product output in 2005 was due mainly to the increased availability of crude oil, arising principally from the acquisition of Yuganskneftegaz.

In 2004, Tuapsinskiy and Komsomolskiy refineries processed 49.56 million barrels of Rosneft-produced crude oil, 2.6% less than in 2003. The depth of refining by Komsomolskiy Refinery increased from 59.5% in 2003 to 59.6% in 2004, and by Tuapsinskiy Refinery from 54.9% in 2003 to 55.4% in 2004. The total output of petroleum products from Rosneft-produced crude oil, including output of mini-refineries and refineries owned by third parties, decreased by 2.5%, from 7.26 million tonnes in 2003 to 7.08 million tonnes in 2004.

In addition to refining Rosneft-produced crude oil, the Komsomolskiy and Tuapsinskiy refineries also refine crude oil produced by third parties, as set forth in the following table:

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(millions of tonnes)				
Rosneft refineries' throughput of third party crude oil	2.65	2.57	0.12	0.05	0.01

The majority of the crude oil that Rosneft refined for third parties in 2003 and 2004 was processed at Tuapsinskiy Refinery. This refining activity for third parties allowed Tuapsinskiy Refinery to operate at near full capacity during the periods being analyzed. Komsomolskiy Refinery has been operating at over 95% capacity during the periods being analyzed.

Production of Gas

Gas production increased by 15.2% in the first quarter of 2006, to 3.52 bcm, primarily due to the growth of production in Krasnodarneftegaz, Purneftegaz and Selkupneftegaz. In the first quarter of 2006, the level of associated gas utilization was 61.9%, compared to 66.6% in the first quarter of 2005, due to the growth of crude oil production. Upon completion of construction of a gas compressor station at Priobskoye field, the level of associated gas utilization should improve.

Gas production increased by 39.2% in 2005, to 13.01 bcm, taking into account the acquisition of Yuganskneftegaz. Production increased by 24.0% without Yuganskneftegaz, primarily due to the growth of production in the fields of Krasnodarneftegaz, Purneftegaz and Selkupneftegaz. In 2005, the level of associated gas utilization was 62.5%, compared to 74.7% in 2004. This decrease was due mainly to the low level of utilization of associated gas in Yuganskneftegaz, which decreased to approximately 48%. In 2005, the Company resumed the construction of a gas compressor station at Priobskoye field with the aim of reducing the flaring of associated gas; construction had ceased in the second half of 2004 while Yuganskneftegaz was under prior ownership.

Gas production increased by 33.6% in 2004, to 9.35 bcm, primarily due to the growth of production in Krasnodarneftegaz, Purneftegaz and Selkupneftegaz. In 2003, the level of associated gas utilization was 71.6%, compared to 74.7% in 2004.

Results of Operations

The following table sets forth statement of income information as a percentage of total revenues for the indicated periods:

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
Revenues					
Oil and gas sales	47.07%	51.85%	67.65%	68.55%	69.36%
Petroleum products and processing fees	47.35%	42.33%	30.79%	30.05%	29.53%
Support services and other revenues	5.58%	5.82%	1.56%	1.40%	1.11%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Cost and expenses					
Production and operating expenses	(12.14)%	(11.53)%	(6.78)%	(8.18)%	(5.60)%
Cost of purchased oil and petroleum products	(10.11)%	(10.37)%	(3.06)%	(2.61)%	(7.20)%
Selling, general and administrative expenses	(8.38)%	(5.10)%	(2.77)%	(1.97)%	(2.22)%
Pipeline tariffs and transportation costs	(12.41)%	(10.65)%	(9.04)%	(8.21)%	(9.22)%
Exploration expenses	(0.49)%	(0.97)%	(0.81)%	(0.57)%	(0.47)%
Depreciation, depletion and amortisation	(8.29)%	(5.82)%	(6.15)%	(7.72)%	(5.11)%
Accretion expense	(0.33)%	(0.15)%	(0.15)%	(0.18)%	(0.11)%
Taxes other than income tax	(17.63)%	(18.14)%	(21.97)%	(23.47)%	(20.94)%
Excise tax and export customs duty	(11.97)%	(14.41)%	(26.22)%	(19.57)%	(28.84)%
Total	**81.75%**	**77.14%**	**76.96%**	**72.48%**	**79.72%**
Operating income	**18.24%**	**22.86%**	**23.04%**	**27.52%**	**20.28%**
Other income/(expenses)					
Interest income	2.00%	1.23%	0.34%	0.32%	0.51%
Interest expense	(3.02)%	(3.01)%	(3.24)%	(4.38)%	(2.70)%
(Loss)/gain on disposal of property, plant and equipment	(0.58)%	2.29%	(0.31)%	(0.05)%	(0.05)%
(Loss)/gain on disposal of investments	0.14%	(0.57)%	(0.05)%	(0.23)%	—
Gain on disposal of share in CJSC Sevmorneftegaz	—	—	5.44%	—	—
Equity share in affiliates' profits	—	0.99%	0.21%	0.21%	0.11%
Dividends and income from joint ventures	0.44%	0.87%	0.04%	0.18%	0.01%
Other expenses, net	(2.77)%	(3.72)%	(0.57)%	(1.21)%	(0.35)%
Foreign exchange gain/(loss)	1.73%	1.82%	1.02%	0.32%	(2.12)%
Total other income/(expenses)	(2.06)%	(0.09)%	2.89%	(4.84)%	(4.59)%
Income before income tax and minority interest	**16.18%**	**22.77%**	**25.94%**	**22.67%**	**15.70%**
Income tax expense	(5.52)%	(5.65)%	(6.72)%	(5.89)%	(4.46)%
Income before minority interest	10.66%	17.12%	19.23%	16.78%	11.24%
Minority interest in subsidiaries' earnings	(1.43)%	(1.25)%	(1.86)%	(0.18)%	(0.57)%
Cumulative effect from change in accounting principle, net of income tax	1.37%	—	—	—	—
Net income	**10.60%**	**15.87%**	**17.36%**	**16.59%**	**10.67%**

Revenues

The tables set forth below analyze sales of crude oil and petroleum products in 2003, 2004 and 2005 and in the first quarters of 2005 and 2006.

Analysis of Sales Revenues

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December	% change between the years ended 31 December	% change between the three months ended 31 March
	2003	**2004**	**2005**	**2005**	**2006**	**2003 and 2004**	**2004 and 2005**	**2005 and 2006**
	(USD millions)							
Crude oil								
Crude oil—export	1,387	2,102	13,936	2,375	4,710	52%	563%	98%
Europe	1,141	1,749	11,633	2,156	3,747	53%	565%	74%
Asia	246	353	2,303	219	963	43%	552%	340%
Crude oil—CIS	177	411	1,491	319	395	132%	263%	24%
Crude oil—domestic	71	104	600	257	58	46%	477%	(77)%
Gas	79	118	175	40	50	49%	48%	25%
Oil and gas	**1,714**	**2,735**	**16,202**	**2,991**	**5,213**	**60%**	**492%**	**74%**
Petroleum products								
Petroleum products—export and CIS sales	811	984	4,509	769	1,304	21%	358%	70%
Europe	282	344	2,827	481	810	22%	722%	68%
Asia	529	640	1,618	283	456	21%	153%	61%
CIS	0	0	64	5	38	—	—	660%
Petroleum products—domestic	913	1,240	2,865	542	915	36%	131%	69%
Wholesale	696	904	2,369	451	780	30%	162%	73%
Retail	217	336	496	91	135	55%	48%	48%
Refining services	21	25	0	0	0	19%	(100)%	—
Petroleum products sales and oil refining services	**1,745**	**2,249**	**7,374**	**1,311**	**2,219**	**29%**	**228%**	**69%**
Support services and other revenues	182	291	375	61	84	60%	29%	38%
Total sales	**3,641**	**5,275**	**23,951**	**4,363**	**7,516**	**45%**	**354%**	**72%**

Analysis of Crude Oil and Petroleum Products Sales Volumes

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December 2003 and 2004	% change between the years ended 31 December 2004 and 2005	% change between the three months ended 31 March 2005 and 2006
	2003	2004	2005	2005	2006			
			(millions of barrels)					
Crude oil—export	57.95	65.99	283.23	57.93	83.47	14%	329%	44%
Europe	48.15	55.02	239.61	53.01	67.25	14%	335%	27%
Asia	9.80	10.97	43.62	4.92	16.22	12%	298%	230%
Crude oil—CIS	12.41	17.76	48.33	12.58	11.52	43%	172%	(8)%
Crude oil—domestic	8.23	5.25	28.72	15.68	2.24	(36)%	447%	(86)%
Crude oil			(millions of tonnes)					
Crude oil—export	7.92	9.02	38.71	7.92	11.41	14%	329%	44%
Europe	6.58	7.52	32.75	7.25	9.19	14%	336%	27%
Asia	1.34	1.50	5.96	0.67	2.22	12%	297%	231%
Crude oil—CIS	1.70	2.43	6.61	1.72	1.58	43%	172%	(8)%
Crude oil—domestic	1.13	0.72	3.93	2.14	0.31	(36)%	446%	(86)%
Total crude oil sales	**10.75**	**12.17**	**49.25**	**11.78**	**13.30**	**13%**	**305%**	**13%**
Petroleum products								
Petroleum products—export and CIS sales	4.76	4.64	13.44	2.71	3.40	(3)%	190%	25%
Europe	1.56	1.49	8.27	1.60	2.06	(4)%	455%	29%
Asia	3.20	3.15	4.87	1.03	1.21	(2)%	55%	18%
CIS	0	0	0.30	0.08	0.13	—	100%	63%
Petroleum products—domestic	4.10	4.01	8.04	1.89	2.43	(2)%	100%	29%
Wholesale	3.39	3.18	7.07	1.68	2.18	(6)%	122%	30%
Retail	0.71	0.83	0.97	0.21	0.25	17%	17%	19%
Total petroleum product sales	**8.86**	**8.65**	**21.48**	**4.60**	**5.83**	**(2)%**	**148%**	**27%**
Total crude oil and petroleum product sales	**19.61**	**20.82**	**70.73**	**16.38**	**19.13**	**6%**	**240%**	**17%**
			(million cubic meters)					
Gas	**6.01**	**7.30**	**9.30**	**2.30**	**2.39**	**21%**	**27%**	**4%**

Note: The total volume sold is different from the volume of crude oil produced due to changes in inventory levels, purchases for resale, own use of oil by Rosneft and losses during production, transportation and refining. The petroleum products exported include tanker fuelling volumes, by which they differ from those amounts set forth in the main body of this Prospectus.

Average Crude Oil and Petroleum Products Sales Prices Achieved by Rosneft

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

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

	For the year ended 31 December						For the three months ended 31 March			
	2003		2004		2005		2005		2006	
	(USD/ barrel)	(USD/ tonne)	(USD/ barrel)	(USD/ tonne)	(USD/ barrel)	(USD/ tonne)	(USD/ barrel)	(USD/ tonne)	(USD/ barrel)	(USD/ tonne)
Average export price										
Crude oil (export)	23.93	175.13	31.85	233.04	49.20	360.01	41.00	299.87	56.43	412.80
Europe	23.70	173.40	31.79	232.58	48.55	355.21	40.67	297.38	55.72	407.73
Asia	25.10	183.58	32.18	235.33	52.80	386.41	44.51	326.87	59.37	433.78
Crude oil (CIS)	14.26	104.12	23.14	169.14	30.85	225.57	25.36	185.47	34.29	250.00
Petroleum products	—	170.38	—	212.07	—	335.49	—	283.76	—	383.53
Europe	—	180.77	—	230.87	—	341.84	—	300.35	—	393.20
Asia	—	165.31	—	203.17	—	332.24	—	275.15	—	376.86
CIS	—	—	—	—	—	213.33	—	62.50	—	292.31
Average domestic price										
Crude oil	8.63	62.83	19.81	144.44	20.89	152.67	16.39	120.09	25.89	187.10
Gas (USD/thousand cubic meter)	—	13.15	—	16.16	—	18.82	—	17.39	—	20.92
Petroleum products	—	222.68	—	309.23	—	356.34	—	286.77	—	376.54
Wholesale	—	205.31	—	284.28	—	335.08	—	268.13	—	357.31
Retail	—	305.63	—	404.82	—	511.34	—	437.50	—	546.56

Revenues were USD 7,516 million in the first quarter of 2006, a 72% increase over the first quarter of 2005 (USD 4,363 million). Revenues from the sale of crude oil grew by 74%, and revenues from the sale of petroleum products by 69%, in the first quarter of 2006 compared with the first quarter of 2005. The growth in revenues was due to increased prices and increased sales volumes of crude oil and petroleum products. The growth in volumes was made possible by a 6.5% increase in crude oil production and a 21.1% increase in petroleum product production, resulting mainly from increased production of crude oil by Severnaya Neft and continued production increases in Yuganskneftegaz. The increase in petroleum product production was facilitated by agreements entered into at the end of the first quarter of 2005 with Yukos-controlled refineries for the refining of crude oil produced by Yuganskneftegaz.

Revenues were USD 23,951 million in 2005, a 354% increase over 2004 (USD 5,275 million). Revenues from the sale of crude oil grew by 492%, and revenues from the sale of petroleum products by 228%, in 2005 compared with 2004. The growth in revenues was due to increased prices and increased sales volumes of crude oil and petroleum products. The growth in volumes was made possible by a 261% increase in crude oil production, and a 200% increase in petroleum product production, resulting mainly from the acquisition of Yuganskneftegaz. The increase in petroleum product production was facilitated by the agreements entered into at the end of the first quarter of 2005 with Yukos-controlled refineries for the refining of crude oil produced by Yuganskneftegaz.

Revenues were USD 5,275 million in 2004, a 45% increase over 2003 (USD 3,641 million). Revenues from the sale of crude oil grew by 60% and revenues from the sale of petroleum products grew by 29%, in 2004 compared with 2003. The growth in revenues was due to increased prices and increased sales volumes of crude oil and petroleum products.

Crude Oil Export Sales

In the first quarter of 2006, crude oil export revenues were USD 4,710 million compared to USD 2,375 million in the first quarter of 2005, an increase of USD 2,335 million, or 98%. The growth resulted from a 38% increase in prices, which increased revenues by USD 1,288 million, and a 44% increase in sales volumes, which had a positive impact on revenues of USD 1,047 million. The price increases were attributable to the general growth of world prices; in particular, the price for Urals oil CIF Mediterranean increased by 36.1%. Sales volumes grew, mainly in respect of sales to Asia, primarily due to the increase from 4,02 million tonnes in 2005 to 8.88 millions tonnes in 2006 in the annual quota for sales to China National United Petroleum Corporation under the long-term contract entered into in January 2005 in connection with the financing of the acquisition of Yuganskneftegaz. See "—Acquisitions—Significant Acquisitions—2004—Yuganskneftegaz."

In 2005, crude oil export revenues were USD 13,936 million compared to USD 2,102 million in 2004, an increase of USD 11,834 million, or 563%. The growth resulted from a 54% increase in prices, which increased revenues by USD 4,915 million, and a 329% increase in sales volumes, which had a positive impact on revenues of USD 6,919 million. The price increases were attributable to the general growth of world prices; in particular, the price for Urals oil CIF Mediterranean increased by 47.3%. Sales volumes grew to both Europe and Asia, mainly due to the acquisition of Yuganskneftegaz.

In 2004, crude oil export revenues were USD 2,102 million compared to USD 1,387 million in 2003, an increase of USD 715 million, or 52%. The growth resulted from a 33% increase in prices, which increased revenues by USD 522 million, and a 14% increase in sales volumes, which had a positive impact on revenues of USD 193 million. The growth in volumes was due to the increase in crude oil production.

Crude Oil CIS Sales

In the first quarter of 2006, revenues from sales of crude oil to the CIS were USD 395 million compared to USD 319 million in the first quarter of 2005, an increase of USD 76 million, or 24%. A 35% increase in prices, which would have increased revenues by USD 102 million, was offset in part by an 8% decrease in volumes, which had a negative impact on revenues of USD 26 million. The growth in volumes sold to Belarus was offset by a reduction in volumes to Ukraine, a less profitable CIS market due to the applicability of export customs duty.

In 2005, revenues from sales of crude oil to the CIS were USD 1,491 million compared to USD 411 million in 2004, an increase of USD 1,080 million, or 263%. The primary contributors to growth were a 33% increase in prices, which increased revenues by USD 373 million, and a 172% increase in volumes, which had a positive impact on revenues of USD 707 million. Volumes grew due to the overall increase in crude oil production and the increase in supplies to Belarus.

In 2004, revenues from sales of crude oil to the CIS were USD 411 million compared to USD 177 million in 2003, an increase of USD 234 million, or 132%. The primary contributors to growth were a 62% increase in prices, which increased revenues by USD 158 million, and a 43% increase in volumes, which had a positive impact on revenues of USD 76 million. Volumes grew due to the increase in sales to the Republic of Belarus, after the Russian government approved new principles for access to pipelines for CIS sales.

Crude Oil Domestic Sales

The volume of crude oil sold in Russia decreased significantly in the first quarter of 2006, consistent with the Company's strategy to maximize netbacks. In the first quarter of 2006, domestic crude oil sales decreased by USD 199 million to USD 58 million. This resulted from an 86% decrease in sales volume, corresponding to a USD 220 million decrease in revenues, but this was partially offset by a 61% increase in prices, which had a positive impact on revenues of USD 21 million. The decline in volumes resulted from the allocation of more crude oil to export sales and refining. The increased refining was facilitated by the agreements entered into at the end of the first quarter of 2005 with Yukos-controlled refineries for the refining of crude oil produced by Yuganskneftegaz.

The volume of crude oil sold in Russia increased in the first half of 2005. It took some time for the Company to put in place arrangements for the refining or export of the significant quantities of crude oil produced by Yuganskneftegaz after its acquisition in December 2004, which resulted in increased crude oil sales in the domestic market. In the second half of 2005, the volume of crude oil domestic sales was significantly reduced. Domestic crude oil sales revenues were USD 600 million in 2005, an increase of USD 496 million compared to 2004. The primary contributors to growth were a 6% increase in prices, accounting for USD 32 million of the revenue growth, and a 446% increase in sales volume, which had a positive impact on revenues of USD 464 million.

In 2004, domestic crude oil sales increased by USD 33 million to USD 104 million. This resulted from a 130% increase in prices, which was partially offset by a 36% decrease in sales volume. The decline in volumes resulted from the allocation of more crude oil to export sales that maximize netbacks, consistent with the Company's strategy. Had volumes remained constant, the increase would have been USD 92 million.

Petroleum Products Export Sales

Revenue from the export of petroleum products was USD 1,304 million in the first quarter of 2006 compared to USD 769 million in the first quarter of 2005, an increase of USD 535 million, or 70%. The growth in revenue from the export of petroleum products was attributable to a 35% increase in prices, which increased revenues by USD 339 million, and a 25% growth in sales volume, which had a positive impact on revenues of USD 196 million. The growth in prices was due to the overall increase in world prices; in particular, the price for diesel fuel CIF Mediterranean grew by 28%. The growth in volumes was mainly in Europe and was facilitated by the agreements entered into at the end of the first quarter of 2005 with Yukos-controlled refineries for the refining of crude oil produced by Yuganskneftegaz.

Revenue from the export of petroleum products was USD 4,509 million in 2005 compared to USD 984 million in 2004, an increase of USD 3,525 million, or 358%. The growth in revenue from the export of petroleum products was attributable to a 58% increase in prices, which increased revenues by USD 1,659 million, and a 190% growth in sales volume, which had a positive impact on revenues of USD 1,866 million. The growth in prices was due to the overall increase in world prices; in particular, the price for diesel fuel CIF Mediterranean grew by 42%. The growth in volumes was mainly in Europe.

Revenue from the export of petroleum products was USD 984 million in 2004 compared to USD 811 million in 2003, an increase of USD 173 million, or 21%. The growth in revenue from the export of petroleum products was attributable to a 24% increase in prices, which was offset in part by a 3% decline in sales volume. The decline in volume was due to the allocation of more crude oil to export sales, rather than to refining. Had volumes remained constant, the increase would have been USD 198 million.

Petroleum Products Domestic Sales

Revenue from the sale of petroleum products on the domestic market was USD 915 million in the first quarter of 2006 compared to USD 542 million in the first quarter of 2005, an increase of USD 373 million, or 69%. The growth in revenue from domestic sales petroleum products was attributable to a 31% price increase, which increased revenues by USD 218 million, and a 30% increase in sales volume, which had a positive impact on revenues of USD 155 million. The volume growth was mainly due to an increase in crude oil production and a decrease in domestic crude oil sales and was facilitated by the agreements entered into at the end of the first quarter of 2005 with Yukos-controlled refineries for the refining of crude oil produced by Yuganskneftegaz.

Revenue from the sale of petroleum products on the domestic market was USD 2,865 million in 2005 compared to USD 1,240 million in 2004, an increase of USD 1,625 million, or 131%. The growth in revenue from domestic sales petroleum products was attributable to a 15% price increase, which increased revenues by USD 379 million, and a 100% increase in sales volume, which had a positive impact on revenues of USD 1,246 million. The volume growth was mainly due to the acquisition of Yuganskneftegaz.

Revenue from the sale of petroleum products on the domestic market was USD 1,240 million in 2004 compared to USD 913 million in 2003, an increase of USD 327 million, or 36%. The growth in revenue from domestic sales petroleum products was attributable to a 39% price increase, which was offset in part by a 2% decline in sales volume. The decline in volume was due to the allocation of more crude oil to export sales, rather than to refining. Had volumes remained constant, the increase would have been USD 355 million.

Gas Sales

Revenue from the sale of gas was USD 50 million in the first quarter of 2006 compared to USD 40 million in the first quarter of 2005, an increase of USD 10 million, or 25%. The growth in revenue from gas sales was attributable to a 20% increase in prices, which increased revenues by USD 8 million, and a 4% growth in sales volume, from 2.3 bcm to 2.4 bcm, which had a positive impact on revenues of USD 2 million.

Revenue from the sale of gas was USD 175 million in 2005 compared to USD 118 million in 2004, an increase of USD 57 million, or 48%. The growth in gas sales was attributable to a 16% increase in prices, which increased revenues by USD 25 million, and a 27% growth in sales volume, from 7.3 bcm to 9.3 bcm, which had a positive impact on revenues of USD 32 million.

Revenue from the sale of gas was USD 118 million in 2004 compared to USD 79 million in 2003, an increase of USD 39 million, or 49%. The growth in revenue from gas sales was attributable to a 23% increase in prices, which increased revenues by USD 22 million, and a 22% growth in sales volume, from 6.0 bcm to 7.3 bcm, which had a positive impact on revenues of USD 17 million.

Rosneft sells gas to Gazprom and to other parties. In 2005, the regional structure of Rosneft's sales was as follows:

- In Western Siberia, 3.6 bcm were sold to Gazprom, 1.1 bcm to independent gas traders and 0.42 bcm to end consumers.

• In Southern Russia and the Russian Far East, Rosneft is less dependent on Gazprom. In Southern Russia, 1.5 bcm were sold to end consumers, 1.1 bcm to independent gas traders and 0.5 bcm to Gazprom. In the Russian Far East, 1.1 bcm were sold to end consumers.

Support Services and Other Revenues

Support services and other revenues were USD 84 million in the first quarter of 2006, 38% higher than in the first quarter of 2005 (USD 61 million). This growth was mainly attributable to an increase in the volume and value of construction and transshipment services and sales of materials.

Support services and other revenues were USD 375 million in 2005, 29% higher than in 2004 (USD 291 million). This growth was mainly attributable to an increase in the volume and value of construction services and sales of materials.

Support services and other revenues were USD 291 million in 2004, 60% higher than in 2003 (USD 182 million). This growth was mainly attributable to an increase in rental income and transshipment services revenue.

Costs and Expenses

The following table sets forth Rosneft's costs and expenses during the periods being analyzed.

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December 2003 and 2004	% change between the years ended 31 December 2004 and 2005	% change between the three months ended 31 March 2005 and 2006
	2003	2004	2005	2005	2006			
	(USD millions)							
Production and operating expenses	442	608	1,623	357	421	38%	167%	18%
Cost of purchased oil and petroleum products	368	547	732	114	541	49%	34%	375%
Selling, general and administrative expenses	305	269	663	86	167	(12)%	146%	94%
Pipeline tariffs and transportation costs	452	562	2,164	358	693	24%	285%	94%
Exploration expenses	18	51	194	25	35	183%	280%	40%
Depreciation, depletion and amortization	302	307	1,472	337	384	2%	379%	14%
Accretion expense(1)	12	8	35	8	8	(33)%	338%	0%
Taxes other than income tax	642	957	5,264	1,024	1,574	49%	450%	54%
Excise tax and export customs duties	436	760	6,281	854	2,168	74%	726%	154%
Total operating expenses	**2,977**	**4,069**	**18,428**	**3,163**	**5,991**	**37%**	**353%**	**89%**

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

Costs and expenses were USD 5,991 million in the first quarter of 2006, or 89% higher than in the first quarter of 2005. The growth in costs and expenses was driven by higher export customs duties, taxes other than income tax (mainly mineral production tax), costs of crude oil purchases, including from the Sakhalin-1 PSA (as defined below) and from third party sellers, and pipeline tariffs and transportation costs, as well as increased production and sales volumes of crude oil and petroleum products.

Costs and expenses were USD 18,428 million in 2005, or 353% higher than in 2004. The growth in costs and expenses was driven by higher export custom duties and taxes other than income taxes (mainly mineral production tax), as well as increased production and sales volumes of crude oil and petroleum products, due mainly to the acquisition of Yuganskneftegaz.

Costs and expenses were USD 4,069 million in 2004, or 37% higher than in 2003. The growth in costs and expenses was driven by higher export customs duties, taxes other than income tax (mainly mineral production tax), costs of crude oil and petroleum product purchases and pipeline tariffs and transportation costs, as well as increased production and sales volumes of crude oil and petroleum products.

Production and Operating Expenses

Production and operating expenses include costs related to raw materials and supplies, equipment maintenance and repair, wages and salaries, activities to enhance oil recovery, procurement of fuel and lubricants, electricity and other similar costs. Of the total production and operating expenses, the upstream and downstream segments accounted for USD 1,303 million and USD 256 million, respectively, in 2005, USD 344 million and USD 135 million, respectively, in 2004, USD 270 million and USD 113 million, respectively, in 2003, USD 306 million and USD 105 million, respectively, in the first quarter of 2006, and USD 285 million and USD 60 million, respectively, in the first quarter of 2005.

In the first quarter of 2006, production and operating expenses were USD 421 million compared to USD 357 million in the first quarter of 2005, an 18% increase. The main contributors were increases in staff and employee salaries and increases in downstream segment expenses, including costs of ancillary materials sold by the segment.

The acquisition of Yuganskneftegaz accounted for USD 825 million (81.3%) of the USD 1,015 million increase in production and operating expense in 2005 compared to 2004. Without accounting for Yuganskneftegaz, these expenses grew by 31%, mainly due to an 8.3% increase in production volumes, the real appreciation of the Russian ruble, and higher electricity tariffs, raw material and supplies costs, as well as increases in well workover and enhanced oil recovery service costs. Average salaries and allowances were also raised throughout Rosneft during 2005.

In 2004, production and operating expenses were USD 608 million compared to USD 442 million in 2003, a 38% increase. The main contributors were increases in wages and salaries, electricity tariffs and crude oil production volumes.

Upstream operating expenses were USD 306 million in the first quarter of 2006, or USD 2.25 per barrel of crude oil produced and USD 1.95 per barrel of oil equivalent produced. These expenses were USD 285 million in the first quarter of 2005, or USD 2.23 per barrel of crude oil produced and USD 1.96 per barrel of oil equivalent produced. Upstream operating expenses were USD 1,303 million in 2005, or USD 2.43 per barrel of crude oil produced and USD 2.13 per barrel of oil equivalent produced. Upstream operating expenses were USD 344 million in 2004, or USD 2.32 per barrel of crude oil produced and USD 1.69 per barrel of oil equivalent produced. These expenses were USD 270 million in 2003, or USD 1.96 per barrel of crude oil produced and USD 1.51 per barrel of oil equivalent produced. These measures are defined above under "—Key Financial Ratios."

Downstream operating expenses include costs of services provided to third parties (such as transshipment and storage services), operating expenses of the marketing companies, operating expenses of refineries (including materials) and other items.

The following table shows the production and operating expenses (together with selling, general and administrative expenses) of Rosneft's refineries and the throughput at such refineries during the periods being analyzed (including Rosneft's produced crude oil and third parties refining their crude at Rosneft's refineries):

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December 2003 and 2004	% change between the years ended 31 December 2004 and 2005	% change between the three months ended 31 March 2005 and 2006
	2003	**2004**	**2005**	**2005**	**2006**			
Refining costs for Rosneft-owned refineries (USD millions)[1] . . .	56	63	63	14	18	13%	0%	29%
Throughput at Rosneft-owned refineries (Rosneft's and other parties' crude oil) (millions of tonnes)	9.54	9.32	10.49	2.54	2.71	(2)%	13%	7%
Refining cost per tonne (USD) . . .	5.87	6.76	6.01	5.51	6.64	15%	(11)%	21%

(1) Komsomolskiy and Tuapsinskiy refineries only.

Cost of Purchased Oil and Petroleum Products

The cost of purchased oil and petroleum products, which includes the costs of refining Rosneft's crude oil at third party refineries as well as crude oil and petroleum product procurement costs, has been high in absolute terms since it is driven by the imbalance between Rosneft's crude oil production and its refining capacity, as well as by the geographic complexity of Rosneft's logistics. These factors explain the high proportion of crude oil refining costs paid to third party refineries, as well as the need to purchase petroleum products from third parties, in 2005 and the first quarter of 2006.

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

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December 2003 and 2004	% change between the years ended 31 December 2004 and 2005	% change between the three months ended 31 March 2005 and 2006
	2003	2004	2005	2005	2006			
Refining fees paid to third party refineries (USD millions)	4.76	5.53	311.14	57.68	104.55	16%	5,526%	81%
Rosneft crude oil throughput at third party refineries (millions of tonnes)	0.47	0.47	11.63	2.46	3.25	0%	2,374%	32%
Refining fees per tonne (USD)	10.13	11.77	26.75	23.45	32.17	16%	127%	37%
Cost of procurement of petroleum products from third parties by the downstream segment(1) (USD millions)	361.98	541.40	276.85	56.73	129.85	50%	(49)%	129%
Procurement of petroleum products from third parties by the downstream segment(1) (millions of tonnes)	1.68	1.85	0.72	0.16	0.24	10%	(61)%	50%

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

The cost of refining crude oil at third party refineries is high relative to that of refining crude oil at Rosneft's refineries, since the processing fees charged by third parties are fully costed, while the cost of refining crude oil at Rosneft's refineries as reported above does not include depreciation or taxes other than income tax. The need to rely on third party refineries arose following the acquisition of Yuganskneftegaz, when Rosneft's crude oil production increased significantly. At the end of the first quarter of 2005, Rosneft entered into agreements with Yukos-controlled refineries for the refining of crude oil produced by Yuganskneftegaz. In the first quarter of 2006, third party refining cost per tonne increased by 36% compared to the first quarter of 2005 due to an agreement with Yukos to cover capital expenditures required for the Yukos-controlled refineries to meet new EURO-2 and EURO-3 standards.

In some circumstances, it may be more economical for Rosneft to purchase petroleum products from third parties to supply, together with its own petroleum products, to Rosneft's marketing subsidiaries. The volume of petroleum products purchased from third parties during the periods being analyzed increased from 1.68 million tonnes in 2003 to 1.85 million tonnes in 2004 and then decreased to 0.72 million tonnes in 2005. Volumes increased from 0.16 million tonnes in the first quarter of 2005 to 0.24 million tonnes in the first quarter of 2006 due to growth in petroleum products domestic sales.

In the first quarter of 2006, cost of purchased oil and petroleum products was USD 541 million, a 375% increase from the USD 114 million in the first quarter of 2005. The increase was driven by increases in crude oil purchases, greater use of third party refineries to refine the greater volume of crude oil produced by Rosneft and increases in the procurement of petroleum products from third parties.

In the first quarter of 2006, Rosneft purchased from ExxonNeftegaz and other participants 2.9 million barrels (USD 84 million) of crude oil produced by the Sakhalin-1 PSA, where production started in the fourth quarter of 2005. In addition, Rosneft is a member of the CPC and purchases crude oil from third parties within the existing quota for shipment via the CPC system. The volume of crude oil purchased from third parties and shipped via the CPC system was 3.8 million barrels in the first quarter of 2006 (USD 223 million), and 0.96 million barrels in the whole of 2005 (USD 50 million). There were no purchases of such crude oil in the first quarter of 2005, since these were not needed to meet Rosneft's quota at that time, which increased in August 2005.

In 2005, cost of purchased oil and petroleum products was USD 732 million, a 34% increase from the USD 547 million reported in 2004. The increase was driven by increased use of third party refineries to refine the greater volume of crude oil produced by Rosneft following the acquisition of Yuganskneftegaz. The increase in third party refining costs was offset in part by a reduction in the volume of petroleum products purchased from third parties. This decline in volume was itself offset in part by an increase in prices.

In 2004, cost of purchased oil and petroleum products was USD 547 million, a 49% increase from the USD 368 million reported in 2003. The increase was due to an increase in the volumes of purchased petroleum products described above.

Selling, General and Administrative Expenses

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

Selling, general and administrative expenses in the first quarter of 2006 were USD 167 million, 94% higher than in the first quarter of 2005 (USD 86 million). This increase was mainly due to increases in staff and related employee expenses, including salaries, social benefits, office rent, security of USD 36 million, an increase in audit, legal, consultancy services, and bank services and charges of USD 11 million and a higher allowance for doubtful accounts of USD 4 million. In addition, in the first quarter of 2005, USD 24 million of allowance was reversed in connection with the final court decision in favor of Severnaya Neft.

Selling, general and administrative expenses were USD 663 million in 2005, reflecting the first-time inclusion of the selling, general and administrative expenses of Yuganskneftegaz of USD 158 million, expenses relating to audit, legal, consultancy, valuation and other professional services (including those incurred in connection with Yuganskneftegaz' legal, tax and other cases) of USD 31 million; bank services and charges due to higher borrowings and a higher volume of operations of USD 52 million; direct write-offs and allowances for doubtful accounts of USD 88 million (including amounts owed to Yuganskneftegaz by Yukos following the payment by Yuganskneftegaz in 2005 of amounts Yukos had owed Transneft for the transportation of Yuganskneftegaz crude oil in 2004); selling expenses such as commission fees and storage services, of USD 84 million and salaries, pensions and social benefits to employees of USD 229 million.

Selling, general and administrative expenses were USD 269 million in 2004, 12% lower than in 2003. This decrease was mainly due to a decrease in operating lease expenses.

Pipeline Tariffs and Transportation Costs

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

Pipeline tariffs and transportation costs grew to USD 693 million in the first quarter of 2006 from USD 358 million in the first quarter of 2005 due mainly to an increase in average pipeline tariffs of 14%, average railway tariffs of 17% and transported volumes. In the first quarter of 2006, Rosneft transported 120 million barrels (16.4 million tonnes) of crude oil via Transneft and 39 million barrels (5.3 million tonnes) via railways, compared to 106 million barrels (14.5 million tonnes) and 23 million barrels (3.2 million tonnes), respectively, in the first quarter of 2005. The increase in volumes transported was due mainly to the export of crude oil to China under the long-term contract entered in January 2005 in connection with the acquisition of Yuganskneftegaz. See "—Acquisitions—Significant Acquisitions—2004—Yuganskneftegaz." Crude oil exported to China was transported in part by rail, and the rail tariffs were significantly higher than pipeline tariffs. In addition, the reduction in domestic sales of crude oil in the first quarter of 2006 resulted in higher transportation costs, since Rosneft, rather than its customers, bears the cost of transporting crude oil to refineries or to the border for export or for sale to the CIS.

Pipeline tariffs and transportation costs grew to USD 2,164 million in 2005 from USD 562 million in 2004 due to the greater volume of crude oil transported and higher tariffs. In 2005, Rosneft transported 465 million barrels (63.6 million tonnes) of crude oil via Transneft and 136 million barrels (18.6 million tonnes) via railways, compared to 123 million barrels (16.8 million tonnes) and 68 million barrels (9.3 million tonnes), respectively, in 2004. The increase in volumes transported was due mainly to the acquisition of Yuganskneftegaz. During 2005, Transneft raised its tariffs by 11% on average, though this was partly offset by a 9% decline in railway tariffs on average due to the favorable pricing arrangement described above under "—Main Factors Affecting Results of Operations—Changes in Transport Tariffs."

Pipeline tariffs and transportation costs grew to USD 562 million in 2004 from USD 452 million in 2003 due mainly to an increase in average pipeline tariffs per tonnes of crude oil shipped of 18% and average railway tariffs per tonnes of crude oil shipped of 23%.

Exploration Expenses

Exploration expenses mainly include expenses relating to exploratory drilling, expenses relating to shooting seismic, and geological and geophysical costs. Exploratory drilling is capitalized if commercial reserves of oil and gas are discovered, or written off as expenses of the current period in the event of unsuccessful exploration results. In 2003, 2004 and 2005, and the first quarters of 2005 and 2006, exploration expenditures were USD 18 million, USD 51 million, USD 194 million, USD 25 million and USD 35 million, respectively.

In the first quarter of 2006, exploration expenses increased by USD 10 million, or 40%, to USD 35 million from USD 25 million in the first quarter of 2005. The increase was mainly due to the normalization of Yuganskneftegaz' exploration activity in the first quarter of 2005 following the decline that had occurred prior to the auction on 19 December 2004.

In 2005, exploration expenses increased by USD 143 million, or 280%, to USD 194 million from USD 51 million in 2004. The increase was mainly due to Yuganskneftegaz expenses of USD 51 million (including expenses for geological and geophysical work) and a significant volume of exploratory work in the East Siberia region.

In 2004, exploration expenses increased by USD 33 million, or 183%, to USD 51 million from USD 18 million in 2003. The increase was due mainly to exploration at Severnaya Neft.

Depreciation, Depletion and Amortization

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

Depreciation, depletion and amortization was USD 384 million in the first quarter of 2006 compared to USD 337 million in the first quarter of 2005. The 14% increase was mainly due to the depreciation of capital expenditure made in 2005 and in the first quarter of 2006. Depreciation, depletion and amortization was USD 1,472 million in 2005 compared to USD 307 million in 2004. The 379% increase was mainly due to the addition of the fixed assets of Yuganskneftegaz to the fixed assets of the Company, as well as additional investments to develop and maintain production. The carrying value of the Yuganskneftegaz fixed assets was determined on the basis of their estimated fair value after reduction for "negative goodwill" recorded under U.S. GAAP. Depreciation of the fixed assets of Yuganskneftegaz amounted to USD 968 million during 2005.

In 2004, depreciation, depletion and amortization increased by 2% compared with 2003.

Taxes Other than Income Tax

Taxes other than income tax include mineral production tax, excises, the unified social tax, property tax and other taxes. The basis for the calculation of mineral production tax is described under "—Main Factors Affecting Results of Operations—Changes in Mineral Production Tax and Export Customs Duties" above. Taxes other than income tax have increased as a percentage of total revenue throughout the periods being analyzed, mainly due to the impact of mineral production tax.

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

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December 2003 and 2004	% change between the years ended 31 December 2004 and 2005	% change between the three months ended 31 March 2005 and 2006
	2003	2004	2005	2005	2006			
Mineral production tax	461	739	4,716	919	1,432	60%	538%	56%
Excises	—	34	224	50	46	—	559%	(8)%
Social security allocations	69	98	118	28	35	42%	20%	25%
Property tax	42	40	73	20	23	(5)%	83%	15%
Land tax	9	13	14	2	2	44%	8%	0%
Transportation tax	1	1	2	0	0	0%	100%	0%
Fines and tax charges	7	16	64	0	28	129%	300%	100%
Other taxes and charges	53	16	53	5	8	(70)%	231%	60%
Taxes other than income tax	**642**	**957**	**5,264**	**1,024**	**1,574**	**49%**	**450%**	**54%**

Taxes other than income tax increased by 54% in the first quarter of 2006 to USD 1,574 million, compared to USD 1,024 million in the first quarter of 2005. The growth in taxes resulted mainly from an increase in mineral production tax of USD 513 million caused by a 46% increase in the tax rate, resulting from an increase in prices, and a 6.5% increase in crude oil production.

Taxes other than income tax increased in 2005 to USD 5,264 million, compared to USD 957 million in 2004. The growth in taxes resulted mainly from an increase in mineral production tax of USD 3,977 million caused by higher production volumes, tax rates and oil prices. The higher production volume was mainly due to the acquisition of Yuganskneftegaz.

In 2004, taxes other than income tax grew to USD 957 million compared to USD 642 million in 2003, due to increases in production volume and the rate of mineral production tax, which increased primarily as a result of the increase in crude oil prices.

Excise Tax and Export Customs Duty

Excise tax and export customs duty payable by the Company include taxes on sales of petroleum products, as well as crude oil and petroleum product export customs duties. Export customs duty is discussed above under "—Main Factors Affecting Results of Operations—Changes in Mineral Production Tax and Export Customs Duties." Excise tax and export customs duty have increased as a percentage of total revenue through the periods being analyzed, mainly due to the impact of export customs duty.

The following table sets forth Rosneft's export duties and excises during the periods being analyzed.

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December 2003 and 2004	% change between the years ended 31 December 2004 and 2005	% change between the three months ended 31 March 2005 and 2006
	2003	2004	2005	2005	2006			
Export duties	406	706	6,264	838	2,164	74%	787%	158%
Excises	30	54	17	16	4	80%	(69)%	(75)%
Total export duties and excises	**436**	**760**	**6,281**	**854**	**2,168**	**74%**	**726%**	**154%**

Excise tax and export customs duties were USD 2,168 million in the first quarter of 2006 compared to USD 854 million in the first quarter of 2005. The increase resulted from greater volumes of crude oil and petroleum product exports as well as higher export customs duty.

Excise tax and export customs duties were USD 6,281 million in 2005 compared to USD 760 million in 2004. The increase resulted from greater volumes of crude oil and petroleum product exports, and of domestic sales of petroleum products, as well as higher export customs duty and excises.

Excise tax and export customs duty increased to USD 760 million in 2004 from USD 436 million in 2003. The increase resulted from higher volumes of crude oil and petroleum product exports, as well as higher export duties and excises.

Operating Income

As a result of the factors discussed above, operating income increased by 82% in 2004 and 358% in 2005, and 27% in the first quarter of 2006. As a percentage of total revenues, operating income was 18.24%, 22.86% and 23.06% in 2003, 2004 and 2005, respectively, and 27.50% and 20.29% in the first quarters of 2005 and 2006, respectively.

As a percentage of total revenues, operating income before taxes other than income tax and excise tax and export customs duty was 47.84%, 55.41% and 71.26% in 2003, 2004 and 2005, respectively, and 70.55% and 70.08% in the first quarters of 2005 and 2006, respectively.

Other Income/(Expenses)

Interest Income

Interest income increased by USD 24 million to USD 38 million in the first quarter of 2006 from USD 14 million in the first quarter of 2005. Interest income increased by USD 16 million to USD 81 million in 2005 from USD 65 million in 2004. Interest income decreased by USD 8 million in 2004 from USD 73 million in 2003.

Interest Expense

Interest expense increased by 6% to USD 203 million in the first quarter of 2006 compared to USD 191 million in the first quarter of 2005. The growth was due to an increase in U.S. dollar LIBOR, which was partly offset by a decrease in borrowings and a reduction in average margins over LIBOR.

Interest expense increased by 387%, to USD 775 million, in 2005 compared to USD 159 million in 2004. The increase was due to the substantial borrowings made to finance the acquisition of Yuganskneftegaz in December 2004. During 2005, the Company refinanced current liabilities by raising long-term loans at lower interest rates.

In 2004, interest expense increased by 45%, compared to USD 110 million in 2003, mainly due to increased borrowings unrelated to the Yuganskneftegaz acquisition. The financing of the Yuganskneftegaz acquisition had little impact on interest expense in 2004 since it occurred at year-end.

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

The Company disposes of property, plant and equipment from time to time. In 2004, customary losses on these dispositions were more than offset by a significant gain on the sale of an offshore drilling platform. As a result, Rosneft reported a USD 121 million gain in that year.

Gain on Disposal of Share in CJSC Sevmorneftegaz

In the first half of 2005, Rosneft sold a 50% interest in CJSC Sevmorneftegaz held by Purneftegaz to Gazprom for USD 1,344 million. Sevmorneftegaz is developing the Prirazlomnoye and Shtokmanovskoye fields. Under the terms of the sale, Gazprom paid for this interest in December 2004, while title to the interest passed to Gazprom in the first half of 2005. Gazprom also had the right to notify the Company not later than the end of June 2005 of its intention to sell the acquired interest back to the Company, in which case the Company would be obliged to repurchase and pay for it. Gazprom did not exercise this right. Accordingly, in June 2005, Rosneft recorded gain on the sale of its interest in CJSC Sevmorneftegaz in the amount of USD 1,303 million. As of 31 December 2004, the sale proceeds of USD 1,344 million were reflected as short-term debt on the Company's balance sheet, because of Gazprom's right to sell the interest back to the Company.

Other Expenses, Net

Other expenses, net are mainly social expenditures and contributions to charity.

In the first quarter of 2006, other expenses, net, were USD 26 million, a 51% decrease from the first quarter of 2005. In 2005, other expenses, net, were USD 137 million, a 30% decrease from 2004. In 2004 other expenses, net, were USD 196 million, a 94% increase from 2003.

Foreign Exchange (Loss)/Gain

Foreign exchange loss was USD 159 million in the first quarter of 2006 compared to a foreign exchange gain of USD 14 million in the first quarter of 2005. The loss resulted from the impact of the appreciation of the ruble against the U.S. dollar on the Company's ruble-denominated monetary net liability position. The ruble-denominated net liability position arose in significant part due to the inclusion on the Company's balance sheet of the tax liabilities of Yuganskneftegaz following its acquisition at the end of 2004. The gain in the first quarter of 2005 resulted from the impact of the depreciation of the ruble against the U.S. dollar on the Company's ruble-denominated monetary net liability position.

Foreign exchange gain increased by 155% to USD 245 million in 2005. The increase resulted from the impact of the depreciation of the ruble against the U.S. dollar on the Company's ruble-denominated monetary net liability position.

Foreign exchange gain increased by 52% to USD 96 million in 2004 from USD 63 million in 2003. The increase resulted from the impact of the appreciation of the ruble against the U.S. dollar on the Company's ruble-denominated monetary net asset position.

Income Tax Expenses

The following table sets forth the Company's effective income tax rate under U.S. GAAP.

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
Effective income tax rate for Rosneft under U.S. GAAP	34%	25%	26%	26%	28%

The Company does not pay taxes based on consolidated income before taxes under Russian law. Income tax is calculated for each subsidiary based on its profits under Russian Accounting Standards. The U.S. GAAP effective profit tax rate during the reporting period was higher than the maximum rate of 24% established by Russian tax legislation throughout the periods being analyzed. This arose mainly because certain expenses incurred by the Company, such as social and charitable expenses, are not deductible for tax purposes. In 2005, expenses of this kind amounted to USD 91 million, giving rise to an adverse tax effect of USD 22 million.

As discussed above under "—Business Segments and Intersegment Sales," Rosneft subsidiaries engage in significant intragroup transactions for which Rosneft management determines transfer prices. Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions with significant (by more than 20%) price fluctuations. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts, especially when, as in the case of the domestic market for crude oil, market prices are difficult to determine. Due to the uncertainties in the interpretation of transfer pricing legislation, and the difficulty of determining domestic market prices for crude oil, the tax authorities may challenge Rosneft's transfer prices and propose adjustments. If such price adjustments are upheld by the Russian courts and implemented, Rosneft's future financial results could be adversely affected. In addition, Rosneft could face significant losses associated with the assessment of prior tax underpaid and related interest and penalties, which could have an adverse effect on Rosneft's financial condition and results of operations. For example, a significant adjustment was made in 2005 in the total amount of USD 922 million (including penalties and interest) in relation to transfer pricing claims against Yuganskneftegaz arising from transactions entered into from 1999 through 2003, prior to its acquisition by Rosneft. USD 836 million of the USD 922 million was taken as an adjustment to the fair value of the liabilities assumed as a result of the Yuganskneftegaz acquisition, and the remaining amount of USD 86 million was treated as current income tax expense and taxes other than income tax. Rosneft seeks to ensure that its transfer pricing complies with the transfer pricing rules.

Income tax was USD 335 million in the first quarter of 2006 compared to USD 257 million in the first quarter of 2005. Current income tax increased from USD 315 million in the first quarter of 2005 to USD 413 million in the first quarter of 2006, while deferred taxes increased from USD 58 million to USD 78 million. The increase in current income tax was mainly connected with the growth of the Company's income before income taxes as a result of higher production volumes and market prices.

Income tax was USD 1,609 million in 2005 compared to USD 298 million in 2004. Current income tax increased from USD 309 million to USD 1,688 million, while deferred taxes increased from USD 11 million to USD 79 million. The increase in current income tax was mainly connected with the growth of the Company's income before income taxes as a result of higher production volumes and market prices. Income tax in 2005 includes the tax of USD 313 million accrued on the proceeds from the divestment of Rosneft's interest in CJSC Sevmorneftegaz and the USD 86 million adjustment referred to above.

Income tax was USD 298 million in 2004 compared to USD 201 million in 2003. Specifically, current income tax increased from USD 244 million to USD 309 million, while deferred taxes decreased from USD 43 million to USD 11 million. The increase in the current income tax was mainly connected with the growth of Rosneft's net income as a result of higher production volumes and market prices for products.

Minority Interest in Subsidiaries' Earnings

As discussed above under "—Planned Consolidation via Share Swap," there were significant minority interests in the Company's subsidiaries during the periods being analyzed.

Minority interest in subsidiaries' earnings was USD 43 million in the first quarter of 2006 compared to USD 8 million in the first quarter of 2005, mainly due to growth in the net income of Purneftegaz and Yuganskneftegaz.

Minority interest in subsidiaries' earnings was USD 446 million in 2005 compared to USD 66 million in 2004. The main changes were caused by the generation of profit in Yuganskneftegaz, where minority interest amounted to USD 234 million, and in Purneftegaz, where minority interest increased by USD 150 million, mainly as a result of proceeds from the divestment of the 50% interest in Sevmorneftegaz described above.

Minority interest in subsidiaries' earnings increased to USD 66 million in 2004 from USD 52 million in 2003, mainly due to growth in the net income of Purneftegaz and Krasnodarneftegaz.

Net Income

As a result of the factors discussed above, net income increased by 117% in 2004 and 397% in 2005, and by 11% in the first quarter of 2006. As a percentage of total revenues, net income was 10.60%, 15.87% and 17.36% in 2003, 2004 and 2005, respectively, and 16.59% and 10.67% in the first quarters of 2005 and 2006, respectively.

Liquidity and Capital Resources

Cash Flows

The principal items of the statement of cash flows for the first quarter of 2005 and 2006, and for 2003, 2004 and 2005 are as follows:

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December 2003 and 2004	% change between the years ended 31 December 2004 and 2005	% change between the three months ended 31 March 2005 and 2006
	2003	2004	2005	2005	2006			
	(USD millions)							
Net cash provided by/(used in) operating activities	794	707	2,912	(52)	1,413	(11)%	312%	2,817%
Net cash used in investing activities	(1,560)	(10,169)	(2,293)	(400)	(1,506)	552%	(77)%	277%
Net cash (used in)/provided by financing activities	707	10,243	(458)	(31)	(601)	1,349%	(104)%	1,839%

Net Cash Provided by/(Used in) Operating Activities

Net cash used in operating activities was USD 52 million in the first quarter of 2005, and net cash provided by operating activities was USD 1,413 million in the first quarter of 2006.

Net cash provided by operating activities before taking into account changes in operating assets and liabilities net of acquisitions were higher in the first quarter of 2006, amounting to USD 1,292 million compared with USD 1,054 million in the first quarter of 2005. This increase principally reflected higher net income (USD 802 million in the first quarter of 2006 compared to USD 724 million in the first quarter of 2005) and higher non cash charges to net income, mainly depreciation, depletion and amortization (USD 384 million in the first quarter of 2006 compared to USD 337 million in the first quarter of 2005), and the effect of foreign exchange (USD 135 million in the first quarter of 2006 compared to USD 28 million in the first quarter of 2005).

Changes in operating assets and liabilities net of acquisitions amounted to USD 1,106 million and USD 121 million in the first quarter of 2005 and 2006, respectively. The significant negative adjustment in the first quarter of 2005 resulted mainly from increases in accounts receivable, inventories and prepayments and other current assets and a decrease in accounts payable and accrued liabilities, offset in part by an increase in income tax liabilities and other tax liabilities. These changes resulted from the significant increase in the scale of Rosneft's business following the acquisition of Yuganskneftegaz. In addition, the increase in accounts receivable also reflected a non-recurring change resulting from the initially low level of accounts receivable in Yuganskneftegaz, which normalized during 2005. The initially low level of accounts receivable resulted largely from the adjustment to the opening balance sheet (discussed below) relating to the write-off of receivables due from Yukos. The principal negative adjustments in the first quarter of 2006 were increases in accounts receivable, inventories and prepayments and other current assets, offset in part by an increase in accounts payable and accrued income tax liabilities and other tax liabilities.

Net cash provided by operating activities was USD 794 million, USD 707 million and USD 2,912 million in 2003, 2004 and 2005, respectively. The increase in operating cash flow was primarily due to higher net income, which increased by more than 10 times in the period 2003-05 (USD 386 million in 2003 compared to USD 4,159 million in 2005). Depreciation, depletion and amortization and minority interest in subsidiaries' earnings, as non-cash charges to net income, had a significant positive impact in reconciling net income to operating cash flow in each year, while the adjustment for the gain on disposal of share in CJSC Sevmorneftegaz had a significant negative effect in 2005. Depreciation, depletion and amortization was USD 302 million, USD 307 million and USD 1,472 million in 2003, 2004 and 2005, respectively. Minority interest in subsidiaries' earnings was USD 52 million, USD 66 million and USD 446 million in 2003, 2004 and 2005, respectively. The gain in respect of the CJSC Sevmorneftegaz disposal was USD 1,303 million in 2005.

Changes in operating assets and liabilities net of acquisitions amounted to USD 103 million, USD 321 million and USD 1,747 million in 2003, 2004 and 2005, respectively. The significant negative adjustment in 2005 resulted mainly from increases in accounts receivable, prepaid expenses and other current assets, and inventories offset in part by an increase in income tax liabilities and other tax liabilities. These changes resulted from the significant increase in the scale of Rosneft's business following the acquisition of Yuganskneftegaz. In addition, the increase in accounts receivable also reflected a non-recurring change resulting from the initially low level of accounts receivable in Yuganskneftegaz, which normalized during the year. The initially low level of accounts receivable resulted largely from the adjustment to the opening balance sheet (discussed below) relating to the write-off of receivables due from Yukos.

When businesses are acquired, changes in operating assets and liabilities shown in net cash provided by operating activities is only recorded from the date of acquisition. The initial contribution to operating assets and liabilities of businesses acquired are thus not recorded as a change thereto in the year of acquisition. The initial contribution of assets and liabilities from Yuganskneftegaz to Rosneft's balance sheet as of 31 December 2004 is shown under "Initial allocation" in Note 4 to the Annual Financial Statements.

In 2005, Yuganskneftegaz' contribution was adjusted as shown under "Final allocation" in Note 4 to the Annual Financial Statements. This final allocation is in effect Yuganskneftegaz' contribution to Rosneft's opening balance sheet for 2005 and was used for the purposes of calculating changes in operating assets and liabilities in the statement of cash flows. Rosneft's consolidated balance sheet as of 31 December 2004 was prepared using the initial allocation of assets and liabilities and has not been restated for this final allocation. However, the impact on Rosneft's consolidated statement of income has been accounted for retrospectively from 1 January 2005 on the basis of the opening balance sheet that reflects the final allocation.

The principal adjustments in the final allocation were:

- A reduction in accounts receivable;
- An increase in income tax and other tax liabilities; and
- A reduction in negative goodwill, reflected as an increase in oil and gas properties, net.

For a discussion of these adjustments, see Note 4 to the Annual Financial Statements.

Net Cash Used in Investing Activities

Net cash used in investing activities was USD 400 million in the first quarter of 2005 compared to USD 1,506 million in the first quarter of 2006. The increase was due in significant part to higher capital expenditures of USD 848 million in the first quarter of 2006, as compared with USD 312 million in the first quarter of 2005. This increase in capital expenditures is discussed more fully below. In addition, USD 463 million of the increase arose following the acquisition in March 2006 from a banking consortium led by Société Générale S.A. of its rights to the remaining amounts due under a USD 1,000 million loan made to Yukos.

Net cash used in investing activities was USD 1,560 million in 2003 compared to USD 10,169 million in 2004. This increase was primarily due to the acquisition of Yuganskneftegaz which had an impact of USD 9,398 million. Net cash used for investing activities decreased from USD 10,169 million in 2004 to USD 2,293 million in 2005. This decrease was primarily attributable to the high outflows in 2004 resulting from the Yuganskneftegaz acquisition. As discussed more fully below, capital expenditures and acquisitions of entities and additional shares in subsidiaries increased from USD 1,123 million in aggregate in 2004 to USD 2,451 million in 2005. The Company made a significant short-tem loan to its parent, Rosneftegaz, in 2005, which was repaid during the course of the year.

Net Cash (Used in)/Provided by Financing Activities

Net cash used in financing activities was USD 31 million in the first quarter of 2005 compared to USD 601 million in the first quarter of 2006. The change in the first quarter of 2006 reflected the net repayments of short-term and long-term debt, as compared with a near balanced net change in the first quarter of 2005.

Net cash provided by financing activities amounted to USD 10,243 million in 2004 compared to USD 707 million in 2003. The increase was primarily due to higher proceeds from financings related to the acquisition of Yuganskneftegaz. Proceeds from short-term debt in 2004 include proceeds of USD 1,344 million from the CJSC Sevmorneftegaz disposition.

Net cash used in financing activities decreased to USD 458 million in 2005 from USD 10,243 million net cash provided by financial activities in 2004. The decrease was primarily attributable to Rosneft's lower needs for borrowings compared to the previous year, which was affected by the need to finance the Yuganskneftegaz acquisition. The Company was able to refinance a significant part of its short-term debt with long-term borrowings in 2005.

Capital Expenditures

Rosneft's total capital expenditures by types of activities for the first quarter of 2005 and 2006 and for 2003, 2004 and 2005 are set forth below:

	For the year ended 31 December			For the three months ended 31 March		% change between the years ended 31 December 2003 and 2004	% change between the years ended 31 December 2004 and 2005	% change between the three months ended 31 March 2005 and 2006
	2003	2004	2005	2005	2006			
	(USD millions)							
Upstream	577	568	1,752	296	724	(2)%	208%	145%
Downstream	234	271	298	14	32	16%	10%	129%
Other activities	10	14	35	2	92	40%	150%	4,500%
Total capital expenditures	**821**	**853**	**2,085**	**312**	**848**	**4%**	**144%**	**172%**

Rosneft's total capital expenditures increased by 172% or by USD 536 million to USD 848 million in the first quarter of 2006 compared to USD 312 million in the first quarter of 2005. The increase in capital expenditures in the first quarter of 2006 was primarily driven by the upstream segment, where capital expenditures increased by 145%, or by USD 428 million. This capital expenditure growth was mainly attributable to expenditures at Yuganskneftegaz and the Vankorskoye field and payment of USD 249 million for a new license to the Vostochno-Sugdinskiy block in the first quarter of 2006. License acquisition costs in the first quarter of 2006 totaled USD 261 million.

Capital expenditures for other activities increased by 4,500%, or by USD 90 million, in the first quarter of 2006, compared to USD 2 million in the first quarter of 2005 primarily as a result of developing Rosneft's tankers project. Downstream capital expenditures increased by 129%, or USD 18 million, in the first quarter of 2006 as a result of expansion of Rosneft's network of filling stations.

Rosneft's total capital expenditures increased by approximately 144% to USD 2,085 million in 2005 compared to USD 853 million in 2004, or by USD 1,232 million.

While capital expenditure in the period 2003 to 2004 remained relatively stable, growth of capital expenditures in 2005 was primarily driven by the upstream segment, where capital expenditures increased by approximately 208%, or by of USD 1,184 million, from USD 568 million in 2004 to USD 1,752 million in 2005. This capital expenditure growth was mainly attributable to investments in Yuganskneftegaz for the purpose of stabilizing and then increasing production. License acquisition costs in 2005 totaled USD 134 million, for Vorgamusurskoe field.

Capital expenditures in the downstream segment increased by 10%, or by USD 27 million, in 2005, primarily as a result of developing Rosneft's seaport at Tuapse. Downstream capital expenditures increased by 16%, or USD 37 million, from USD 234 million in 2003 to USD 271 million in 2004, primarily as a result of developing Rosneft's Komsomolskiy Refinery.

In addition to its capital expenditures, the Company has made acquisitions and increased its shareholdings in certain of its subsidiaries. See "—Acquisitions." In 2005, Rosneft spent USD 360 million in relation to acquiring Verkhnechonskneftegaz and increasing its shareholdings in Krasnodarneftegaz and Selkupneftegaz. In 2004, in addition to its acquisition of Yuganskneftegaz, Rosneft spent USD 270 million to acquire additional shareholdings in its subsidiaries, the majority of which related to increasing Rosneft's shareholdings in Eniseyneft and Tuapsinskiy Refinery. In 2003, Rosneft spent USD 728 million, primarily for the acquisition of Severnaya Neft and Anglo-Siberian Oil Company.

Rosneft has budgeted capital expenditures of USD 3.1 billion for 2006 and USD 5.1 billion for 2007, which, together with allocations of such expenditures, remains subject to the final approval of the Company's Board of Directors. The actual amount and timing of capital expenditures made are subject to adjustment.

As of the date of this Prospectus, Rosneft's planned capital expenditures by business activities for 2006 and 2007 (excluding license acquisition costs and the prepayment of the Sakhalin-1 carry described below) are as follows:

	For the year ended 31 December			
	2006		2007	
	(USD billions)	(%)	(USD billions)	(%)
Upstream	2.8	90%	4.4	86%
Downstream	0.3	10%	0.7	14%
Total capital expenditures	**3.1**	**100%**	**5.1**	**100%**

In the short-term, Rosneft plans substantially to increase capital expenditures in its upstream activities, especially for further production enhancements in the Yuganskneftegaz fields and for commissioning of the Vankorskoye field. In addition, planned capital expenditures for the Vankor - Pur-Pe pipeline are included as upstream capital expenditures. In its downstream segment, the Company primarily intends to upgrade certain facilities in Tuapsinskiy Refinery and seaport facilities of OJSC Rosneft-Tuapsenefteprodukt as well as to increase capital expenditures for the more intensive development of Rosneft's distribution network.

The Company also intends to prepay in full the approximately USD 1.35 billion carry received from ONGC Videsh Limited ("**Videsh**") in respect of Sakhalin-1 by 31 July 2006. The carry will be prepaid out of Rosneft's own resources, but Rosneft is considering refinancing the prepayment and other investments in Sakhalin-1 through non-recourse/limited recourse bank financing. The prepayment will be reflected mainly as capital expenditure in the period in which it is made.

Debt Obligations

Over the past years, Rosneft has raised significant amounts of funds through net additional short-term debt and long-term loans to supplement the net cash generated by Rosneft's operating activities in order to fund the capital expenditures required to develop Rosneft's upstream and downstream operations and to acquire new businesses, assets and licenses, in particular in the upstream segment. Most of the additional debt was raised in 2004 in connection with the acquisition of Yuganskneftegaz in December 2004. See "—Acquisitions—Significant Acquisitions—2004—Yuganskneftegaz."

Rosneft's total loans and borrowings decreased from USD 13,645 million as of 31 March 2005 to USD 11,633 million as of 31 March 2006. As of 31 March 2005 and 2006, 61.9% and 83.5%, respectively, of Rosneft's borrowings were secured by crude oil export contracts. Of the total exported crude oil volumes in the first quarter of 2005 and the first quarter of 2006, 26.9% and 38.1%, respectively, were sold under contracts that were pledged as of 31 March 2005 and 2006, respectively.

Over the last three years, Rosneft's total loans and borrowings increased from USD 2,408 million as of 31 December 2003 to USD 13,742 million as of 31 December 2004 and decreased to USD 12,203 million as of 31 December 2005. As of 31 December 2003, 2004 and 2005, 46.3%, 18.0% and 85.5%, respectively, of Rosneft's borrowings were secured by crude oil export contracts. Of the total exported crude oil volumes in 2003, 2004 and 2005, 60.5%, 42.8% and 44.8%, respectively, were sold under contracts that were pledged as of 31 December 2003, 2004 and 2005, respectively.

Rosneft's strategy has been to finance its growth primarily with long-term borrowings, which are predominantly denominated in U.S. dollars.

Rosneft's long-term borrowings (excluding current portion of long-term debt) decreased from USD 8,668 million as of 31 March 2005 to USD 7,708 million as of 31 March 2006. The weighted average rate of interest on the Company's long-term loans, excluding bank loans raised for funding the acquisition of Yuganskneftegaz, denominated in USD was 6.03% and 6.67% (LIBOR plus 3.16%, LIBOR plus 1.84%) for the first quarter of 2005 and the first quarter of 2006, respectively.

Rosneft's long-term borrowings (excluding current portion of long-term debt) increased from USD 1,820 million as of 31 December 2003 to USD 9,022 million as of 31 December 2004 and then decreased to USD 8,198 million as of 31 December 2005. The weighted average rate of interest on the Company's long-term loans, excluding bank loans raised for funding the acquisition of Yuganskneftegaz, denominated in USD was 5.37%, 5.50% and 6.58% (LIBOR plus 4.25%, LIBOR plus 3.10%, LIBOR plus 2.19%) for 2003, 2004 and 2005, respectively.

Rosneft's long-term borrowings raised for funding the acquisition of Yuganskneftegaz are described in "—Acquisitions—Significant Acquisitions—2004—Yuganskneftegaz."

As discussed in Note 18 to the Annual Financial Statements, in the Report of Independent Auditors included therein and in Note 7 to the Interim Financial Statements, as of 31 December 2004, the Company was not in compliance with certain provisions of debt agreements, which constituted events of default, and as a result, the related debt became callable by the respective creditors as of that date. Subsequently, the Company obtained waiver letters from the respective creditors, which provided for a grace period to cure these defaults. This grace period was ultimately extended until 31 December 2006, which is less than one year from the most recent balance sheet date. The Company continues to classify the related debt in the amount of USD 2,831 million as of 31 December 2005 and USD 3,013 million as of 31 March 2006 as non-current. As discussed more fully in the Report of Independent Auditors on the Annual Financial Statements, the Company's independent auditor has concluded that this classification is not in accordance with U.S. GAAP, which require the debt to be classified as current. The Company believes that it will be able to obtain further waivers if necessary.

Rosneft's short-term loans (including the current portion of long-term debt) decreased from USD 4,977 million as of 31 March 2005 to USD 3,925 million as of 31 March 2006. The range of average rates of interest on Rosneft's short-term loans denominated in USD was LIBOR plus 1.0% to 3.32% *per annum* for the first quarter of 2006. The ruble-denominated loans bore average interest rates of 2.4% to 8% *per annum* for the first quarter of 2006.

Rosneft's short-term borrowings (including the current portion of long-term debt) increased from USD 588 million as of 31 December 2003, to USD 4,720 million as of 31 December 2004 and then decreased to USD 4,005 million as of 31 December 2005. The range of average rates of interest on Rosneft's short-term loans denominated in USD was LIBOR plus 1.0% to 3.32% *per annum* for the year 2005. The ruble-denominated loans bore average interest rates of 1.25% to 9% *per annum* for the year 2005. To refinance its short-term loans, the Company continues to raise external funding.

The following table shows the scheduled maturities of Rosneft's long-term debt outstanding as of 31 March 2006:

	(USD millions)
2006	1,814
2007	1,998
2008	2,154
2009	2,098
2010	1,753
2011 and after	160
Total long-term debt	9,977

Rosneft's plan for 2006 is to finance its budgeted capital expenditures, interest and dividends mainly out of operating cash flows, which Rosneft expects to increase through higher volumes in the production and sale of crude oil and petroleum products. At the same time, Rosneft intends to continue to improve its debt profile and to strengthen its balance sheet. In the medium term, Rosneft aims to achieve a ratio of net debt to capital employed of approximately 30%. For this purpose, Rosneft intends to continue to rely mainly on long-term borrowings for its financing needs, decreasing the percentage of Rosneft's secured debt and decreasing the charges associated with Rosneft's debt. These activities are aligned with Rosneft's ongoing efforts to improve its operating performance.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. For a full description of Rosneft's significant accounting policies, please refer to Note 2 of the Annual Financial Statements. Certain of these accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used, and actual amounts may differ from these estimates. The following critical accounting policies require significant judgments, assumptions and estimates and should be read in conjunction with the Annual Financial Statements.

Oil and Gas Accounting

Accounting for oil and gas exploratory activity is subject to special accounting rules that are unique to the oil and gas industry.

Oil and gas properties and the related expenses are reflected pursuant to the successful efforts method in accordance with SFAS 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*. In accordance with the said method, expenses for the exploration of an oilfield, inclusive of the expenses on prospecting, geological and geophysical work, as well as drilling dry wells, are charged to expense when incurred. The costs of exploratory wells that find oil and gas reserves are capitalized pending determination of whether proved reserves have been found. If proved reserves are not found, exploratory well costs are expensed as a dry hole.

Acquisition costs of unproved reserves are not amortized. Such costs are reclassified into expenses related to the proved reserves as of the date of respective reserve reclassification. Costs related to the purchase of the title to unproved reserves are subject to review with respect to impairment. If such impairment is recognized, the expenses must be written off as expenses of the respective period being analyzed.

Costs, including "internal" costs relating to drilling and equipping of development wells, including development dry holes, as well as costs required for drilling and equipping of injection wells in the process of oil and gas reserves development, are capitalized. These costs are included in oil and gas properties in the consolidated balance sheet.

Depletion expense of acquisition costs of proved oil and gas properties is calculated using the unit-of-production method based on total proved reserves. Depletion expense of other capitalized costs related to oil and gas production is calculated using the unit-of-production method based on proved developed reserves. Management of the Company considers each extraction division as the appropriate level for these calculations.

Oil and Gas Reserves

The process of estimating reserves is inherently judgmental. SEC standard proved oil and gas reserves are estimated quantities of crude oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions (*i.e.*, prices and costs as of the date that the estimate is made). Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon judgments about future conditions. Actual prices and costs are subject to change due, in significant part, to factors beyond Rosneft's control. These factors include world oil prices, energy costs and increases or decreases of oil field service costs. Due to inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to changes over time as additional information becomes available. The determination of estimated proved reserves is a significant element in arriving at the results of operations of exploration and production activities. The Company uses independent reservoir engineers, D&M, to estimate all of its oil and gas reserves. D&M prepared two Reserves Reports in accordance with SEC definitions, the first reporting proved reserves through the economic lives of Rosneft's fields and the second reporting proved reserves through the expiration of Rosneft's licenses. For purposes of the Financial Statements, proved reserves are considered to be those through the economic lives of the fields, as discussed more fully below. The estimates of proved reserves impact well capitalization, undeveloped lease impairments and the depreciation rates of proved properties, wells and equipment. Reduction in reserve estimates may result in the need for impairments of proved properties and related assets. The data in the relevant Reserves Report was also used for the assessment of impairment of long-lived assets and for the required supplemental disclosure of oil and gas activities.

The Company's oil and gas fields are located principally in the territory of the Russian Federation. The Company obtains licenses from the governmental authorities to explore and produce oil and gas from these fields. The Company's existing production licenses generally expire during the period 2006 to 2031. Expiration dates of licenses for the most significant fields are between 2013 and 2019, and the license for the largest field, Priobskoye, expires in 2019. The economic lives of the licensed fields extend significantly beyond these dates. Under Russian law, the Company is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law, Concerning Subsurface Resources, provides that a license to use a field "shall be" extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production of the field, provided that there are no violations of the conditions of the license.

The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, clarifying that the subsoil user has an absolute right to extend the license term so long as it has not violated the conditions of the license. In 2005, the Company extended the terms of 39 of its production licenses for the period equivalent to the expected life of the fields. There were no unsuccessful license renewal applications.

The Company's current production plans are based on the assumption, which management considers to be reasonably certain, that the Company will be able to extend all other existing licenses. These plans have been designed on the basis that the Company will be producing crude oil through the economic lives of the fields and not with a view to exploiting the Company's reserves to maximum effect only through the license expiration dates. Accordingly, management has included in proved reserves in the supplementary information on oil and gas exploration and production activities of the consolidated financial statements as of and for the year ended December 31, 2005 all reserves that otherwise meet the standards for being characterized as "proved" and that the Company estimates the Company can produce through the economic lives of Company's licensed fields. See "Business—Overview—Upstream Operations—Reserves and Resources" for a presentation of the Company's proved reserves to SEC standards assuming that the licenses are not renewed.

Proved reserves should generally be limited to those volumes that can be produced through the license expiration date unless there is a long and clear track record which supports the conclusion that extension of the license will be granted as a matter of course. The Company believes that extension of the licenses will occur as a matter of course, as described above.

Business Acquisitions

Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets and liabilities of the acquired business. For most assets and liabilities, purchase price allocation is accomplished by recording the asset or liability at its estimated fair value. The most difficult estimations of individual fair values are those involving properties, plants and equipment and identifiable intangible assets.

Determining the fair value of assets acquired and liabilities assumed requires judgment by management and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, license and other asset lives and market multiples. Management of the Company uses all available information to make these fair value determinations and, for major business acquisitions, typically engages an outside appraisal firm to assist in the fair value determination of the acquired long-lived assets. The Company has, if necessary, up to one year after the acquisition closing date to finish these fair value determinations and finalize the purchase price allocation.

Income Tax

The computation of income tax expense requires the interpretation of complex tax laws and regulations and the use of judgment in determining the nature and timing of accounting for differences between financial reporting and income tax reporting. This is particularly evident in the Russian Federation where tax legislation is constantly changing (specifically the statutory profits tax rate) and is subject to interpretation by the tax authorities. Changes in the Russian statutory tax rate can significantly affect deferred tax liability. As prescribed by U.S. GAAP, any changes to the statutory tax rate are recognized in the period the tax law is enacted rather than the effective date of the change.

A valuation allowance for a deferred tax asset is recorded when management believes that it is more likely than not that this tax asset will not be realized.

Recognition of Obligations Related to the Retirement of Assets

The Company has conditional obligations related to the retirement of assets used in prospecting and extraction activities. The Company's activities in the sphere of prospecting, development and extraction of oil and natural gas are connected with the use of the following assets: oil wells, equipment and nearby areas, installations for the collection and primary refining of oil, the tanker pool and pipeline connections to the main pipeline. As a rule, licenses and other regulatory documents stipulate requirements with respect to the retirement of such assets after the completion of extraction. The said requirements oblige the Company to retire oil wells, dismantle the equipment, restore the sites and undertake other related actions. The Company's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantlement and other related costs. The Company calculates obligations related to the retirement of assets pursuant to SFAS 143, *Accounting for Asset Retirement Obligations*.

Environmental Liabilities

Environmental expenditures are expensed or capitalized, depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed. Liabilities for these expenditures are recorded on an undiscounted basis when environmental assessments or clean-ups are probable and the costs can be reasonably estimated.

Guarantees

The fair value of a guarantee is determined and recorded as a liability at the time when the guarantee is issued. The initial guarantee amount is subsequently remeasured to reflect the changes in the underlying liability. The expense is included in the related line items of the consolidated income statement, based on the nature of the guarantee. When the likelihood of performing on a guarantee becomes probable, a liability is accrued, provided it is reasonably determinable on the basis of the facts and circumstances at that time.

Accounting for Contingencies

Certain conditions may exist as of the date of financial statements which may further result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management makes an assessment of such contingent liabilities which is based on assumptions and is a matter of opinion. In assessing loss contingencies related to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company after consultation with legal or tax advisors evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Recognition of Revenues

Revenues are recognized when title passes from the seller to the customer, the contract price is fixed or determinable and collectibility of the receivable is reasonably assured. Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are recognized when title passes. For export sales, title generally passes at the border of the Russian Federation and the Company covers transportation expenses, duties and taxes on those sales. Revenues include excise taxes and custom duties.

Sales of support services are recognized as services performed provided that the service price can be determined and no significant uncertainties regarding the receipt of revenues exist.

Revenues are shown net of value added tax.

Long-lived assets, including blocks with proved crude oil and gas reserves, are assessed for potential impairment in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Crude oil and gas properties are assessed whenever events or circumstances indicate potential impairment.

If the carrying value of crude oil and gas properties is not recoverable through undiscounted cash flows, impairment is recognized. The impairment is determined on the basis of the estimated fair value of crude oil and gas properties, which, in turn, is measured by discounting future net cash flows or with reference to current market prices of crude oil and gas properties, if available. Discounted future cash flows from crude oil and gas fields are based on management estimates of future prices that rely on recent actual prices and published prices for forward transactions; such prices are applied to forecast production volumes at particular fields, with further discounting for the expected risk level.

Such estimates also involve assessment of ability to renew licenses and lease of production equipment and wells.

Quantitative and Qualitative Disclosures about Market Risk

Prices for Crude Oil, Gas and Petroleum Products Risk

Rosneft's operating results and financial condition depend substantially upon prevailing prices of crude oil, gas and petroleum products. Historically, prices for oil have fluctuated widely for many reasons, including:

- Global and regional supply and demand, and expectations regarding future supply and demand, for crude oil and petroleum products;
- Geopolitical uncertainty;
- Weather conditions and natural disasters;
- Access to pipelines, railways and other means of transporting crude oil, gas and petroleum products;
- Prices and availability of alternative fuels;
- The ability of the members of OPEC, and other crude oil producing nations, to set and maintain specified levels of production and prices;
- Political, economic and military developments in oil producing regions, particularly the Middle East;
- Russian and foreign governmental regulations and actions, including export restrictions and taxes; and
- Global and regional economic conditions.

Substantially all of Rosneft's crude oil and petroleum products are sold on the spot market or under short-term contracts at market sensitive prices. Market prices for export sales of crude oil and petroleum products are subject to volatile trading patterns in the commodity futures market as discussed above in more details. Average selling prices can differ from quoted market prices due to the effects of uneven volume distributions during the period, quality differentials, different delivery terms compared to quoted benchmarks, different conditions in local markets and other factors. Domestic prices generally follow the trend of world market prices but are volatile due to the nature of the Russian market. Rosneft does not use any derivative instruments to hedge its production in order to decrease its price risk exposure. However, since Rosneft does not engage in futures and forward contracts, Rosneft does not believe that its value at risk is material.

Foreign Currency Risk

Over the past ten years, the ruble has fluctuated dramatically against the U.S. dollar. In the majority of instances, the ruble has depreciated against the dollar, although for the past three years, it has generally appreciated modestly against the dollar.

Historically, the CBR imposed various currency trading restrictions in attempts to support the ruble or to maintain a rate of devaluation in line with inflation. The effectiveness of these restrictions depended on many political and economic factors, including the ability of the Russian government and the CBR to finance budget deficits without increasing the money supply to control inflation and to maintain sufficient foreign currency reserves to support the ruble.

The functional and reporting currency of Rosneft is the U.S. dollar. Rosneft's principal exchange rate risk involves changes in the value of the U.S. dollar relative to the ruble and to a much lesser extent relative to other currencies, including the euro.

On the revenue side, all of Rosneft's export revenues, including the exports of crude oil and petroleum products, are denominated in U.S. dollars or are correlated with U.S. dollar-denominated prices for crude oil and petroleum products.

As of 31 December 2005, approximately USD 1,344 million of Rosneft's indebtedness was denominated in rubles (out of approximately USD 12,203 million of its total indebtedness at that date). Decreases in the value of the U.S dollar relative to the ruble will increase the cost in U.S dollars of Rosneft's ruble denominated costs and expenses and of its debt service obligations for ruble denominated indebtedness

A depreciation of the U.S. dollar relative to the ruble will also result in foreign exchange losses as the U.S dollar value of Rosneft's ruble denominated indebtedness is increased.

A hypothetical, instantaneous and unfavorable 10% change in currency exchange rates on 31 December, 2005 would have resulted in additional interest expense of approximately USD 12 million per year, reflecting the increased costs in rubles of servicing Rosneft's ruble-denominated indebtedness held as of 31 December 2005. A hypothetical, instantaneous and unfavorable 10% change in currency exchange rates as of 31 December 2005 would have resulted in an estimated foreign exchange loss of approximately USD 132 million on ruble denominated indebtedness held as of 31 December 2005.

Liquidity Risk

Liquidity risk arises when the maturity of assets and liabilities do not match. The Company has had negative working capital as of recent balance sheet dates, principally due to the increase in short-term debt arising out of the acquisition of Yuganskneftegaz combined with the significant write-down of Yuganskneftegaz accounts receivable. The Company's working capital position as of 31 December 2005 and 31 March 2006 would have been more negative if the Company had characterized a portion of its non-current debt as current, as set forth in Note 18 to the Annual Financial Statements, in the Report of Independent Auditors included therein and in Note 7 to the Interim Financial Statements. The Company believes that it will be able to meet its liquidity needs.

Credit Risk

Rosneft's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of accounts receivable, cash and cash equivalents, VAT recoverable by Rosneft as loans receivable and advances. A significant portion of Rosneft's trade accounts receivable is due from domestic and export trading companies. Rosneft does not generally require collateral to limit the exposure to loss; however, often letters of credit and prepayments are used. Although collection of these receivables could be influenced by economic factors affecting these entities, Rosneft believe there is no significant risk of loss to Rosneft beyond allowances already recorded.

Rosneft deposits available cash primarily with financial institutions in Russia. Deposit insurance of deposits of legal entities is not offered to financial institutions operating in Russia. To manage this credit risk, Rosneft allocates available cash across a variety of Russian banks and Russian affiliates of international banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

VAT recoverable, representing amounts paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of prepaid VAT and believes it is fully recoverable within one year.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract. Rosneft does not believe that off-balance sheet instruments are material.

Interest Rate Risk

Rosneft is exposed to interest rate risk on its indebtedness that bears interest at floating rates and to a lesser extent, on its indebtedness that bears interest at fixed rates. As of 31 December 2005, Rosneft had loans and borrowings outstanding with a principal amount of approximately USD 11,977 million of which approximately USD 1,580 million bore interest at fixed rates and approximately USD 10,397 million bore interest at floating rates determined by reference to the London interbank offered rate ("**LIBOR**") for U.S. dollar deposits.

Rosneft undertakes debt obligations to support general corporate purposes including capital expenditures, acquisitions financing and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of Rosneft's debt obligations. A hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate applicable to floating-rate financial liabilities held as of 31 December 2005 would have resulted in additional net interest expense of approximately USD 158 million per year. The above sensitivity analysis is based on the assumption of an unfavorable 100 basis point movement of the interest rates applicable to each homogenous category of financial liabilities. A homogeneous category is defined according to the currency in which financial liabilities are denominated and assumes the same interest rate movement within each homogeneous category (e.g., U.S. dollars, rubles).

As it relates to fixed rate financial liabilities a hypothetical, instantaneous 10% increase in interest rates would have resulted in a USD 29 million increase in the fair value of long-term debt outstanding as of 31 December 2005. However, Rosneft's sensitivity to decreases in interest rates and corresponding increases in the fair value of its debt portfolio would unfavorably affect results and cash flows only to the extent that it elected to repurchase or otherwise retire all or a portion of its fixed-rate debt portfolio at prices above carrying value.

Rosneft does not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and forward rate agreements, to manage these market risks. Furthermore, Rosneft does not hold or issue derivative or other financial instruments for trading purposes.

THE COMPANY

This section describes the Company's history, its corporate structure and its plans concerning the Share Swap with minority shareholders in certain of its subsidiaries.

History

Rosneft was one of the last vertically integrated oil companies to emerge from the reorganization and privatization of Russia's oil industry after the dissolution of the Soviet Union. The state retained ownership of several high-quality assets, such as Rosneft, to compete with the new privately owned oil and gas companies. Rosneft was created as a state enterprise on 14 May 1993 pursuant to Presidential Decree No. 1403, dated 17 November 1992, and Resolution of the Russian Government No. 357, "On the Foundation of State Enterprise Rosneft," dated 22 April 1993.

During the mid-1990s, the Company acted primarily as a holding company responsible for managing the 38.0% interest in the upstream and downstream subsidiaries that was contributed to the charter capital of the Company. Following Rosneft's reorganization into a joint stock company in December 1995, Rosneft comprised the assets of the former state enterprise together with the shares of its subsidiaries. These shares were transferred to Rosneft pursuant to Resolution of the Russian Government No. 971, dated 29 September 1995, and Resolution of the State Property Management Committee No. 273-r, dated 29 February 1996.

During the late 1990s, Rosneft operated in an environment of continuously changing management and shrinking assets, particularly after Russia's financial crisis in August 1998. Production was declining and throughput was at only one-third of capacity. In October 1998, the government appointed a new management team headed by Rosneft's current president, Sergey Bogdanchikov, and several other leading managers from its production subsidiary Sakhalinmorneftegaz. Installation of improved management focused on asset consolidation, financial discipline and the deployment of new technologies resulted in significantly improved financial and operating performance. By 2000, Rosneft had returned to profitability. Between 2000-04, Rosneft's crude oil production increased significantly from approximately 98.56 million barrels (13.47 million tonnes) in 2000 to approximately 148.26 million barrels (20.27 million tonnes) in 2004. Rosneft's annual gas production also increased significantly from approximately 5.63 bcm in 2000 to approximately 9.35 bcm in 2004. In addition, in August 2001, the Russian government also appointed Rosneft as its representative in the negotiation of production sharing agreements ("**PSAs**").

During 2000-04, Rosneft also acquired several important new assets. In 2000, the Company acquired 66% of Selkupneftegaz, and in 2003, it acquired Severnaya Neft, licenses to the Veninskiy Block (Sakhalin-3) and interests in the licenses to the Vankorskoye oilfield in Eastern Siberia. In late December 2004, the Company acquired a 100% interest in Baikalfinancegroup, which had won an auction for the sale of 76.79% of the shares (100% of the common shares) of Yuganskneftegaz conducted by the Russian bailiff service to enforce tax liens against Yukos, which had previously controlled Yuganskneftegaz. As a result of these acquisitions, in 2005, Rosneft became Russia's third largest oil producer in terms of total volume, with daily production of approximately 1,466.18 thousand barrels per day (73.16 million tonnes per year) at the end of that year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Acquisitions." Since the acquisition of Yuganskneftegaz, Rosneft has continued to make acquisitions. In early 2005, the Company's subsidiary Severnaya Neft won the auction for the nearby Vorgamusurskiy license block in Timano-Pechora. At the end of 2005, Rosneft acquired a 25.94% stake in Verkhnechonskneftegaz and subsequently acquired a license to explore and develop the Vostochno-Sugdinskiy license block, both in Eastern Siberia. The last two acquisitions were fundamental to Rosneft's strategy of developing its presence in Eastern Siberia, which is a new core oil- and gas-producing region for Rosneft.

In addition to acquiring high-quality upstream assets, Rosneft has also begun a major overhaul of its refining capabilities and initiated modernization programs at both the Tuapsinskiy and Komsomolskiy Refineries. The upgrade of the refining facilities will increase throughput capacity, as well as the percentage of light products yield. Rosneft believes that there will be no decrease in throughput capacity during the implementation of these refinery modernization programs.

In June 2005, the Government transferred all but one of the Company's shares to a newly created open joint stock company, Rosneftegaz, which also holds the 10.74% of Gazprom shares acquired in July 2005. See "Reasons for the Global Offering and Use of Proceeds." As of 31 March 2006, the state indirectly owned 100% of the Company.

The address of the Company's registered office is 26/1 Sofiyskaya Embankment, Moscow 115035, Russian Federation, and its telephone number is +7 (495) 777-4422. The Company's registration number is 1027700043502.

Planned Consolidation via Share Swap

Many of the Company's principal operating subsidiaries currently have minority shareholders.

In April 2006, the Company's Board of Directors, as well as the boards of directors or other relevant corporate bodies of each of Yuganskneftegaz, Purneftegaz, Selkupneftegaz, Severnaya Neft, Krasnodarneftegaz, Stavropolneftegaz, Sakhalinmorneftegaz, Komsomolskiy Refinery, Tuapsinskiy Refinery, Arkhangelsknefteprodukt, Nakhodkanefteprodukt and Tuapsenefteprodukt (each, a "**Merging Subsidiary**" and collectively, the "**Merging Subsidiaries**"), decided to propose to their respective shareholders the consolidation of each respective Merging Subsidiary into the Company through a statutory merger and an exchange of shares at specified ratios (the "**Share Swap**"). On 2 June 2006, the Company's shareholders, as well as the shareholders of each Merging Subsidiary (other than Sakhalinmorneftegaz) approved the Share Swap. On 2 June 2006, the shareholders of Sakhalinmorneftegaz considered three agenda items, of which two items concerned the approval of the merger of Sakhalinmorneftegaz into the Company and the third concerned approval of the merger agreement as an interested party transaction between Sakhalinmorneftegaz and the Company. The third approval was not obtained due to the absence of a quorum of shareholders entitled to vote at such meeting. On 10 July 2006, the board of directors of Sakhalinmorneftegaz decided to schedule a shareholders' meeting for 8 September 2006 in order to obtain the final approval. Pursuant to the Share Swap, the Merging Subsidiaries will merge into the Company and cease to exist. The Company will be the surviving entity in the merger and the legal successor to each Merging Subsidiary.

Pursuant to the Share Swap, the Company will offer up to 1,222,059,382 of its newly issued Ordinary Shares to minority shareholders in the Merging Subsidiaries in consideration for their ordinary and preferred shares. Shares in each Merging Subsidiary will be exchanged at a certain agreed exchange ratio discussed further below. The amount of Ordinary Shares to be offered in the consolidation represents 11.6% of the Company's Ordinary Shares to be outstanding following completion of the Share Swap and the Global Offering, or 11.5% if the Joint Global Coordinators exercise the Overallotment Option in full. Rosneft expects to complete the Share Swap by the end of 2006.

Reasons for the Share Swap

The Share Swap will simplify Rosneft's corporate structure and eliminate the need to obtain time-consuming corporate approvals for transactions that arise in the ordinary course of Rosneft's business. It will also allow Rosneft to restructure management at the operational level, thereby improving accountability, clarifying responsibilities and streamlining information reporting and decision-making. Lastly, the Share Swap will allow minority shareholders in the Merging Subsidiaries to share in the future success of Rosneft as a consolidated entity.

Share Swap Procedure

Corporate Approvals

In accordance with the Russian Joint Stock Companies Law, the Share Swap and the Merger Agreements (including the share exchange ratios) were adopted by the board of directors of each of the Company and each relevant Merging Subsidiary and were subsequently approved by at least 75% of those shareholders voting in general shareholder meetings of each of the Company and each Merging Subsidiary (except for Sakhalinmorneftegaz, as discussed above). This approval was also given in respect of the procedure for the consolidation, including the transfer of the Merging Subsidiaries' assets to the Company and the ratio at which shares of the Merging Subsidiaries are to be exchanged for the Company's new shares. Subsequently, a joint shareholders' meeting of the Company and all Merging Subsidiaries was convened to approve certain procedural matters. All such shareholders' meetings took place on 2 June 2006.

The following table sets forth the ratios at which the Company will issue Ordinary Shares in exchange for the ordinary shares and preferred shares of each Merging Subsidiary:

Merging Subsidiary	Fraction of ordinary share of the Merging Subsidiary to be exchanged for one Ordinary Share of the Company	Fraction of preferred share of the Merging Subsidiary to be exchanged for one Ordinary Share of the Company
Upstream subsidiaries		
Yuganskneftegaz	0.000000009	0.000000013
Purneftegaz	0.164012640	0.218685026
Selkupneftegaz	0.000000980	No preferred shares
Severnaya Neft	0.000000053	No preferred shares
Krasnodarneftegaz	0.835367137	1.193417493
Stavropolneftegaz	0.041565579	0.059379510
Sakhalinmorneftegaz	0.335141066	0.446851612
Downstream subsidiaries		
Komsomolskiy Refinery	0.144729168	0.206756493
Tuapsinskiy Refinery	0.109467619	0.156382005
Arkhangelsknefteprodukt	2.656741385	3.794982079
Nakhodkanefteprodukt	0.043678186	0.062397360
Tuapsenefteprodukt	0.945132111	1.350280565

The shares of the Merging Subsidiaries will be exchanged for the Company's Ordinary Shares on the date when the Merging Subsidiaries cease to exist, as evidenced by records in the Russian unified state register of legal entities. Accordingly, following the Share Swap, former shareholders of the Merging Subsidiaries will own Ordinary Shares that they can sell on the open market. See "Risk Factors—Risks Relating to the Securities and the Trading Market—Future sales of the Securities may affect their market price."

Buy-Back Rights

Under Joint Stock Companies Law, shareholders of the Company and any Merging Subsidiary who voted against or did not participate in voting on the Share Swap (the "**Dissenting Shareholders**") have the right to compel the Merging Subsidiary in which they own shares to buy back such shares at a price determined by such Merging Subsidiary's board of directors or other relevant corporate body. This buy-back price must not be less than that determined by an independent appraisal, which is mandatory under the Joint Stock Companies Law, and which was obtained. However, the Joint Stock Companies Law limits the aggregate amount to be paid by the relevant company for buying back shares from Dissenting Shareholders to a maximum of 10% of its net assets, as measured under Russian accounting standards.

Dissenting Shareholders may exercise their buy-back rights at any time until 18 July 2006 (45 days after 2 June 2006, which was the date of the shareholders' decision in favor of consolidation). The Company believes that the exercise of buy-back rights by Dissenting Shareholders is unlikely to be in material amounts.

Creditors' Rights

Under Russian law, the Company and each Merging Subsidiary must notify its creditors of the Share Swap, which was done in June 2006. During the 30-day period after they were notified, Russian law allows these creditors to accelerate the indebtedness they hold in respect of either the Company or the relevant Merging Subsidiary, as well as to demand reimbursement for applicable losses. In addition, under certain lending agreements, the consent of certain of the Company's lenders is required for the Share Swap. Failure to procure such consents may constitute an event of default and may, in some cases, cause the acceleration of the Company's indebtedness beyond the 30-day period indicated above.

Transfer of Licenses and Permits

Under Russian law, certain licenses and permits are non-transferable or do not pass automatically following a corporate reorganization. Thus, certain licenses and permits of the Merging Subsidiaries may not pass to the Company, as the surviving entity in the Share Swap, by operation of law. In this case, the Company would need to obtain new licenses and permits currently held by the Merging Subsidiaries.

Approval of the Share Swap by the Federal Antimonopoly Service

Under Russian antimonopoly law, the Federal Antimonopoly Service ("**FAS**") must grant prior approval to any statutory merger of companies whose combined assets as of the last reporting date, under Russian accounting standards, exceeded RUB 3 billion. Intra-group mergers are not exempt from this requirement. Therefore, before completing the Share Swap, the Company must obtain such FAS approval, which may be subject to certain conditions, such as additional reporting requirements, behavioral conditions, pricing policy limitations and other conditions related to the protection of competition. In addition, the FAS may place limitations on Rosneft's expansion strategy, including limitations on further consolidation of the Company subsidiaries or acquisitions of third parties. The Company expects to obtain all FAS approvals required for the Share Swap by the end of July 2006.

See "Risk Factors—Risks Relating to Rosneft—Certain contingencies in relation to the elimination of minority interests in certain of the Company's principal subsidiaries through a planned share swap may adversely affect Rosneft's operating results and financial condition."

Structure of Rosneft after the Share Swap

Rosneft plans to adopt an "operator structure" following the Share Swap. Under this structure, the Company will hold a 100% interest in 12 limited liability companies, each corresponding to a Merging Subsidiary (each, an "**Operating Company**" and collectively, the "**Operating Companies**"). The Operating Companies will produce, refine or market crude oil, gas or petroleum products, depending on the nature of the corresponding Merging Subsidiary, pursuant to services agreements with the Company. After the Share Swap, the material assets formerly owned by each Merging Subsidiary will be directly owned by the Company, which will lease them to the corresponding Operating Company. Rosneft also plans to transfer the personnel formerly employed by the Merging Subsidiaries to the corresponding Operating Companies. In addition, the Company plans to establish regional representative offices for each Operating Company. The Company will hold all exploration and production licenses previously held by the Merging Subsidiaries to the extent they can be renewed.

BUSINESS

Information is presented in this Prospectus on the basis of certain conventions that are set forth above under "Presentation of Financial and Other Information."

Overview

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

Rosneft's largest production and development assets in terms of proved crude oil reserves and crude oil production are Yuganskneftegaz and Purneftegaz in Western Siberia and Severnaya Neft in Timano-Pechora. In 2005, Rosneft produced 1,466.18 thousand barrels of crude oil per day (73.16 million tonnes per year). Rosneft's production increased from 1,419.89 thousand barrels of crude oil per day (17.47 million tonnes per quarter) in the first quarter of 2005 to 1,512.35 thousand barrels per day (18.61 million tonnes per quarter) in the first quarter of 2006, or by 6.5%. Including the *pro rata* share of the production of its affiliates and joint ventures accounted for using the equity method or the proportional consolidation method, Rosneft produced 1,480.52 thousand barrels of crude oil per day (73.87 million tonnes per year) in 2005.

In 2005, Rosneft sold approximately 60% of its crude oil to customers outside Russia, including sales to CIS countries and exports to international markets. Most of the remainder was refined at Rosneft's two main refineries and at third party refineries in Russia and then sold in the form of petroleum products in international and domestic markets. Rosneft has an integrated production, transportation, refining and marketing strategy and seeks to maximize netbacks by optimizing its product mix, sales destinations and available transport routes.

Rosneft's largest production and development assets in terms of proved gas reserves and gas production are Selkupneftegaz and Purneftegaz in Western Siberia, Krasnodarneftegaz in Southern Russia and Sakhalinmorneftegaz in the Russian Far East. In 2005, Rosneft produced 13.01 bcm of gas. Rosneft's production increased from 3.06 bcm of gas in the first quarter of 2005 to 3.52 bcm of gas in the first quarter of 2006, or by 15.2%. Including the *pro rata* share of the production of its affiliates and joint ventures accounted for using the equity method or the proportional consolidation method, Rosneft produced 13.06 bcm of gas in 2005.

Rosneft's total revenues increased from USD 3.64 billion in 2003 to USD 5.28 billion in 2004 and to USD 23.95 billion in 2005. Rosneft's total revenues increased from USD 4.36 billion in the first quarter of 2005 to USD 7.52 billion in the first quarter of 2006. Similarly, Rosneft's net income increased from USD 0.39 billion in 2003 to USD 0.84 billion in 2004 and to USD 4.16 billion in 2005. Rosneft's net income increased from USD 0.72 billion in the first quarter of 2005 to USD 0.80 billion in the first quarter of 2006.

Rosneft's total revenues and net income have grown both organically (including as a result of increases in hydrocarbon prices) and by acquisition. The most significant recent acquisition was the December 2004 acquisition of Baikalfinancegroup, which had won an auction for the sale of 76.79% of the shares (100% of the common shares) of Yuganskneftegaz. As of 31 December 2005, Yuganskneftegaz accounted for 73.4% of Rosneft's proved crude oil reserves. It accounted for 70.0% of Rosneft's crude oil production in 2005 and 70.7% in the first quarter of 2006. The acquisition of Yuganskneftegaz contributed significantly to the increases in Rosneft's total revenues and net income in 2005. The increases in Rosneft's total revenues and net income in other periods were due mainly to organic growth.

Upstream Operations

Reserves and Resources

As of 31 December 2005, as measured in accordance with SPE standards, Rosneft had:

- *Proved reserves* of approximately 14.88 billion barrels of crude oil (2.05 billion tonnes) and 690.52 bcm of gas, giving a total of 18.94 billion boe, of which 8.52 billion boe were developed;
- *Probable reserves* of approximately 8.30 billion barrels (1.14 billion tonnes) of crude oil and 444.34 bcm of gas, giving a total of 10.92 billion boe; and
- *Possible reserves* of approximately 7.22 billion barrels (0.99 billion tonnes) of crude oil and 434.70 bcm of gas, giving a total of 9.78 billion boe.

As of 31 December 2005, as measured in accordance with SEC standards, Rosneft had proved developed and undeveloped reserves of approximately 10.73 billion barrels (1.47 billion tonnes) of crude oil and 191.10 bcm of gas recoverable through the economic life of its fields. In addition, Rosneft had proved developed and undeveloped reserves of approximately 5.14 billion barrels (0.70 billion tonnes) of crude oil and 93.25 bcm of gas recoverable through the expiration of its licenses. The Company presents SEC standard proved reserves on the basis of management's belief that it is reasonably certain that Rosneft's licenses will be renewed through the economic lives of its fields. The Company also presents SEC standard reserves on the assumption that its licenses are not renewed. See "Appendix I: Classification of Reserves and Resources—SEC Standards."

As of 31 December 2005, gross prospective resources of projects in which Rosneft had a share amounted to 47,935.75 million barrels of crude oil, according to D&M's best estimate, prior to taking into account the probability of discovering economic resources. The gross P_e-adjusted best estimate, which adjusts for the probability of discovering economic resources, was 13,364.04 million barrels of crude oil as of 31 December 2005. On a net basis, the P_e-adjusted best estimate was 7,228.75 million barrels of crude oil as of 31 December 2005. D&M also produced low (P_{90}), median (P_{50}) and high (P_{10}) estimates of prospective resources. For the SPE definitions of "best estimate," "P_e-adjusted best estimate," low (P_{90}), median (P_{50}) and high (P_{10}) estimates, and other matters relating to prospective resources, see "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources" and the Resources Report on prospective resources. Prospective resources relate to undiscovered accumulations and, accordingly, are highly speculative. A possibility exists that the prospects will not result in the successful discovery of economic resources, in which case there would be no commercial development.

Rosneft's current hydrocarbon reserves base is located in five core oil and gas provinces within the Russian Federation: Western Siberia, Timano-Pechora, the Russian Far East, Southern Russia and Eastern Siberia. Rosneft also has a substantial resource-rich portfolio of exploration projects in the Russian Far East, Eastern Siberia, Southern Russia and Western Siberia. Rosneft's largest exploration projects in terms of prospective resources are:

- Veninneft (Sakhalin-3), West Schmidtneftegaz (Sakhalin-4), East Schmidtneftegaz/Kayganneftegaz (Sakhalin-5) and Kamchatneftegaz (West Kamchatka) in the Russian Far East;
- The Vostochno-Sugdinskiy block and license areas surrounding Vankorskoye field in Eastern Siberia;
- Tuapsinskiy Trough in Southern Russia and Kurmangazy in Kazakhstan; and
- Resources in the Yuganskneftegaz and Purneftegaz basins in Western Siberia.

For estimates of the net present value of the future net revenues from Rosneft's crude oil and gas reserves and resources, see "—Upstream Operations—Reserves and Resources—D&M Valuation of Reserves and Resources."

Production and Development

In 2005, Rosneft produced 1,466.18 thousand barrels per day (73.16 million tonnes per year) of crude oil. The Company believes that this volume represents approximately 15.8% of the total production of crude oil in Russia, and makes Rosneft the third largest Russian oil producer after LUKOIL and TNK-BP. Of Rosneft's total crude oil production in 2005, Yuganskneftegaz, Purneftegaz and Severnaya Neft represented 70.0% (1,026.30 thousand barrels per day), 12.9% (189.83 thousand barrels per day) and 6.7% (97.70 thousand barrels per day), respectively.

In 2005, Rosneft also produced 13.01 bcm of gas. Of this 13.01 bcm, 59.4% was non-associated gas and 40.6% was associated gas. Rosneft's major gas producing subsidiaries are Purneftegaz, Selkupneftegaz and Krasnodarneftegaz, which produced 32.8%, 17.4% and 17.1% of Rosneft's total gas production, or 4.27 bcm, 2.26 bcm and 2.22 bcm, respectively.

Crude Oil Logistics

Rosneft uses the Transneft pipeline network and rail cars, or a combination of both, for transporting its crude oil within the Russian Federation to domestic refineries and for export. Rosneft aims to transport its crude oil in a manner that maximizes netbacks. Given that higher prices can currently be achieved for exported crude oil and petroleum products sold in Russia compared to crude oil sold in Russia, Rosneft has structured its downstream operations to facilitate exports and domestic refining. Rosneft optimizes its logistics by calculating the netbacks for each route, taking into account the volume of production, Transneft capacity, refining capacity and market conditions that may affect the onward sale of crude oil or petroleum products.

In addition to utilizing the Transneft pipeline network and railways for crude oil transport, Rosneft owns and operates a pipeline from Sakhalin Island to the mainland export terminal at De-Kastri and onwards to Komsomolskiy Refinery. Rosneft currently owns export terminals at Tuapse, Arkhangelsk/Belokamenka, Nakhodka and De-Kastri. In addition, a joint venture between the Company and Shell-Caspian B.V., in which the Company holds a 51% interest and Shell Caspian B.V. holds the remaining 49% interest, holds a 7.5% interest in the Caspian Pipeline Consortium ("**CPC**"), a pipeline project in the Caspian Sea region.

Refining, Marketing and Distribution

In 2005, Rosneft exported 283.23 million barrels (38.71 million tonnes) of crude oil internationally (excluding to CIS countries). In 2005, Rosneft sold 48.33 million barrels (6.61 million tonnes) of crude oil to CIS countries. In addition, in 2005, Rosneft delivered 162.49 million barrels (22.21 million tonnes) of crude oil, or 30.2% of the total crude oil for sale in that year, to Rosneft's refineries and mini-refinery and third party refineries in Russia for refining. Of these deliveries, 47.7% was to Rosneft's own refineries and mini-refinery and 52.3% was to third party refineries under tolling arrangements.

Rosneft operates two principal crude oil refineries—Tuapsinskiy in Southern Russia and Komsomolskiy in the Russian Far East—as well as a mini-refinery at Purneftegaz and a specialized lubricant plant, MZ-Nefteprodukt, in Moscow. In 2005, Tuapsinskiy and Komsomolskiy refineries processed 75.81 million barrels (10.36 million tonnes) of crude oil. See "—Downstream Operations—Refining Facilities."

In 2005, Rosneft produced approximately 21.26 million tonnes of petroleum products, of which 13.01 million tonnes were exported. Rosneft sold a further 0.30 million tonnes to CIS countries. The rest, together with products purchased from third parties, were sold domestically in the Russian Federation. In 2005, Rosneft's sales of petroleum products on the domestic market, including products purchased from third parties, totaled 8.04 million tonnes. Of these domestic sales, approximately 5.20 million tonnes were sold via Rosneft's marketing subsidiaries, of which 0.97 million tonnes were sold through Rosneft-branded filling stations to retail customers.

To distribute its petroleum products, Rosneft uses the Transnefteprodukt product pipeline network, rail cars and barges. Rosneft transports petroleum products to its marketing subsidiaries for domestic sale or to its reloading subsidiaries for onward export. Such petroleum products may originate from Rosneft's own refineries or from refineries owned by third parties, where Rosneft refines its crude under tolling arrangements.

Rosneft operates a retail and wholesale distribution network with 11 marketing subsidiaries located in central Russia, the Volga-Ural region, Siberia, the Russian Far East, Southern Russia and Northern Russia. In addition, three subsidiaries, Tuapsenefteprodukt, Nakhodkanefteprodukt and Arkhangelsknefteprodukt, primarily offer transshipment services for crude oil and petroleum products at their own marine export terminals. Rosneft's domestic wholesale and retail business is supported by a broad network of storage depots and a network of 683 wholly owned retail filling stations and 100 franchised stations.

Competitive Strengths and Strategy

Rosneft has developed several strategies for capitalizing on its core strengths, including:

- *Increasing crude oil production by exploiting existing crude oil reserves.*

  Ranked by total proved crude oil reserves, Rosneft is Russia's second largest oil company and one of the world's largest oil majors. Rosneft seeks to balance the need to monetize its substantial existing reserves with the need to book additional reserves by undertaking exploration projects. As of 31 December 2005, Rosneft had a reserves life of 28 years, which is one of the highest in the global oil industry. In 2005, Rosneft had a crude oil reserves replacement ratio of 108.6% calculated by comparing net new proved reserves additions in tonnes to yearly production in tonnes. Calculated on the basis of barrels, Rosneft's crude oil reserves replacement ratio was 101.1% in 2005. In boe terms (*i.e.*, taking gas into account), Rosneft's reserves replacement ratio was 572.0% in 2005. Rosneft considers a crude oil reserves replacement ratio of 100% to be an internal benchmark.

  Rosneft's existing reserves consist of assets that are currently producing or under development. Rosneft believes that, assuming economic conditions remain favorable, its crude oil production should increase to at least 2 million barrels per day (100 million tonnes per year) by 2010 and up to 2.8 million barrels per day (140 million tonnes per year) by 2015. To meet these targets, Rosneft intends to:

  - ➢ Apply secondary recovery techniques to increase reserve efficiency at its existing production assets;
  - ➢ Exploit proved undeveloped reserves, both by bringing new development assets onstream and by extracting proved undeveloped reserves at its existing production assets; and
  - ➢ Convert significant possible and probable reserves to proved reserves to support production growth.

- *Exploiting Rosneft's gas upside potential.*

  As of 31 December 2005, Rosneft's proved gas reserves were 691 bcm, with upside potential provided by an additional 444 bcm of probable reserves and 435 bcm of possible reserves.

  Rosneft's main onshore gas reserves are located at:

  - ➢ Purneftegaz and Selkupneftegaz, with combined proved gas reserves of 553 bcm and where Purneftegaz' Kharampurskoye field alone has proved gas reserves of 385 bcm;
  - ➢ Yuganskneftegaz, with proved gas reserves of 81 bcm; and
  - ➢ Krasnodarneftegaz, with proved gas reserves of 35 bcm.

  Rosneft sells gas directly to Gazprom and to other customers predominantly through the UGSS, the national gas pipeline network operated by Gazprom. Rosneft is currently negotiating a long-term agreement to sell additional gas to Gazprom, and management believes that Rosneft and Gazprom will execute such an agreement in due course. D&M estimated proved gas reserves to SPE standards on the basis of this belief, assuming for this purpose that this agreement will allow Rosneft to increase volumes of gas sales to the levels set forth in Table 14 of the SPE Reserves Report (SEC standards do not permit the booking of proved reserves in these circumstances in the absence of a legally binding contract). As of 31 December 2005, proved gas reserves to SPE standards exceeded proved gas reserves to SEC standards (economic lives of fields) by 499 bcm (2,940 million boe), mainly due to the booking of additional SPE proved gas reserves on the basis of management's belief that Rosneft will execute the long-term agreement with Gazprom. While management believes Rosneft will be technically able to produce approximately 40 bcm of gas by 2012, attaining this level of production will depend on Rosneft's ability to sell the gas and on its having sufficient access to UGSS capacity, which is currently not assured. In the interim period, Rosneft's strategy in relation to its gas assets is to position itself to react quickly to, and take advantage of, rapidly changing market and regulatory developments. See "Risk Factors—Risks Relating to Rosneft—Rosneft faces several risks in connection with the marketing of the gas it produces."

  In addition to onshore gas reserves, Rosneft has significant offshore gas resources, located primarily on the Sakhalin and West Kamchatka shelf areas. Rosneft's offshore gas sales strategy entails monetizing these resources by selling gas produced offshore to end users, assuming that commercial discoveries are made.

- *Securing shareholder value through operating and capital efficiency and a strict focus on profitability*.

  Rosneft seeks to optimize metrics such as upstream operating expenses per barrel, upstream capital expenditures per barrel, return on average capital employed and return on shareholders' equity.

  Rosneft operates a sophisticated, proprietary integrated production management system based on geological and simulation models of its key fields. These models and Rosneft's understanding of the geology of its fields enable Rosneft to identify wells with the greatest potential and to allocate drilling, hydrofracturing and lifting resources efficiently. To assist in advanced drilling and workover efforts, Rosneft engages industry-leading service providers, such as Schlumberger, Halliburton and Baker Hughes, via competitive tenders.

  Rosneft subjects all investment decisions involving material capital expenditures to a rigorous internal ranking based on net present value, internal rate of return, discounted payback period, reserves volume and discounted profitability index analysis.

  As a result of these systems and procedures, and also due to the favorable geological characteristics and physical properties of the crude oil and gas at Rosneft's key fields, Rosneft aims to maintain below-industry average operating expenses and capital expenditures per barrel and deliver attractive shareholder returns.

- *Tailoring Rosneft's value chains to maximize netbacks.*

  Rosneft has created proprietary value chains linking:

  ➢ Rosneft's upstream assets directly to export markets (crude oil value chains); and

  ➢ Rosneft's upstream assets to refining facilities for onward export or domestic sale of petroleum products (petroleum products value chains).

  At the end of such chains, Rosneft has marketing subsidiaries or export facilities that it either fully controls or in which it has a significant equity share. The ability to route its products through different value chains gives Rosneft the operating flexibility to maximize its netbacks.

  Rosneft has created two crude oil value chains with the purpose of adding value by avoiding the blending of its crude oil with that of other producers in the Transneft pipeline system, thereby preserving its quality. These chains link:

  ➢ Severnaya Neft fields in Timano-Pechora to Arkhangelsk/Belokamenka proprietary marine export terminals for export to northern European ports; and

  ➢ Western Siberian oil fields producing gas condensate and Southern Russian oil fields producing crude oil to the CPC pipeline system, in which Rosneft is an indirect shareholder.

  The petroleum products value chains culminate in a proprietary marine export terminal or a proprietary network of filling stations. Rosneft's proprietary Tuapsinskiy and Komsomolskiy refineries are located close to its proprietary marine export terminals and domestic distribution facilities at the end of these value chains. Rosneft has two such petroleum products value chains:

  ➢ *Southbound value chain*. Rosneft delivers crude oil from its Western Siberian and Southern Russian producing subsidiaries to Tuapsinskiy Refinery. Rosneft then either exports the resulting petroleum products via Tuapsenefteprodukt's proprietary marine export terminal at Tuapse or sells them domestically, principally via its Kubannefteprodukt marketing subsidiary. In 2005, the use of Yukos-controlled refineries in Samara Oblast strengthened this value chain.

  ➢ *Eastbound value chain*. Rosneft delivers crude oil from its Western Siberian producing subsidiaries and Sakhalinmorneftegaz to Komsomolskiy Refinery. Rosneft then either exports the resulting petroleum products via Nakhodkanefteprodukt's proprietary marine export terminal at Nakhodka or sells them domestically via its Vostoknefteprodukt marketing subsidiary. In 2005, the use of Yukos-controlled refineries at Achinsk and Angarsk strengthened this value chain.

- *Realizing Rosneft's exploration project potential.*

  Rosneft has a substantial portfolio of exploration projects located in areas of Russia and the CIS that are, or are poised to become, key hydrocarbon-producing regions. In the Russian Far East, this project portfolio includes the Veninskiy block (Sakhalin-3), the West Schmidtovskiy block (Sakhalin-4), the

East Schmidtovskiy and Kaygansko-Vasyukanskiy blocks (Sakhalin-5) and the West Kamchatka block. In Eastern Siberia, this project portfolio includes the license areas surrounding the Vankorskoye field and the Vostochno-Sugdinskiy block, which is near the Verkhnechonskoye field; both the Vankorskoye and the Verkhnechonskoye fields are under development. In Southern Russia and the Caspian Sea, the project portfolio includes Tuapsinskiy Trough on the Black Sea shelf, the Temryuksko-Akhtarskiy block in the Sea of Azov and Kurmangazy in Kazakhstan's territorial waters in the Caspian Sea. In Western Siberia, Rosneft has the potential to explore potential resources in the Yuganskneftegaz and Purneftegaz basins.

Gross prospective resources of projects in which Rosneft had a share amounted to 47,935.75 million barrels of crude oil as of 31 December 2005, according to D&M's best estimate, prior to taking into account the probability of discovering economic resources. The gross P_e-adjusted best estimate, which adjusts for the probability of discovering economic resources, was 13,364.04 million barrels of crude oil as of 31 December 2005. On a net basis, the P_e-adjusted best estimate was 7,228.75 million barrels of crude oil as of 31 December 2005. For the definition of "best estimate", "P_e-adjusted best estimate" and other matters relating to prospective resources, see "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources" and the Resources Report on prospective resources. Rosneft seeks to realize the value of the prospective resources of the projects in which it has an interest through exploration and, in case of success, their eventual development using detailed reservoir modeling techniques. Prospective resources relate to undiscovered accumulations and, accordingly, are highly speculative. A possibility exists that the prospects will not result in the successful discovery of economic resources, in which case there would be no commercial development.

In projects that Rosneft believes have a relatively high or complex risk profile, Rosneft has entered into carry financing arrangements with foreign partners to mitigate exploration risks.

- *Expanding Rosneft's footprint in Russia and the CIS.*

  Rosneft's existing reserves and resources are located strategically throughout Russia in areas that either already form part of the Russian oil industry's core resource base, such as Western Siberia, or that are poised to become key hydrocarbon provinces, such as the Russian Far East, Eastern Siberia and Southern Russia. Rosneft's wide experience in Russia has given it valuable geological expertise. In addition, its wide footprint means that Rosneft has upstream assets well positioned to supply key export markets.

  Rosneft will continue to participate actively in license auctions by the Russian Ministry of Natural Resources and the Federal Agency for Subsoil Use (the "**Subsoil Agency**"). Rosneft already has significant assets and infrastructure in place in many of the regions for which future licenses may be auctioned. Rosneft believes that its local knowledge and expertise should allow it to assess the value of prospective projects more accurately than its peers and that its existing local infrastructure should provide synergies as projects progress to the development and production stages.

- *Deploying highly qualified personnel and state-of-the-art technology.*

  Rosneft has a team of highly experienced managers led by its president, who has over 25 years of experience in the oil and gas industry. Many of these managers have worked at Rosneft for many years, and others more recently joined Rosneft from leading peer companies. The management team's broad experience allows Rosneft to deploy the latest technology and introduce best practices with minimal disruption to its operations.

  Rosneft also employs many highly qualified oil and gas specialists. Rosneft has benefited from long-term investment by the Russian government in vocational and technical training to support an important national industry. Rosneft believes it has been successful in presenting itself as an employer of choice both for middle and senior managers and for talented recent graduates of Russia's universities.

  In addition, Rosneft has access to industry best practices and the latest technologies through its relationships with international oil majors and domestic peer companies.

- *Committing to high standards of corporate governance.*

  Rosneft is committed to high standards of corporate governance. The Company has three non-executive directors whom it considers meet the standards for independence set forth in the FSFM's corporate governance code; these directors currently comprise one-third of the Company's Board of Directors and chair the Board's Audit Committee, Strategic Planning Committee and Personnel, Remuneration and Benefits Committee. In addition, the Company has written certain provisions of the FSFM's corporate governance code for listed companies directly into its internal regulations, including:

- Membership on the Board at all times of at least three directors who are independent (as defined in the FSFM's corporate governance code);
- Establishment of Board committees, two of which (the Audit Committee and the Personnel, Remuneration and Benefits Committee) must be chaired by independent non-executive directors;
- Adoption of a bylaw against insider trading; and
- Establishment of internal control procedures managed by a new internal control department, which will handle internal audit functions.

Rosneft recently adopted a plan for the consolidation of several of the Company's subsidiaries into the Company through a statutory merger and an exchange of shares. The Share Swap will simplify Rosneft's corporate structure and reduce the need to obtain time-consuming corporate approvals for transactions that arise in the ordinary course of Rosneft's business. It will also allow Rosneft to restructure management at the operational level, thereby improving accountability, clarifying responsibilities and streamlining information reporting and decision-making. Lastly, the Share Swap will allow minority shareholders in the Merging Subsidiaries to share in the future success of Rosneft at the level of the listed parent company.

Maps

The following maps are presented to assist investors in understanding Rosneft and its logistics. The maps cover the main upstream and downstream assets proprietary to Rosneft as well as the principal third party assets utilized by Rosneft in its operations. The maps are not to scale.

Upstream Operations

Rosneft classifies its upstream operations into two major categories: first, "production and development assets" and second, "exploration projects." Production and development assets consist of subsidiaries and joint ventures with fields and deposits that are either currently producing or are at the development stage. Exploration projects consist of subsidiaries and joint ventures that are not currently producing commercial volumes of crude oil or gas and are still at the exploration stage. On completion of the initial exploration program, and if the Company's investment committee has taken a decision to start development, then the project will enter the development phase and join the production and development assets category. Rosneft subjects all investment decisions involving material capital expenditures to a rigorous internal ranking based on net present value, internal rate of return, discounted payback period, reserves volume and discounted profitability index analysis.

Rosneft develops and produces hydrocarbons at 11 producing subsidiaries, which it fully consolidates, and at two producing joint ventures, which it accounts for using the equity or proportional consolidation method. In addition, Rosneft conducts development activities at two additional subsidiaries, which it fully consolidates, and at one joint venture, which it accounts for using the equity method. The following table sets forth Rosneft's production and development subsidiaries and joint ventures as of 31 March 2006:

		No. of production licenses	No. of fields in production and development	Rosneft share of preferred and common shares	Rosneft share of common shares	Geographic location
Producing subsidiaries (consolidated under U.S. GAAP)						
1	Yuganskneftegaz[1]	26	25	76.79%	100.00%	Western Siberia
2	Purneftegaz[2]	12	13	83.11%	90.84%	Western Siberia
3	Komsomolskneft[3]	1	1	100.00%	100.00%	Western Siberia
4	Selkupneftegaz	1	1	100.00%	100.00%	Western Siberia
5	Severnaya Neft	16	11	100.00%	100.00%	Timano-Pechora
6	Sakhalinmorneftegaz	33	29	64.66%	84.67%	Russian Far East
7	Krasnodarneftegaz	50	52	95.63%	98.09%	Southern Russia
8	Stavropolneftegaz	37	33	75.40%	89.51%	Southern Russia
9	Grozneftegaz[4]	21	19	51.00%	51.00%	Southern Russia
10	Dagneft[2]	36	34	68.70%	91.60%	Southern Russia
11	Dagneftegaz	12	6	81.22%	94.96%	Southern Russia
Producing joint ventures and PSAs (accounted for using the equity or proportional consolidation method)						
12	Polyarnoye Siyaniye	4	4	50.00%	50.00%	Timano-Pechora
13	Sakhalin-1 (RN-Astra and Sakhalinmorneftegaz-Shelf)[4]	3	3	—	15.94%[5]	Russian Far East
Development subsidiaries (consolidated under U.S. GAAP)						
14	Vankorneft	1	1[6]	100.00%	100.00%	Eastern Siberia
15	Taymirneft	1		60.00%	60.00%	
Development joint ventures (accounted for using the equity method)						
16	Verkhnechonskneftegaz	1	1	25.94%	25.94%	Eastern Siberia

Note: All of these subsidiaries and joint ventures are included in the Reserves Reports as of 31 December 2005.

(1) Yuganskneftegaz preferred shares have voting rights since Yuganskneftegaz has not paid dividends on such preferred shares since 1998.

(2) The Company also directly owns three exploration licenses in Purneftegaz' area of operations. Dagneft also owns one exploration license within its operating area.

(3) Komsomolskneft's reserves are included in the reserves of Purneftegaz in the Reserves Reports. Rosneft includes Komsomolskneft's production data with that of Purneftegaz.

(4) The Company's subsidiaries and joint ventures currently hold all of their own production licenses, with the exception of Grozneftegaz. The Company holds all licenses for Grozneftegaz directly. The Company holds its interest in Sakhalin-1 through a PSA.

(5) The Company participates in Sakhalin-1 through its subsidiaries RN-Astra and Sakhalinmorneftegaz. As of 31 March 2006, the Company held an 8.5% interest in Sakhalin-1 via its wholly owned subsidiary RN-Astra. As of the same date, the Company held a 64.66% interest in Sakhalinmorneftegaz (including both preferred and common shares), which in turn held an 11.5% interest in Sakhalin-1 via its wholly owned subsidiary Sakhalinmorneftegaz-Shelf. Thus, as of 31 March 2006, the Company held an indirect 7.44% interest in Sakhalin-1 via Sakhalinmorneftegaz giving it an aggregate 15.94% interest in Sakhalin-1. The Company's reported net interest in Sakhalin-1 for purposes of reserves reporting and for purposes of proportional consolidation is 20%, since Rosneft reports the reserves of its fully consolidated subsidiary Sakhalinmorneftegaz on a 100% basis and under the principles of proportional consolidation takes full account of the 11.5% interest held through Sakhalinmorneftegaz. Following the Share Swap, the Company expects that its interest in Sakhalinmorneftegaz will in fact increase to 100%, meaning that the Company will hold an 11.5% interest in Sakhalin-1 via Sakhalinmorneftegaz and that it will, accordingly, hold an aggregate 20% interest in Sakhalin-1.

(6) An administrative boundary splits the Vankorskoye field, with Vankorneft and Taymirneft holding the licenses to the southern and northern parts, respectively.

Rosneft conducts exploration activities both within and outside Russia in order to maintain its current reserve base and to support its long-term production growth strategy. Rosneft's principal Russian exploration assets are located in Eastern Siberia, Timano-Pechora, the Russian Far East, including the shelf of Sakhalin Island and Kamchatka Peninsula, as well as the shelf of the Russian Black Sea and the Sea of Azov. Rosneft also has exploration activities outside Russia, including projects in Kazakhstan and Algeria. The following table sets forth Rosneft's exploration projects as of 31 March 2006:

	Assets	No. of licenses	Entity holding license	Rosneft interest	Geographic location
Exploration projects within the Russian Federation					
1	License areas around Vankorskoye field	13	OJSC OC Rosneft	100.00%	Eastern Siberia
2	Vostochno-Sugdinskiy Block	1	OJSC OC Rosneft	100.00%	Eastern Siberia
3	Venineft (Sakhalin-3)(1)	1	Venineft	49.80%(2)	Russian Far East
4	West Schmidtneftegaz (Sakhalin-4)(1)	1	West Schmidtneftegaz	51.00%(2)	Russian Far East
5	East Schmidtneftegaz (Sakhalin-5)(1)	1	East Schmidtneftegaz	51.00%(2)	Russian Far East
6	Kayganneftegaz (Sakhalin-5)(1)	1	CJSC Elvary Neftegaz	51.00%(2)	Russian Far East
7	Kamchatneftegaz (West Kamchatka)(1)	1	Kamchatneftegaz	60.00%(2)	Russian Far East
8	Tuapsinskiy Trough (Black Sea)	1	OJSC OC Rosneft	100.00%	Southern Russia
9	Temryuksko-Akhtarskiy Block (Sea of Azov)(1)	1	Priazovneft	42.50%	Southern Russia
Exploration projects outside the Russian Federation					
10	Kurmangazy	1	RN-Kazakhstan	25.00%	Kazakhstan
11	Aday(1)	1	—(3)	50.00%	Kazakhstan
12	245 S Block	1	Rosneft-Stroytransgaz Ltd.	30.00%	Algeria

Note: All of those projects, with the exception of Aday and the 245 S Block, are included in the Resources Reports as of 31 December 2005. The Company allowed two licenses for blocks on the Dagestan shelf, which were held through its wholly owned subsidiary LLC Caspoil, to lapse in September 2005 and January 2006.

(1) Joint ventures.

(2) Until carry financing has been recovered, Rosneft is entitled to crude oil allocations from the relevant project equal to 10% of its economic interest, except for Sakahalin-3, where Rosneft is entitled to 5% of its economic interest.

(3) In accordance with Kazakhstan law, no license is required because the parties have entered into a production sharing agreement.

In addition to the exploration projects set forth above, Rosneft's producing subsidiaries Yuganskneftegaz and Purneftegaz also have prospective resources in certain geological layers. See the Resources Report, "—Production and Development Subsidiaries and Joint Ventures—Western Siberia—Yuganskneftegaz" and "—Production and Development Subsidiaries and Joint Ventures—Western Siberia—Purneftegaz (Including Komsomolskneft)."

Exploration and Appraisal Activities

Rosneft continues to undertake exploration and appraisal drilling at its production and development subsidiaries. The following table sets forth certain data concerning these activities at Rosneft's fully consolidated production and development subsidiaries:

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
Exploration and appraisal drilling, th. meters	37.62	41.43	57.07	8.55	9.78
Exploration and appraisal wells drilled	14	11	18	2	2
2D seismic, km.	1,058	2,083	674	261	312
3D seismic, sq. km.	513	1,920	1,141	395	529

Rosneft is also actively engaged in exploration and appraisal activities at most of its exploration projects. The following table sets forth certain aggregate data concerning these activities at Rosneft's exploration projects:

	For the year ended 31 December			
	2003	2004	2005	Planned for 2006
Exploration and appraisal drilling, th. meters	3.93	25.42	26.19	40.23
Exploration and appraisal wells drilled	2	17	19	23
2D seismic, km.	1,802	6,619.7	12,394	10,370
3D seismic, sq. km.	2,388	100	3,551	4,070

Licenses

Rosneft must obtain licenses from governmental authorities to explore and produce oil and gas from its fields. As of 31 March 2006, Rosneft (including projects in which Rosneft had an interest) held a total of 279 licenses, of which 255 production and combined exploration and production licenses and four exploration licenses were held by production and development subsidiaries and joint ventures and 20 exploration and combined exploration and production licenses were held in connection with exploration projects. In May 2006, Rosneft received three additional licenses for the blocks around Vankorskoye field, which it won at an auction in the first quarter of 2006, bringing the total number of licenses that Rosneft holds around Vankorskoye field to 13. After the Share Swap, the Company intends to become the direct holder of licenses currently held by its Merging Subsidiaries. See "The Company—Planned Consolidation via Share Swap."

Exploration licenses give licensees the exclusive right to explore resources from fields in a defined area and are valid for five years from issuance. Production licenses give the licensees the exclusive right to extract resources from fields in a defined area and are valid for 20 years from issuance. Combined licenses permit both exploration and production and are valid for 25 years from issuance. Most of Rosneft's production and combined exploration and production licenses expire between 2013 and 2030. The license to Yuganskneftegaz' Priobskoye field, which is Rosneft's largest producing field, expires in 2019, and the licenses to Yuganskneftegaz' other fields expire in 2014. The licenses to Purneftegaz' fields expire between 2013 and 2019. The licenses to the Val Gamburtseva group of fields, which is Severnaya Neft's largest producing group of fields, expire in 2026. Most of Rosneft's exploration licenses expire between 2007 and 2009. The three exploration and production licenses received by Rosneft in May 2006 for the blocks around Vankorskoye field expire in 2031. The exploration and production license for the Vostochno-Sugdinskiy block also expires in 2031.

Licenses require the licensees to pay certain local and federal taxes and to meet certain environmental requirements. They may be revoked if the licensees fail to comply with their terms or to heed warnings from the regulatory authorities. Licenses generally require the license holder to make various commitments, including extracting annually an agreed target amount of reserves, conducting agreed minimum drilling levels and other exploratory and development activities, protecting the environment in the license area from damage, providing certain progress reports and geological data to the relevant authorities and paying royalties and other amounts when due.

The economic lives of Rosneft's licensed fields can extend significantly beyond the license expiration dates. Under Russian law, the Company is entitled to renew the licenses to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law, "Concerning Subsurface Resources," provides that a license to use a field "shall be" extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production of the field, provided that there are no violations of the conditions of the license. The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, clarifying that the subsoil user has an absolute right to extend the license term so long as it has not violated the conditions of the license. In 2005, the Company extended the terms of 39 of its production licenses for the period equivalent to the expected life of the fields. There were no unsuccessful license renewal applications. Furthermore, Rosneft has received a letter, dated 19 May 2006, from the Subsoil Agency confirming that, to date, it has not identified any violations of the terms of Rosneft's licenses that could prevent their extension and that, based on approved development plans and in accordance with the Subsoil Law, the licenses will be extended at Rosneft's request. Accordingly, Rosneft's current production plans assume the extension of the license and that Rosneft will produce crude oil and gas through the economic lives of its fields.

For a discussion of the impact of Russia's legal regime governing license renewals on SEC proved reserves, see "Appendix I: Classification of Reserves and Resources—SEC Standards." For a discussion of risks relating to Rosneft's licenses, see "Risk Factors—Risks Relating to Rosneft—Rosneft's exploration and production licenses may be suspended, amended or terminated prior to the end of their terms, and Rosneft may be unable to obtain or maintain various permits and authorizations."

Reserves and Resources

As of 31 December 2005, Rosneft's proved crude oil reserves were 14.88 billion barrels (2.05 billion tonnes). As of the same date, almost 89% of Rosneft's proved crude oil reserves were concentrated at three producing subsidiaries, with 73.4% at Yuganskneftegaz, 12.5% at Purneftegaz and 3.1% at Severnaya Neft. Also as of the same date, an additional 6.4% of Rosneft's proved crude oil reserves were concentrated at Vankorskoye field, which is currently under development.

As of 31 December 2005, Rosneft's crude oil proved reserves life was 28 years. In 2005, Rosneft's reserves replacement ratio was 108.6% for crude oil, calculated by comparing net new proved crude oil reserves additions in tonnes to yearly crude oil production in tonnes. Calculated on the basis of barrels, Rosneft's crude oil reserves replacement ratio was 101.1% in 2005. Rosneft's reserves replacement ratio was 3,882.5% for gas and 572.0% for boe in 2005.

While Rosneft's SPE proved boe reserves increased from 16,028.36 million boe as of 31 December 2004 to 18,941.61 million boe as of 31 December 2005, its SEC standard (economic lives of fields) proved boe reserves decreased from 12,788.67 million boe as of 31 December 2004 to 11,859.54 million boe as of 31 December 2005.

This decline in SEC standard proved boe reserves reflected:

- Changes in the application of certain elements of SEC standards following SEC staff clarifications which had an adverse effect on reserves reported for the Vankorskoye field;
- Test results in the North Komsomolskoye field in 2005 that were not sufficient to meet the economic criteria of SEC standards, which are generally more stringent than SPE standards;
- Underperformance relative to expectations in the development of the Mamontovskoye and Ust Balykskoye fields; and
- Errors in information used to prepare the reserves estimates as of 31 December 2004.

Moreover, due to constraints under SEC standards on the booking of gas reserves in the absence of a legally binding contract, SEC standard gas reserves as of 31 December 2005 do not include certain gas reserves that are included in SPE proved gas reserves as of that date on the basis of management's belief that Rosneft will in due course enter into a long-term agreement to sell additional gas to Gazprom. As of 31 December 2005, proved gas reserves to SPE standards exceeded proved gas reserves to SEC standards (economic lives of fields) by 499 bcm (2,940 million boe), mainly due to the booking of additional SPE proved gas reserves on the basis of management's belief that Rosneft will execute the long-term agreement with Gazprom.

Crude Oil Reserves

The following table sets forth Rosneft's proved, probable and possible reserves of crude oil, in each case as measured in accordance with SPE standards, as of 31 December 2005. It also sets forth Rosneft's ABC1 and C2 crude oil reserves as of such date.

	SPE standards					Russian standards	
	Proved						
	Developed	Un-developed	Total proved	Probable(1)	Possible(1)	A+B+C1	C2
	(Million barrels)						
Producing, fully consolidated subsidiaries and equity-accounted joint ventures							
WESTERN SIBERIA							
Yuganskneftegaz	5,651.46	5,272.75	10,924.21	5,050.41	3,576.36	11,232.91	2,224.49
Purneftegaz (including Komsomolskneft)	1,229.55	627.07	1,856.63	1,394.76	2,046.72	3,988.87	1,492.26
Selkupneftegaz	47.21	68.94	116.15	109.44	259.68	119.23	131.89
TIMANO-PECHORA							
Severnaya Neft	161.51	292.28	453.79	218.06	279.68	751.25	208.48
Polyarnoye Siyaniye	17.27	1.86	19.13	10.92	12.34	31.45	30.72
RUSSIAN FAR EAST							
Sakhalinmorneftegaz	103.54	19.03	122.57	73.71	67.30	234.81	51.94
Sakhalin-1	15.14	0	15.14	238.14	148.01	237.01	142.64
SOUTHERN RUSSIA							
Dagneft	14.49	0	14.49	3.96	3.56	32.92	13.17
Dagneftegaz	3.13	0	3.13	1.23	2.07	29.26	44.62
Grozneftegaz	161.42	0	161.42	54.78	138.34	281.63	40.96
Krasnodarneftegaz	93.17	0.03	93.20	38.29	85.50	212.14	27.07
Stavropolneftegaz	69.80	0	69.80	23.38	52.67	306.50	83.39
Development, fully consolidated subsidiaries and equity-accounted joint ventures							
EASTERN SIBERIA							
Vankorskoye field	0	945.90	945.90	956.87	394.78	613.73	1,776.81
Verkhnechonskneftegaz	0	81.79	81.79	130.74	152.38	303.57	85.59
TOTAL RESERVES	**7,567.69**	**7,309.65**	**14,877.34**	**8,304.68**	**7,219.39**	**18,375.28**	**6,354.03**

(1) Probable and possible reserves have not been adjusted for risk.

Gas Reserves

The following table sets forth Rosneft's proved, probable and possible reserves of gas, in each case as measured in accordance with SPE standards, as of 31 December 2005. It also sets forth Rosneft's ABC1 and C2 gas reserves as of such date.

	SPE standards					Russian standards	
	Proved						
	Developed	Un-developed	Total proved	Probable[(1)]	Possible[(1)]	A+B+C1	C2
				(bcm)			
Producing, fully consolidated subsidiaries and equity-accounted joint ventures							
WESTERN SIBERIA							
Yuganskneftegaz	19.22	62.18	81.40	37.92	24.59	92.90	16.70
Purneftegaz (including Komsomolskneft)	80.87	421.91	502.79	296.79	290.56	1,103.90	220.00
Selkupneftegaz	8.03	42.15	50.17	45.39	80.02	110.10	116.50
TIMANO-PECHORA							
Severnaya Neft	0.00	0.00	0.00	0.00	0.00	7.50	3.00
Polyarnoye Siyaniye	0.00	0.00	0.00	0.00	0.00	0.30	0.10
RUSSIAN FAR EAST							
Sakhalinmorneftegaz	7.19	0.71	7.90	3.43	5.80	45.50	14.70
Sakhalin-1	2.08	0.00	2.08	48.81	13.38	68.80	35.80
SOUTHERN RUSSIA							
Dagneft	0.00	0.00	0.00	0.00	0.00	2.40	0.60
Dagneftegaz	6.41	0.00	6.41	2.32	3.42	55.60	55.00
Grozneftegaz	4.34	0.00	4.34	1.50	3.73	27.00	22.30
Krasnodarneftegaz	33.86	1.11	34.97	8.01	12.86	99.90	3.20
Stavropolneftegaz	0.47	0.00	0.47	0.17	0.33	5.90	1.10
Development, fully consolidated subsidiaries and equity-accounted joint ventures							
EASTERN SIBERIA							
Vankorskoye field	0.00	0.00	0.00	0.00	0.00	87.70	73.60
Verkhnechonskneftegaz	0.00	0.00	0.00	0.00	0.00	5.30	3.40
TOTAL RESERVES	**162.47**	**528.05**	**690.52**	**444.34**	**434.70**	**1,712.80**	**566.00**

(1) Probable and possible reserves have not been adjusted for risk.

Crude Oil and Gas Resources

The following table sets forth, on a 100% basis, D&M's best estimates and P_e-adjusted best estimates of prospective resources of crude oil and gas as of 31 December 2005, should the prospects in which Rosneft has a share result in successful discoveries and development. These estimates were made on the basis of the methodology set forth in Appendix I: Classification of Reserves and Resources and in the Resources Report on prospective resources. **PROSPECTIVE RESOURCES RELATE TO UNDISCOVERED ACCUMULATIONS AND, ACCORDINGLY, ARE HIGHLY SPECULATIVE. A POSSIBILITY EXISTS THAT THE PROSPECTS WILL NOT RESULT IN THE SUCCESSFUL DISCOVERY OF ECONOMIC RESOURCES, IN WHICH CASE THERE WOULD BE NO COMMERCIAL DEVELOPMENT.**

	Crude oil		Gas	
	Best estimate(1)	P_e-adjusted best estimate(2)	Best estimate(1)	P_e-adjusted best estimate(2)
	(million barrels)		(bcm)	
Exploration projects in Russia				
EASTERN SIBERIA				
Ten license areas around Vankorskoye field	4,214.45	268.37	0.00	0.00
Vostochno-Sugdinskiy Block	1,048.45	327.40	0.00	0.00
RUSSIAN FAR EAST				
Veninneft (Sakhalin-3)	1,227.76	465.91	258.07	49.55
West Schmidtneftegaz (Sakhalin-4)	1,313.48	306.44	281.14	65.04
East Schmidtneftegaz (Sakhalin-5)	2,979.71	704.89	255.26	41.69
Kayganneftegaz (Sakhalin-5)	8,500.16	3,288.86	0.00	0.00
Kamchatneftegaz (West Kamchatka)	7,494.61	1,776.01	0.00	0.00
SOUTHERN RUSSIA				
Tuapsinskiy Trough (Black Sea)	4,324.15	840.87	0.00	0.00
Temryuksko-Akhtarskiy Block (Sea of Azov)	256.15	59.22	0.00	0.00
Exploration projects outside Russia				
KAZAKHSTAN				
Aday	—	—	—	—
Kurmangazy	13,141.48	3,685.43	0.00	0.00
ALGERIA				
245 S Block	—	—	—	—
Other prospective resources				
Yuganskneftegaz	1,764.22	963.14	0.00	0.00
Purneftegaz	1,671.12	677.50	0.00	0.00
TOTAL RESOURCES	**47,935.75**	**13,364.04**	**794.48**	**156.28**

(1) In accordance with SPE definitions, the best estimate is the probability-weighted average, which typically has a probability in the P_{45} to P_{15} range, depending on the variance of prospective resources volume or associated value. Therefore, the probability of a prospect or accumulation containing the probability-weighted average volume or greater is usually between 45% and 15%. The best estimate is the preferred probabilistic estimate of prospective resources.

(2) The P_e-adjusted best estimate, or "economic risk-adjusted best estimate," is a probability-weighted average of the hydrocarbon quantities potentially recoverable if a prospect portfolio were drilled, or if a family of similar prospects were drilled. The P_e-adjusted best estimate is a "blended" quantity. It is a mean estimation of volumetric uncertainty, geologic (P_g), and economic risk (chance). This statistical measure considers and quantifies the economic success and economic failure outcomes. Consequently, it represents the average or mean "economic" volumes resulting from economically viable drilling and exploration. The P_e-adjusted best estimate is calculated as follows:

$$P_e\text{-adjusted best estimate} = P_e \times \text{best estimate}$$

On a net basis, the P_e-adjusted best estimates of prospective resources were 7,228.75 million barrels of crude oil and 79.11 bcm of gas as of 31 December 2005.

D&M Valuation of Reserves and Resources

The following table sets forth, as of 31 December 2005, D&M's estimate of the present worth of the future net revenues from Rosneft's SPE crude oil and gas reserves:

Classification	Present worth (USD thousand) at a discount rate of: 8%	9%	10%	11%
Proved reserves	83,901,697	76,955,741	70,896,603	65,573,935
Probable reserves	22,963,215	19,817,414	17,228,763	15,074,499
Proved and probable reserves	106,864,912	96,773,155	88,125,366	80,648,434
Possible reserves	11,704,129	9,853,369	8,379,802	7,189,768
Proved, probable and possible reserves	118,569,041	106,626,524	96,505,168	87,838,202

D&M's estimate of the present worth of the future net revenues from Rosneft's SEC proved crude oil and gas reserves at a discount rate of 10% as of 31 December 2005 was USD 50,854,573 thousand. This estimate assumes that Rosneft's production licenses will be renewed through the economic lives of its fields. The estimate assuming that Rosneft's licenses will not be renewed was USD 39,672,691 thousand as of 31 December 2005.

For an explanation of D&M's assumptions and methodology, see the Reserves Reports.

In addition, the following table sets forth D&M's estimates of the potential present worth that might be realized from the production and sale of Rosneft's share of prospective resources as of 31 December 2005 if they were successfully discovered and developed using the present worth per prospective resources volume methodology described in the Resources Report on prospective resources and in Appendix I: Classification of Reserves and Resources. **PROSPECTIVE RESOURCES RELATE TO UNDISCOVERED ACCUMULATIONS AND, ACCORDINGLY, ARE HIGHLY SPECULATIVE. A POSSIBILITY EXISTS THAT THE PROSPECTS WILL NOT RESULT IN THE SUCCESSFUL DISCOVERY OF ECONOMIC RESOURCES OR DEVELOPMENT, IN WHICH CASE THERE WOULD BE NO POSITIVE PRESENT WORTH.**

	Potential present worth (USD thousand) at a discount rate of 10%			
	Low estimate (P_{90})(1)	Median estimate (P_{50})(1)	Best estimate(1)	High estimate (P_{10})(1)
Net prospective crude oil and gas resources	18,621,810	20,770,240	21,035,634	23,718,750

(1) For a definition of this term, see "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources—Standard Petroleum Industry Terms for Probabilistic Resource Quantities."

Estimated potential present worth of prospective resources is not comparable to present worth estimates of contingent resources or reserves. Recovery efficiency is applied to prospective resources in this table. The present worth values in this table do not represent a fair market value evaluation. Political risk, market availability, timing, pricing and other economic uncertainties are not reflected in the calculation of present worth.

Production and Development Subsidiaries and Joint Ventures

Rosneft develops and produces hydrocarbons at 11 producing subsidiaries, which it fully consolidates into the Financial Statements, and at two producing joint ventures, which it accounts for using the equity method. In addition, Rosneft conducts development activities at two additional subsidiaries, which it fully consolidates, and at one joint venture, which it accounts for using the equity method.

Rosneft is one of the largest producers of crude oil and a significant producer of gas in Russia. In 2005, Rosneft produced 1,480.52 thousand barrels per day (73.87 million tonnes per year) of crude oil and 13.06 bcm per year of gas, in each case including its *pro rata* share of the production of its affiliates and joint ventures accounted for on an equity basis. The Company's fully consolidated subsidiaries produced 1,466.18 thousand barrels per day (73.16 million tonnes per year) of crude oil and 13.01 bcm per year of gas. These amounts represented an increase of 261.0% for crude oil and 39.2% for gas compared to 2004. This year-on-year increase was due primarily to the acquisition of Yuganskneftegaz. If Yuganskneftegaz' 2005 production of 1,026.30 thousand barrels per day (51.21 million tonnes per year) of crude oil and 1.42 bcm per year of gas is excluded from the aggregate 2005 production figures, Rosneft's year-on-year growth in production in 2005 would have been 8.3% for crude oil and 24.0% for gas.

In the first quarter of 2006, the Company's fully consolidated subsidiaries produced 1,512.35 thousand barrels per day (18.61 million tonnes per quarter) of crude oil and 3.52 bcm per quarter of gas. These amounts represented an increase of 6.5% for crude oil and 15.2% for gas compared to the first quarter of 2005. This quarter-on-quarter increase was due to organic growth.

Yuganskneftegaz and Purneftegaz in Western Siberia and Severnaya Neft in Timano-Pechora are Rosneft's most important producing subsidiaries, collectively accounting for 89.6% of Rosneft's production in 2005. Yuganskneftegaz produced 1,026.30 thousand barrels per day (51.21 million tonnes per year) of crude oil and 1.42 bcm per year of gas in 2005, accounting for 70.0% and 10.9%, respectively, of Rosneft's oil and gas production. Purneftegaz produced 189.83 thousand barrels per day (9.47 million tonnes per year) of crude oil and 4.27 bcm per year of gas in 2005, accounting for 12.9% and 32.8%, respectively, of Rosneft's oil and gas production. Severnaya Neft produced 97.70 thousand barrels per day (4.88 million tonnes per year) of crude oil and 0.19 bcm per year of gas in 2005, accounting for 6.7% and 1.5%, respectively, of Rosneft's oil and gas production.

The following table sets forth Rosneft's historical production volumes of crude oil and gas:

	Crude oil					Gas				
	For the year ended 31 December			For the three months ended 31 March		For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006	2003	2004	2005	2005	2006
	(th. barrels per day)					(bcm per period)				
Producing, fully consolidated subsidiaries and equity-accounted joint ventures										
WESTERN SIBERIA										
Yuganskneftegaz[1]	996.73	1,035.19	1,026.30	999.31	1,068.97	1.37	1.42	1.42	0.36	0.38
Purneftegaz (including Komsomolskneft)	197.63	192.78	189.83	189.96	178.12	2.75	3.89	4.27	1.01	1.11
Selkupneftegaz	3.91	9.88	14.93	11.06	16.53	0.01	1.00	2.26	0.40	0.72
Total Western Siberia[1]	**201.54**	**202.66**	**1,231.06**	**1,200.33**	**1,263.63**	**2.76**	**4.89**	**7.95**	**1.77**	**2.21**
TIMANO-PECHORA										
Severnaya Neft[2]	45.43	68.02	97.70	85.75	109.74	0.06	0.12	0.19	0.04	0.05
Polyarnoye Siyaniye[3]	7.59	13.32	12.78	12.57	12.62	0.01	0.01	0.02	0.00	0.00
Total Timano-Perchora	**53.03**	**81.34**	**110.48**	**98.33**	**122.35**	**0.07**	**0.14**	**0.21**	**0.05**	**0.05**
RUSSIAN FAR EAST										
Sakhalinmorneftegaz	33.12	36.70	37.48	36.28	39.77	1.69	1.53	1.42	0.39	0.31
Sakhalin-1[3]	0.00	0.00	1.55	0.00	8.25	0.00	0.00	0.03	0.00	0.03
Total Russian Far East	**33.12**	**36.70**	**39.03**	**36.28**	**48.02**	**1.69**	**1.53**	**1.45**	**0.39**	**0.34**
SOUTHERN RUSSIA										
Krasnodarneftegaz	33.84	31.25	29.50	30.78	30.31	1.19	1.45	2.22	0.53	0.69
Stavropolneftegaz	20.54	20.05	19.62	17.86	21.45	0.11	0.10	0.10	0.02	0.02
Grozneftegaz	35.66	39.46	44.09	42.19	41.14	0.46	0.51	0.46	0.13	0.11
Dagneft	6.74	5.76	5.75	5.68	5.52	0.66	0.03	0.03	0.01	0.01
Dagneftegaz	0.11	1.20	0.99	1.02	0.80	0.06	0.70	0.64	0.17	0.12
Total Southern Russia	**96.89**	**97.72**	**99.95**	**97.53**	**99.22**	**2.48**	**2.80**	**3.45**	**0.86**	**0.95**
Development, fully consolidated subsidiaries and equity accounted joint ventures										
EASTERN SIBERIA										
Vankorskoye field	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Verkhnechonskneftegaz[3]	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Eastern Siberia	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
TOTAL SUBSIDIARIES AND JOINT VENTURES	**384.58**	**418.41**	**1,480.52**	**1,432.46**	**1,533.22**	**7.01**	**9.36**	**13.06**	**3.06**	**3.56**
TOTAL FULLY CONSOLIDATED SUBSIDIARIES ONLY	**376.99**	**405.09**	**1,466.18**	**1,419.89**	**1,512.35**	**7.00**	**9.35**	**13.01**	**3.06**	**3.52**

(1) In late December 2004, Rosneft acquired Baikalfinancegroup, which had won an auction for the sale of 76.79% of the shares (100% of the common shares) of Yuganskneftegaz. Yuganskneftegaz' production was attributable to Rosneft from then. Accordingly, while the table presents Yuganskneftegaz' production for 2003 and 2004, Rosneft's total production for those years does not include Yuganskneftegaz' production for those periods.

(2) Rosneft acquired a 100% economic interest in Severnaya Neft in June 2003. The figures in this table include 100% of Severnaya Neft's production for the periods presented; however, the Financial Statements present income from Severnaya Neft only from July 2003.

(3) Data for Polyarnoye Siyaniye, Sakhalin-1 and Verkhnechonskneftegaz are presented on a 50.0%, 20.0% and 25.94% *pro rata* basis, respectively.

The following table sets forth certain data concerning production drilling at Rosneft's fully consolidated subsidiaries:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Production drilling, th. meters	483.36	473.67	1,049.37	187.89	268.86
New production wells(1)	226	149	331	53	69

(1) Includes newly drilled production wells and successful exploration wells transferred into the production category.

The following table sets forth certain data concerning Rosneft's wells and well productivity for Rosneft's fully consolidated subsidiaries:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Total wells, including:(1)	30,409	30,013	51,521	51,298	51,648
Total crude oil production wells, including:	8,797	8,481	17,196	17,572	17,190
Active wells(2)	8,503	8,221	14,951	15,174	14,974
Idle *(bezdeystvuyushiye)* wells	286	254	2,231	2,385	2,201
Total gas production wells, including(4):	250	272	340	305	323
Active wells(2)	220	245	298	252	288
Idle *(bezdeystvuyushiye)* wells	23	24	41	45	21
Total injection *(nagnetatelniye)* wells, including:	1,723	1,576	5,939	5,799	5,952
Active wells(2)	1,246	1,137	3,922	3,656	3,918
Idle *(bezdeystvuyushiye)* wells	477	405	2,017	2,182	2,034
Productivity of active crude oil production wells					
Average daily flow of crude oil per well (barrels)	47.55	52.89	101.17	98.90	106.36
Average daily flow of crude oil per new well (barrels)(3)	247.69	446.87	589.15	396.77	705.31
Watercut	70.6%	69.2%	75.2%	74.4%	76.4%

(1) Includes crude oil and gas production wells, injection wells, support wells and wells under conservation and liquidation.

(2) Includes wells shut for maintenance less than one month.

(3) Includes newly drilled wells and idle wells restored to production.

(4) Gas condensate is produced from gas wells.

As of 31 December 2005, the proportion of idle crude oil production wells to total crude oil production wells was approximately 13.0%.

The Company's 16 production and development subsidiaries and joint ventures cover the most promising hydrocarbon-bearing regions of Russia: Western Siberia, Timano-Pechora, Southern Russia, the Russian Far East and Eastern Siberia. In 2005, Western Siberian fields accounted for 84.0% of Rosneft's overall production of crude oil (including the *pro rata* share of the production of its affiliates and joint ventures accounted for on an equity basis), Timano-Pechora for 6.7%, Southern Russia for 6.8% and the Russian Far East for 2.6%, in each case.

Western Siberia

Yuganskneftegaz

In late December 2004, Rosneft acquired Baikalfinancegroup, which had won an auction for the sale of 76.79% of the shares (100% of the common shares) of Yuganskneftegaz. Yukos owns the remaining 23.21% of Yuganskneftegaz in the form of preferred shares.

The acquisition of Yuganskneftegaz enabled Rosneft to achieve substantial growth not only in production, but also in exports of crude oil and petroleum products. Yuganskneftegaz is the Company's largest upstream subsidiary, accounting for 73.4% of Rosneft's proved crude oil reserves as of 31 December 2005 and 70.0% of its crude oil production in 2005.

Crude oil-bearing formations within Yuganskneftegaz' fields consist of Neocomian (2,400-2,800 m) and Jurassic (2,800-3,200 m) sandstones. The properties of the oil vary from light to heavy, with an average density of 858 kg/m^3 (33° API), a sulfur content of 0.75%-1.45% and varying concentrations of paraffins. Yuganskneftegaz' long-term growth potential lies in the Achimov (3,000-3,200 m) and Neocomian formations of the lower Cretaceous, which consist of thin and low permeability reservoirs.

Yuganskneftegaz pursues greenfield development at fields such as Priobskoye and Prirazlomnoye, which have low depletion rates, using state-of-the-art methods of reservoir development. In addition, the use of secondary recovery and production enhancement techniques—in particular, well workovers, sidetracks, and hydrofracturing—allows for production growth even at Yuganskneftegaz' mature fields.

The fields are integrated with the regional transportation infrastructure. The nearby Ust-Balyk-Omsk Transneft trunk pipeline transports crude oil to domestic markets and for export.

The following table sets forth certain data concerning Yuganskneftegaz:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Exploration					
Exploration drilling, th. meters	N/A	3.02	15.55	0.00	1.64
Exploration wells drilled	N/A	1	3	0	0
2D seismic, km.	337	0	50	0	200
3D seismic, sq. km.	49	321	315	0	303
Development and production					
Production drilling, th. meters	497.28	379.21	827.04	94.15	228.13
New production wells	152	126	240	28	62
Wellstock					
Total wellstock, including:	20,647	21,183	21,435	21,252	21,554
Production wells, including:	9,266	9,060	9,225	9,080	9,277
Active wells[(1)]	6,621	6,924	7,236	6,921	7,340
Idle wells	2,628	2,120	1,982	2,152	1,932
Injection wells, including	4,083	4,259	4,407	4,261	4,428
Active wells[(1)]	2,426	2,607	2,794	2,522	2,819
Idle wells	1,657	1,652	1,613	1,739	1,609
Well productivity					
Average daily flow per well (barrels)	185.75	157.90	150.96	149.89	152.92
Average daily flow per new well (barrels)	916.68	685.61	701.44	830.35	733.58
Watercut	70.47%	74.64%	77.17%	76.14%	78.52%
Licenses					
Production or combined production and exploration licenses					26
Range of expiration of production or combined production and exploration licenses (years)					
Priobskoye					2019
Other					2014
Fields in production					25
Exploration licenses					0
Crude oil reserves and resources and production (million barrels)					
Proved	—	11,480.74	10,924.21	—	—
Probable[(2)]	—	4,468.88	5,050.41	—	—
Proved and probable[(2)]	—	15,949.62	15,974.62	—	—
Possible[(2)]	—	3,543.58	3,576.36	—	—
Proved crude oil reserves per field					
Priobskoye	—	4,861.74	5,043.22	—	—
Mamontovskoye	—	1,143.84	990.96	—	—
Malobalykskoye	—	960.89	890.38	—	—
Prirazlomnoye	—	1,482.11	1,715.24	—	—
Other	—	3,032.16	2,284.41	—	—
Total	—	11,480.74	10,924.21	—	—
Prospective resources[(3)]					
Best estimate[(4)]	—	—	1,764.22	—	—
P_e*-adjusted best estimate*[(5)]	—	—	963.14	—	—
Crude oil production per field					
Priobskoye	129.23	149.39	150.58	36.07	38.77
Mamontovskoye	65.80	60.90	56.61	14.28	14.03
Malobalykskoye	35.37	37.14	37.11	8.61	10.03
Prirazlomnoye	28.26	28.02	27.68	6.75	7.25
Other	105.15	103.42	102.62	24.23	26.13
Total	363.81	378.88	374.60	89.94	96.21

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Gas reserves and resources and production (bcm)					
Proved	—	83.06	81.40	—	—
Probable(2)	—	32.73	37.92	—	—
Proved and probable(2)	—	115.78	119.32	—	—
Possible(2)	—	26.51	24.59	—	—
Proved gas reserves per field					
Priobskoye	—	38.52	38.61	—	—
Mamontovskoye	—	6.11	5.61	—	—
Malobalykskoye	—	6.37	7.99	—	—
Prirazlomnoye	—	12.31	14.54	—	—
Other	—	19.75	14.65	—	—
Total	—	83.06	81.40	—	—
Prospective resources(3)					
Best estimate(4)	—	—	0.00	—	—
P_e-adjusted best estimate(5)	—	—	0.00	—	—
Gas production per field					
Priobskoye	0.04	0.07	0.03	0.01	0.00
Mamontovskoye	0.37	0.34	0.31	0.08	0.08
Malobalykskoye	0.26	0.28	0.33	0.08	0.10
Prirazlomnoye	0.20	0.21	0.22	0.06	0.05
Other	0.51	0.53	0.53	0.14	0.14
Total	1.37	1.42	1.42	0.36	0.38

(1) Includes wells shut for maintenance for less than one month.

(2) Probable and possible reserves have not been adjusted for risk.

(3) Prospective resources are deposits that are estimated, on a given date, to be potentially recoverable from undiscovered accumulations and, accordingly, are highly speculative. A possibility exists that the prospects will not result in successful discovery of economic resources, in which case there would be no commercial development. See the Resources Report with respect to prospective resources and "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources."

(4) In accordance with SPE definitions, the best estimate is the probability-weighted average, which typically has a probability in the P_{45} to P_{15} range, depending on the variance of prospective resources volume or associated value. Therefore, the probability of a prospect or accumulation containing the probability-weighted average volume or greater is usually between 45% and 15%. The best estimate is the preferred probabilistic estimate of prospective resources.

(5) The P_e-adjusted best estimate, or "economic risk-adjusted best estimate," is a probability-weighted average of the hydrocarbon quantities potentially recoverable if a prospect portfolio were drilled, or if a family of similar prospects were drilled. The P_e-adjusted best estimate is a "blended" quantity. It is a mean estimation of volumetric uncertainty, geologic (P_g), and economic risk (chance). This statistical measure considers and quantifies the economic success and economic failure outcomes. Consequently, it represents the average or mean "economic" volumes resulting from economically viable drilling and exploration program. The P_e-adjusted best estimate is calculated as follows:

$$P_e\text{-adjusted best estimate} = P_e \times \text{best estimate}$$

Priobskoye Field

Priobskoye accounted for 46.2% of Yuganskneftegaz' proved crude oil reserves as of 31 December 2005 and 40.2% of its total crude oil production in 2005. The field was discovered in 1982 and started producing crude oil in 1988, and for the past three years, it has been the main source of the growth in Yuganskneftegaz' production.

The field lies within the floodplain of the Ob River, which bisects the field and requires the use of dredged sand to construct well pads. The crude oil-bearing structure is a large, low relief anticline that contains three crude oil- and gas-bearing Cretaceous sandstone sections. The depth of the producing horizons is approximately 2,300-2,600 m. Due to the thin bedded nature of the producing reservoirs, it is virtually impossible to develop the field using horizontal wells. Consequently, new vertical wells are fractured immediately after completion to achieve high flow rates. The oil has a high sulfur content (1.2%-1.3%), a medium paraffin content (2.4%-2.5%) and an average density of 863-868 kg/m^3 (32° API).

Priobskoye's wellstock consisted of 954 production and 376 injection wells as of 31 December 2005, including 178 new wells that were drilled in 2005. Most production wells are equipped with electrical submersible pumps, and water injection is used to maintain reservoir pressure. The average watercut was 35.6%. Production wells produce an average of 541.31 barrels of crude oil per well per day.

Mamontovskoye Field

Mamontovskoye accounted for approximately 9.1% of Yuganskneftegaz' proved crude oil reserves as of 31 December 2005 and approximately 15.1% of its total crude oil production in 2005. The field was discovered in 1965 and started producing crude oil in 1970. Mamontovskoye's future production rates depend on the effective application of the secondary recovery process.

The crude oil-bearing structure is a low relief anticline and contains eight crude oil and gas bearing Cretaceous sandstone reservoirs. The depth of the producing horizons is between 500-2,800 m. The crude oil has a high sulfur content (1.2%) and an average density of 836-890 kg/m^3 (32° API).

Mamontovskoye's wellstock consisted of 2,493 production and 1,212 injection wells as of 31 December 2005. Most production wells are equipped with electrical submersible pumps, and water injection is used to maintain reservoir pressure. The average watercut was 91.4%. Production wells produce an average of 80.46 barrels of crude oil per well per day.

Malobalykskoye Field

Malobalykskoye accounted for approximately 8.2% of Yuganskneftegaz' proved crude oil reserves as of 31 December 2005 and approximately 9.9% of its total crude oil production in 2005. The field was discovered in 1966 and started producing crude oil in 1984.

The field is an anticline with a large vertical closure and contains ten crude oil- and gas-bearing Cretaceous and Jurassic layers, with low permeability and porosity. The crude oil has a high sulfur content (1.2%), and an average density of 856-881 kg/m^3 (32° API).

Malobalykskoye's wellstock consisted of 720 production and 273 injection wells as of 31 December 2005. Most production wells are equipped with electrical submersible pumps, and water injection is used to maintain reservoir pressure. The average watercut was 62.1%. Production wells produce an average of 175.56 barrels of crude oil per well per day.

Prirazlomnoye Field

Prirazlomnoye field is Yuganskneftegaz' fourth largest field in terms of production. It accounted for approximately 15.7% of Yuganskneftegaz' proved crude oil reserves as of 31 December 2005 and approximately 7.4% of its total crude oil production in 2005. The field was discovered in 1982 and started producing crude oil in 1986.

The field is a large low relief anticline with associated stratigraphic trapping elements. The main producing section consists of three Cretaceous sandstone reservoirs. The crude oil has a high sulfur content (0.7%-1.6%), a high paraffin content (3.1%-4.1%) and an average density of 840-885 kg/m^3 (33° API).

Prirazlomnoye's wellstock consisted of 715 production and 283 injection wells as of 31 December 2005. Most production wells are equipped with electrical submersible pumps, and water injection is used to maintain reservoir pressure. The average watercut was 43.1%. Production wells produce an average of 131.67 barrels of crude oil per well per day.

Purneftegaz (Including Komsomolskneft)

Purneftegaz is Rosneft's second largest upstream subsidiary by reserves and production, accounting for approximately 12.5% of its proved crude oil reserves as of 31 December 2005 and for approximately 12.9% of its total crude oil production in 2005. Purneftegaz uses secondary recovery techniques extensively to stabilize its gradually declining production.

Purneftegaz is also Rosneft's largest subsidiary in terms of gas reserves and production. Purneftegaz accounted for approximately 72.8% of Rosneft's proved gas reserves as of 31 December 2005 and approximately 32.8% of its gas production in 2005.

The Mesozoic and Cenozoic crude oil- and gas-bearing formations consist of multiple reservoir/seal pairs. The reservoir architecture is complex due to the fluviatile environment of deposition, which causes pinch-outs and variable net reservoir thicknesses over short distances.

The characteristic features of the fields are the presence of gas deposits in some Cenomanian sediments, as well as a high lithological variability and a complex tectonic structure. Crude oil and gas deposits are confined to Cretaceous and Jurassic sediments. The reservoirs consist of porous sandstones and aleurolites that are horizontally and vertically unevenly distributed. The crude oil has a low sulfur content of 0.1-0.8% and a density ranging from 836-911 kg/m^3 (24°-37° API).

The fields are integrated with the regional transportation infrastructure. Transneft's Ust-Balyk-Omsk trunk pipeline, which crosses Yuganskneftegaz' fields, crosses Purneftegaz' fields as well. Gazprom's Urengoy-Chelyabinsk-Novopolotsk gas pipeline also crosses the fields. In addition, the Purneftegaz fields are close to the railway line running from Pur-Pe rail terminal to Surgut. Rosneft uses this railway to transport the gas condensate produced at Purneftegaz and Selkupneftegaz, thereby avoiding the blending with crude oil from other producers that occurs when using Transneft pipelines.

Although Komsomolskneft is a separate production and development subsidiary of the Company, the Reserves and Resources Reports include Komsomolskneft's reserves and resources with those of Purneftegaz. Komsomolskneft holds the license to develop the Komsomolskoye oil field within Purneftegaz' area of operations. Rosneft also includes Komsomolskneft's production, drilling, and well data with that of Purneftegaz. This arrangement is due to Komsomolskneft's relative proximity to the fields of Purneftegaz.

The following table sets forth key information concerning Purneftegaz:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Exploration					
Exploration drilling, th. meters	8.36	3.16	0	0	0
Exploration wells drilled	4	1	0	0	0
2D seismic, km.	907	1,199	0	0	0
3D seismic, sq. km.	139	101	0	0	0
Development and production					
Production drilling, th. meters	285.20	208.09	41.32	31.97	14.50
New production wells	139	66	17	11	3
Wellstock					
Total wellstock, including:	4,903	4,996	5,031	5,009	5,027
Production wells, including:	2,525	2,237	2,170	2,215	2,149
Active wells(1)	2,435	2,167	2,138	2,171	2,117
Idle wells	89	69	28	42	28
Injection wells, including	818	774	766	762	769
Active wells(1)	630	603	590	593	571
Idle wells	188	171	176	169	198
Well productivity					
Average daily flow per well (barrels)	85.43	92.06	84.85	86.32	87.15
Average daily flow per new well (barrels)	165.41	207.38	207.75	209.21	353.73
Watercut	67.39%	67.87%	70.14%	69.56%	69.64%

Licenses	
Production or combined production and exploration licenses	12
Range of expiration of production or combined production and exploration licenses (years)	2013-19
Fields in production	13
Exploration licenses	3

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Crude oil reserves and resources and production (million barrels)[2]					
Proved	1,882.82	1,945.56	1,856.63	—	—
Probable[3]	1,396.22	1,448.32	1,394.76	—	—
Proved and probable[3]	3,279.04	3,393.88	3,251.39	—	—
Possible[3]	2,222.29	2,510.46	2,046.72	—	—
Proved crude oil reserves per field					
Tarasovskoye	340.33	343.55	326.40	—	—
Barsukovskoye	283.06	269.81	262.92	—	—
Komsomolskoye	443.79	462.51	453.23	—	—
Kharampurskoye	270.87	291.90	277.11	—	—
Other	544.77	577.79	536.97	—	—
Total	1,882.82	1,945.56	1,856.63	—	—
Prospective resources[4]					
Best estimate[5]	—	—	1,671.12	—	—
P_e-adjusted best estimate[6]	—	—	677.50	—	—
Crude oil production per field					
Tarasovskoye	13.35	13.34	14.17	3.25	3.39
Barsukovskoye	14.65	13.65	12.65	3.27	2.73
Komsomolskoye	10.17	10.91	12.38	2.86	3.16
Kharampurskoye	3.20	3.42	2.68	0.75	0.52
Other	30.76	29.24	27.41	6.97	6.23
Total	72.13	70.56	69.29	17.10	16.03
Gas reserves and resources and production (bcm)[2]					
Proved	69.51	80.66	502.79	—	—
Probable[3]	95.78	83.77	296.79	—	—
Proved and probable[3]	165.29	164.42	799.58	—	—
Possible[3]	240.04	619.01	290.56	—	—
Proved gas reserves per field					
Tarasovskoye	16.79	16.23	41.33	—	—
Barsukovskoye	1.24	1.18	11.40	—	—
Komsomolskoye	36.13	43.16	39.16	—	—
Kharampurskoye	0	0	385.45	—	—
Other	15.35	20.08	25.45	—	—
Total	69.51	80.66	502.79	—	—
Prospective resources[4]					
Best estimate[5]	—	—	0.00	—	—
P_e-adjusted best estimate[6]	—	—	0.00	—	—
Gas production per field					
Tarasovskoye	0.88	0.88	1.47	0.24	0.52
Barsukovskoye	0.15	0.14	0.16	0.04	0.04
Komsomolskoye	0.70	1.06	0.90	0.29	0.23
Kharampurskoye	0.02	0.02	0.02	0.01	0.01
Other	1.00	1.79	1.72	0.43	0.31
Total	2.75	3.89	4.27	1.01	1.11

(1) Includes wells shut for maintenance for less than one month.

(2) D&M did not estimate proved crude oil and gas reserves as of 31 December 2003 according to SPE standards. Consequently, volumes of proved reserves set forth as of 31 December 2003 are presented according to SEC standards (economic lives of fields).

(3) Probable and possible reserves have not been adjusted for risk.

(4) Prospective resources are deposits that are estimated, on a given date, to be potentially recoverable from undiscovered accumulations and, accordingly, are highly speculative. A possibility exists that the prospects will not result in successful discovery of economic resources, in which case there would be no commercial development. See the Resources Report with respect to prospective resources and "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources."

(5) In accordance with SPE definitions, the best estimate is the probability-weighted average, which typically has a probability in the P_{45} to P_{15} range, depending on the variance of prospective resources volume or associated value. Therefore, the probability of a prospect or accumulation containing the probability-weighted average volume or greater is usually between 45% and 15%. The best estimate is the preferred probabilistic estimate of prospective resources.

(6) The P_e-adjusted best estimate, or "economic risk-adjusted best estimate," is a probability-weighted average of the hydrocarbon quantities potentially recoverable if a prospect portfolio were drilled, or if a family of similar prospects were drilled. The P_e-adjusted

best estimate is a "blended" quantity. It is a mean estimation of volumetric uncertainty, geologic (P_g), and economic risk (chance). This statistical measure considers and quantifies the economic success and economic failure outcomes. Consequently, it represents the average or mean "economic" volumes resulting from economically viable drilling and exploration program. The P_e-adjusted best estimate is calculated as follows:

$$P_e\text{-adjusted best estimate} = P_e \times \text{best estimate}$$

Tarasovskoye Field

Tarasovskoye accounted for 17.6% of Purneftegaz' proved crude oil reserves as of 31 December 2005 and approximately 20.5% of its total crude oil production in 2005. The field was discovered in 1967 and started production in 1986.

The crude oil and gas is trapped in a complex, faulted anticline enhanced by stratigraphic trapping elements. The field consists of multiple reservoir/seal pairs with occasional gas caps with a complex structure. The crude oil has a low sulfur content (0.15%-0.3%) and a density ranging from 818-822 kg/m^3 (40.6°-41.5° API).

Tarasovskoye's wellstock consisted of 543 production wells and 256 injection wells as of 31 December 2005. The main production method is artificial lift, and the reservoir pressure is maintained by water injection. The average watercut was 51.0%. Production wells produce an average of 79.57 barrels of crude oil per well per day.

Barsukovskoye Field

Barsukovskoye accounted for approximately 14.2% of Purneftegaz' proved crude oil reserves as of 31 December 2005 and approximately 18.3% of its crude oil total production in 2005. The field was discovered in 1984 and started production in 1987.

The Barsukovskoye field is a faulted anticline consisting of lower Cretaceous sediments. Crude oil and gas is found at a depth interval of 924-2,550 m in 37 Cretaceous sandstone reservoirs. Ninety percent of production comes from two early Cretaceous reservoirs. The crude oil has a low-to-medium sulfur content (0.3%-0.6%) and an average density ranging widely from 836-911 kg/m^3 (19.7°-43° API), which decreases with depth.

Barsukovskoye's wellstock consisted of 498 production wells, which are equipped with semi-submersible pumps, and 123 injection wells as of 31 December 2005. The average watercut was 79.0%. Production wells produce an average of 65.84 barrels of crude oil per well per day.

Komsomolskoye Field

Komsomolskoye field is Purneftegaz' third largest field, and its fastest growing brownfield, in terms of production. It accounted for approximately 24.4% of Purneftegaz' proved crude oil reserves as of 31 December 2005 and approximately 17.9% of its total crude oil production in 2005. The field was discovered in 1966 and started production in 1988.

The structure is a low relief, faulted anticline. The Cretaceous sandstones, sealed by interbedded shales, have a variable thickness, and net reservoir thickness varies from 1-24 m, with a porosity of 22%-28%. The crude oil has a sulfur content of 0.3%-0.8% and a density ranging from 853-920 kg/m^3 (22.3°-34.4° API).

Komsomolskoye's wellstock consisted of 369 production wells, which are equipped with semi-submersible pumps, and 64 injection wells as of 31 December 2005. The average watercut was 53%. Production wells produce an average of 109.72 barrels of crude oil per well per day.

The growth of production at this field in 2005 was due to a horizontal well drilled on one of the untapped formations. Production from the one horizontal well represented 36% of the total crude oil produced by new wells drilled in 2005, indicating the large production potential from the untapped formations and deposits even within mature fields.

Kharampurskoye Field

Kharampurskoye's primary importance for Rosneft is its non-associated gas deposits. Rosneft believes that upon the conclusion of a long-term agreement to sell additional gas to Gazprom and to access Gazprom's pipelines, Kharampurskoye's production could contribute significantly to Rosneft's long-term annual production of gas. Of the approximately 40 bcm per year that management believes that Rosneft would be technically able to produce by 2012, management believes that Kharampurskoye could produce approximately

27 bcm per year. While management believes Rosneft will be technically able to produce these volumes by 2012, attaining this level of production will depend on Rosneft's ability to sell the gas and on its having sufficient access to UGSS capacity, which is currently not assured.

The crude oil and gas-bearing section consists of 38 Cretaceous and Jurassic sandstone oil and gas bearing reservoirs, of which only four Jurassic reservoirs contain crude oil and are producing. The field's gas potential lies in the Cenomanian and Turonian reservoirs of the Upper Cretaceous period, with an effective thickness of 44.5 and 40 meters, respectively, both of which contain approximately 95% of the field's gas reserves and prospective resources. The field will be linked to Gazprom's Urengoy-Surgut-Chelyabinsk gas trunk pipeline that runs 130 km west of the field.

Selkupneftegaz

Selkupneftegaz is a production and development subsidiary of the Company. Selkupneftegaz is currently the Company's fastest-growing subsidiary in terms of production and its second largest gas-producing subsidiary after Purneftegaz. Selkupneftegaz accounted for approximately 7.3% of Rosneft's proved gas reserves as of 31 December 2005 and approximately 17.4% of its total gas production in 2005. Selkupneftegaz is developing the Kynsko-Chaselskiy group of fields pursuant to a single exploration and production license, of which one field is currently under development and the others are in the exploration stage. Selkupneftegaz mostly produces gas condensate. Rosneft ships the gas condensate produced at Purneftegaz and Selkupneftegaz by railway, thereby avoiding the blending with crude oil from other producers that occurs when using Transneft pipelines.

Geologically, the fields resemble those of Purneftegaz. The crude oil and gas is produced from fluviatile reservoirs from the Mesozoic age, whose porosity ranges from 12.8%-20.4%. The crude oil in the Kynsko-Chaselskiy deposits has a low sulfur content (0.05%-0.08%), a low resin content, a high paraffin content and a density of 820 kg/m^3 (41° API).

The following table sets forth key information concerning Selkupneftegaz:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Exploration					
Exploration drilling, th. meters	0.00	0.00	0.00	0.00	0.00
Exploration wells drilled	0.00	0.00	0.00	0.00	0.00
2D seismic, km.	0	0	0	0	26
3D seismic, sq. km.	200	612	46	17	0
Development and production					
Production drilling, th. meters	75.81	22.59	36.54	13.87	0.00
New production wells	17	14	23	0	1
Wellstock					
Total wellstock, including:	26	33	54	42	55
Crude oil production wells, including:	3	4	0	0	1
Active wells(1)	2	1	0	0	1
Idle wells	1	2	0	0	0
Gas production wells, including:(2)	19	28	52	42	53
Active wells(1)	11	27	52	42	49
Idle wells	8	1	0	0	4
Injection wells, including	0	0	0	0	0
Active wells(1)	0	0	0	0	0
Idle wells	0	0	0	0	0
Well productivity					
Average daily flow per well (barrels)	707.50	444.17	360.96	379.01	340.81
Average daily flow per new well (barrels)	760.51	326.79	441.39	382.94	419.47
Watercut	0.43%	0.04%	0.00%	0.00%	0.02%
Licenses					
Production or combined production and exploration licenses					1
Range of expiration of production or combined production and exploration licenses (years)					2019
Fields in production					1
Exploration licenses					0
Crude oil reserves and production (million barrels)(3)					
Proved	42.08	63.53	116.15	—	—
Probable(4)	155.71	107.26	109.44	—	—
Proved and probable(4)	197.79	170.79	225.59	—	—
Possible(4)	281.58	234.98	259.68	—	—
Crude oil production	1.43	3.61	5.45	1.00	1.49
Gas reserves and production (bcm)(3)					
Proved	0.00	0.00	50.17	—	—
Probable(4)	0.00	4.29	45.39	—	—
Proved and probable(4)	0.00	4.29	95.56	—	—
Possible(4)	36.84	35.99	80.02	—	—
Gas production	0.01	1.00	2.26	0.40	0.72

(1) Includes wells shut for maintenance for less than one month.

(2) Gas wells are presented for Selkupneftegaz only, and not for other producing subsidiaries, because it produces primarily gas condensate.

(3) D&M did not estimate proved crude oil and gas reserves as of 31 December 2003 according to SPE standards. Consequently, volumes of proved reserves set forth as of 31 December 2003 are presented according to SEC standards (economic lives of fields).

(4) Probable and possible reserves have not been adjusted for risk.

Timano-Pechora

Severnaya Neft

Rosneft purchased 100% of Severnaya Neft in June 2003. Severnaya Neft is Rosneft's third largest production subsidiary in terms of crude oil production. Severnaya Neft accounted for approximately 3.1% of Rosneft's proved crude oil reserves as of 31 December 2005 and approximately 6.7% of its crude oil production in 2005. Severnaya Neft is also the Company's second fastest-growing production and development subsidiary in terms of crude oil production, after Selkupneftegaz. Production increased by 43.2% in 2005 over 2004 and by 28.0% in the first quarter of 2006 over the first quarter of 2005.

Severnaya Neft is located in an area with a well-developed pipeline infrastructure connecting its fields to Transneft's Usinsk-Yaroslavl trunk pipeline, which runs to the western border of Russia. However, Rosneft unloads the crude oil from the Usinsk-Yaroslavl pipeline at its proprietary transshipment base at Privodino, which is located halfway between Usinsk and Yaroslavl, into railway cars for shipment to Arkhangelsk and onward export by tankers to Western European markets via the floating Belokamenka storage facility, near Murmansk. This use of proprietary infrastructure means that these crude oil volumes do not form part of Rosneft's quota for exports through the Transneft system.

In addition to using Transneft pipelines, Rosneft transports crude oil directly from Severnaya Neft's fields via rail to the Arkhangelsk marine export terminal for onward export via Belokamenka. Such rail shipments accounted for 7.5% of all Severnaya Neft exports via Belokamenka in 2005 and 17.1% in the first quarter of 2006.

The following table sets forth key information concerning Severnaya Neft:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Exploration					
Exploration drilling, th. meters	0	0	0.89	0	0.09
Exploration wells drilled	0	0	0	0	1
2D seismic, km.	102	817	0	0	0
3D seismic, sq. km.	43	808	354	256	226
Development and production					
Production drilling, th. meters	64.03	187.85	117.13	44.63	13.72
New production wells	13	45	38	12	3
Wellstock					
Total wellstock, including:	283	366	415	385	422
Production wells, including:	119	171	204	186	214
Active wells(1)	108	162	189	167	198
Idle wells	6	7	12	15	10
Injection wells, including	31	32	46	36	47
Active wells(1)	27	25	38	23	39
Idle wells	4	7	8	13	8
Well productivity					
Average daily flow per well (barrels)	470.31	557.19	602.54	567.46	600.29
Average daily flow per new well (barrels)	1,032.09	1,084.60	940.17	508.39	928.52
Watercut	21.62%	18.85%	16.03%	17.13%	19.42%

Licenses	
Production or combined production and exploration licenses	16
Range of expiration of production or combined production and exploration licenses (years)	
Val Gamburtseva group of fields	2026
Baganskaya group of fields	2014
Vorgamusurskoye field	2030
Others	2014
Fields in production	11
Exploration licenses	0

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Crude oil reserves and production (million barrels)(2)					
Proved	183.85	191.32	453.79	—	—
Probable(3)	409.96	374.20	218.06	—	—
Proved and probable(3)	593.81	565.52	671.85	—	—
Possible(3)	489.61	350.97	279.68	—	—
Proved crude oil reserves per group of fields					
Val Gamburtseva group of fields	74.46	95.89	333.02	—	—
Baganskaya group of fields	23.92	31.66	58.41	—	—
Other fields	85.47	63.77	62.36	—	—
Total	183.85	191.32	453.79	—	—
Crude oil production per group of fields					
Val Gamburtseva group of fields	6.90	15.07	24.04	4.99	7.09
Baganskaya group of fields	1.66	3.41	6.41	1.39	1.58
Other fields	8.02	6.42	5.21	1.33	1.21
Total	16.58	24.89	35.66	7.72	9.88
Gas reserves and production (bcm)(2)					
Proved	0	0	0	—	—
Probable(3)	0	0	0	—	—
Proved and probable(3)	0	0	0	—	—
Possible(3)	0	0	0	—	—
Proved gas reserves per group of fields					
Val Gamburtseva group of fields	0	0	0	—	—
Baganskaya group of fields	0	0	0	—	—
Other fields	0	0	0	—	—
Total	0	0	0	—	—
Gas production per group of fields					
Val Gamburtseva group of fields	0.02	0.08	0.13	0.03	0.03
Baganskaya group of fields	0.02	0.03	0.04	0.01	0.01
Other fields	0.02	0.02	0.02	0	0
Total	0.06	0.12	0.19	0.04	0.05

(1) Includes wells shut for maintenance for less than one month.

(2) D&M did not estimate proved crude oil and gas reserves as of 31 December 2003 according to SPE standards. Consequently, volumes of proved reserves set forth as of 31 December 2003 are presented according to SEC standards (economic lives of fields).

(3) Probable and possible reserves have not been adjusted for risk.

Val Gamburtseva Group of Fields

Rosneft considers the Val Gamburtseva group of fields, which accounted for approximately 73.4% of Severnaya Neft's proved crude oil reserves as of 31 December 2005 and approximately 67.4% of its total crude oil production in 2005, one of the most promising structures in Timano-Pechora. Val Gamburtseva consists of three major fields, Nyadeiuskoye, Khasireiskoye and Cherpayuskoye, which were discovered in 1984 and started production in 2002.

Val Gamburtseva is a part of a regional uplift and is some 100 km long and 2-3 km wide, separated by structural depressions. This uplift consists of steeply fault-bounded traps with large vertical closures and oil reservoirs in the lower Devonian-Silurian carbonates at a depth of 2,000-2,500m. The crude oil has a low sulfur content (0.5%-0.8%), a high paraffin content (8.9%-12.2%) and an average density of approximately 860 kg/m^3 (35° API).

Val Gamburtseva's wellstock consisted of 78 production wells and 13 injection wells as of 31 December 2005. Nearly half of the production wells are equipped with electrical submersible pumps, with the rest being natural flow wells, and water injection is used to maintain reservoir pressure. The average watercut was 4%. Production wells produce an average of 1,046.04 barrels of crude oil per well per day.

Baganskaya Group of Fields

The Baganskaya group of fields accounted for approximately 12.9% of Severnaya Neft's proved crude oil reserves as of 31 December 2005 and approximately 18.0% of its total crude oil production in 2005. The structure consists of three major fields, Baganskoye, South Baganskoye and North Baganskoye, which were discovered in 1984 and started production in 1986.

The Baganskaya reservoirs are formed by Permian, Carboniferous and Silurian carbonate reefs and occur at a depth of 2,000-3,300 m. Reefal structures have been identified in the Permian and Carboniferous sections. The oil has a sulfur content of 0.6%-0.8%, a high paraffin content (2.8%-3.9%) and an average density ranging from 840-890 kg/m^3 (27°-37° API).

Baganskaya's wellstock consisted of 37 production wells and six injection wells as of 31 December 2005. Nearly all wells use artificial lift, and water injection is used to maintain reservoir pressure. The average watercut was 6.0%. Production wells produce an average of 526.68 barrels of crude oil per well per day.

Polyarnoye Siyaniye

In 1992, Conoco (currently ConocoPhillips) and Arkhangelskgeologodobycha, a majority-owned LUKOIL subsidiary in which the Company was a minority shareholder, established the Polyarnoye Siyaniye, or Polar Lights, joint venture. Rosneft acquired a 50% interest in Polyarnoye Siyaniye in 2003. Accordingly, ConocoPhillips and Rosneft now each have a 50% interest in the joint venture, and ConocoPhillips acts as the operator. In the Financial Statements, Rosneft accounts for Polyarnoye Siyaniye using the equity method and reports only its 50% *pro rata* share of Polyarnoye Siyaniye's reserves and production in its overall reserves and production. However, it reports a 100% share of operational data, such as wellstock and drilling.

Polarnoye Siyaniye is developing four oilfields in the Ardalinsky group of fields: Ardalinskoye, Vostochno-Kolvinskoye, Oshkotynskoye and Dyusushevskoye. These fields consist of Paleozoic, Mesozoic and Cenozoic age reservoirs, which in turn consist of partly dolomitized fractured limestones with matrix and vuggy porosity. Wells penetrate oil-bearing reservoirs at depths of 3,000-3,250 m. Reservoir porosity varies within 10.0%-11.6%. The crude oil has a high sulfur content (0.8%-1.1%) and a density ranging from 842-873 kg/m^3 (31°-37° API).

Polyarnoye Siyaniye transports its crude oil westbound via Transneft's Usinsk-Yaroslavl pipeline for sale in Western European markets.

The following table sets forth key information concerning Polyarnoye Siyaniye:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Exploration					
Exploration drilling, th. meters	0	3.32	0	0	5.26
Exploration wells drilled	0	1	3	1	1
2D seismic, km.	0	0	0	0	0
3D seismic, sq. km.	0	137	154	154	150
Development and production					
Production drilling, th. meters	0	0	13.98	3.28	0.20
New production wells	5	1	3	0	0
Wellstock					
Total wellstock, including:	51	52	55	51	56
Production wells, including:	20	20	23	21	24
Active wells(1)	19	18	21	20	23
Idle wells	1	2	2	0	0
Injection wells, including	4	5	5	5	5
Active wells(1)	0	4	5	5	5
Idle wells	0	1	0	0	0
Well productivity					
Average daily flow per well (barrels)	1,645.88	1,620.27	1,357.66	1,489.33	1,194.26
Average daily flow per new well (barrels)	2,160.28	2,725.79	1,083.35	0	0
Watercut	64.83%	67.40%	73.38%	71.29%	76.59%

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Licenses					
Production or combined production and exploration licenses					4
Range of expiration of production or combined production and exploration licenses (years)					2017
Fields in production					4
Exploration licenses					0
Crude oil reserves and production (million barrels)					
Proved	—	37.05	19.13	—	—
Probable(2)	—	26.49	10.92	—	—
Proved and probable(2)	—	63.54	30.05	—	—
Possible(2)	—	16.44	12.34	—	—
Crude oil production	2.77	4.88	4.67	1.13	1.14
Gas reserves and production (bcm)					
Proved	—	0	0	—	—
Probable(2)	—	0	0	—	—
Proved and probable(2)	—	0	0	—	—
Possible(2)	—	0	0	—	—
Gas production	0.01	0.01	0.02	0.00	0.00

(1) Includes wells shut for maintenance for less than one month.

(2) Probable and possible reserves have not been adjusted for risk.

Russian Far East

Sakhalinmorneftegaz

Sakhalinmorneftegaz is the successor to the Sakhalinneft group, which traces its origins to 1928, when the North Sakhalin reserves first began to be developed. All of the onshore crude oil and gas deposits developed by Sakhalinmorneftegaz are in the northern part of the island. Sakhalinmorneftegaz accounted for approximately 0.8% of Rosneft's proved crude oil reserves as of 31 December 2005 and approximately 2.6% of its crude oil production in 2005. In addition, Sakhalinmorneftegaz is Rosneft's fourth largest gas-producing subsidiary, accounting for 10.9% of Rosneft's gas production in 2005. Its sales to gas customers do not depend on Gazprom's infrastructure.

Approximately 10% of Sakhalinmorneftegaz' crude oil is currently produced using specific enhanced recovery techniques, principally thermal treatment (hot steam injection) techniques, to extract high-viscosity crude oil. Sakhalinmorneftegaz experts were among the first in Russia to use this technique to extract such crude oil. SakhalinNIPImorneft, Rosneft's oil and gas research and development institute in the Russian Far East, is also a subsidiary of Sakhalinmorneftegaz.

The Sakhalin area sediments have a highly complex geological structure featuring transgressive and regressive sequences with many unconformities. The sedimentary sequence consists of multiple reservoir seal/ pairs. Most of the fields are located in structural traps enhanced by stratigraphic trapping elements. Crude oil properties vary significantly. At one group of fields, the crude oil has a sulfur content of 0.4%–0.6%, and its density ranges from 790-850 kg/m^3 (35°-47° API). At the other, the crude oil has a similar sulfur content, is highly viscous and its density ranges from 890-950 kg/m^3 (17°-27° API).

Sakhalinmorneftegaz transports its crude oil by pipeline from Sakhalin Island to Rosneft's De-Kastri export terminal on the mainland and part of it onward to Komsomolskiy Refinery, which is located on the Amur River near the Chinese border, for further processing.

The following table sets forth key information concerning Sakhalinmorneftegaz:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Exploration					
Exploration drilling, th. meters	1.67	0	0	0	0
Exploration wells drilled	1	0	0	0	0
2D seismic, km.	0	0	0	0	0
3D seismic, sq. km.	18	120	0	0	0
Development and production					
Production drilling, th. meters	22.44	25.48	26.44	2.40	10.76
New production wells	27	5	5	0	0
Wellstock					
Total wellstock, including:	7,375	7,384	7,388	7,384	7,388
Production wells, including:	2,320	2,250	1,749	2,258	1,735
Active wells[(1)]	2,240	2,182	1,686	2,192	1,672
Idle wells	79	66	63	66	63
Injection wells, including	484	435	426	443	426
Active wells[(1)]	426	383	371	388	366
Idle wells	58	52	55	55	60
Well productivity					
Average daily flow per well (barrels)	15.84	18.14	18.80	17.90	25.33
Average daily flow per new well (barrels)	155.88	750.94	489.37	155.57	1.67
Watercut	86.85%	85.69%	85.60%	85.37%	83.71%
Licenses					
Production or combined production and exploration licenses					33
Range of expiration of production or combined production and exploration licenses (years)					2013-18
Fields in production					29
Exploration licenses					0
Crude oil reserves and production (million barrels)[(2)]					
Proved	134.55	158.22	122.57	—	—
Probable[(3)]	121.04	129.71	73.71	—	—
Proved and probable[(3)]	255.59	287.94	196.28	—	—
Possible[(3)]	261.61	241.48	67.30	—	—
Crude oil production	12.09	13.43	13.68	3.27	3.58
Gas reserves and production (bcm)[(2)]					
Proved	14.82	13.51	7.90	—	—
Probable[(3)]	19.66	17.40	3.43	—	—
Proved and probable[(3)]	34.48	30.90	11.33	—	—
Possible[(3)]	47.79	27.49	5.80	—	—
Gas production	1.69	1.53	1.42	0.39	0.31

(1) Includes wells shut for maintenance for less than one month.

(2) D&M did not estimate proved crude oil and gas reserves as of 31 December 2003 according to SPE standards. Consequently, volumes of proved reserves set forth as of 31 December 2003 are presented according to SEC standards (economic lives of fields).

(3) Probable and possible reserves have not been adjusted for risk.

Sakhalinmorneftegaz currently has an 11.5% interest in Sakhalin-1. See "—Sakhalin-1."

Sakhalin-1

Rosneft accounts for the Sakhalin-1 joint venture using the proportional consolidation/"carried interest" method and reports a 20% *pro rata* share of Sakhalin-1's reserves and production in its overall reserves and production.

In May 1995, the Company's subsidiaries Sakhalinmorneftegaz-Shelf and Rosneft-Sakhalin entered into a joint operating agreement with Exxon Neftegaz Limited and SODECO (the "**Sakhalin-1 Joint Operating**

Agreement" or "**JOA**"). In June 1995, Sakhalinmorneftegaz-Shelf and Rosneft-Sakhalin, Exxon Neftegaz Limited and SODECO entered into a PSA with the Russian government for exploration and production of crude oil and gas at Sakhalin-1 (the "**Sakhalin-1 PSA**"). ONGC Videsh Limited joined the Sakhalin-1 project in 2001, when it acquired a 20% participating interest in the project from Sakhalinmorneftegaz-Shelf and Rosneft-Sakhalin for consideration consisting of a cash payment and a carry arrangement (described below). In March 2001, Rosneft-Sakhalin assigned its 8.5% participation interest in the Sakhalin-1 project to RN-Astra, which is a wholly owned subsidiary of the Company.

The Company participates in Sakhalin-1 through its subsidiaries RN-Astra and Sakhalinmorneftegaz. As of 31 March 2006, the Company held an 8.5% interest in Sakhalin-1 via RN-Astra. As of the same date, the Company held a 64.66% interest in Sakhalinmorneftegaz, which in turn held an 11.5% interest in Sakhalin-1 via its wholly owned subsidiary Sakhalinmorneftegaz-Shelf. Thus, as of 31 March 2006, the Company held an indirect 7.44% interest in Sakhalin-1 via Sakhalinmorneftegaz giving it an aggregate 15.94% interest in Sakhalin-1. The Company's reported net interest in Sakhalin-1 for purposes of reserves reporting and for purposes of proportional consolidation is 20%, since Rosneft reports the reserves of its fully consolidated subsidiary Sakhalinmorneftegaz on a 100% basis and under the principles of proportional consolidation takes full account of the 11.5% interest held through Sakhalinmorneftegaz. Following the Share Swap, the Company expects that its interest in Sakhalinmorneftegaz will in fact increase to 100%, meaning that the Company will hold an 11.5% interest in Sakhalin-1 via Sakhalinmorneftegaz and that it will, accordingly, hold an aggregate 20% interest in Sakhalin-1.

The Sakhalin-1 joint venture operates pursuant to a PSA. Under the PSA, a royalty of 8% of gross revenues is payable to the government. The future gross revenues of the project less the royalty form "revenues available for sharing." Operating expenses, capital costs, and abandonment costs are fully recoverable from a percentage of revenues available for sharing up to a limit of 85% in a given period. Revenues in excess of recovered costs in a given period are divided between the nongovernmental participants (collectively, the "**contractor**") and the government. The contractor's portion of profit share varies with the real rate of return ("**RROR**") of the project as follows:

RROR	Contractor's profit share
Less than 17.5%	85%
Equal to or greater than 17.5% but less than 28%	50%
Equal to or greater than 28%	30%

A 35% profit tax is levied on the contractor's taxable income, which is the contractor's profit share less certain expenses not eligible for cost recovery.

In February 2001, the Company's subsidiaries participating in the Sakhalin-1 project — Sakhalinmorneftegaz-Shelf and RN-Astra — and Videsh entered into two carry finance agreements. Pursuant to these agreements, Videsh finances RN-Astra's and Sakhalinmorneftegaz-Shelf's share of the project expenses. Until the termination of these carry finance agreements, RN-Astra and Sakhalinmorneftegaz-Shelf must, before any meeting at which committees or subcommittees consider material decisions, ascertain how Videsh intends to vote on the material decision, and must consult with Videsh beforehand and use all reasonable efforts to reach agreement on a common approach to the material decision. Videsh is entitled to recovery of Rosneft's share of the costs carried by Videsh from Rosneft's share of production until the carry financing has been repaid. In addition, until carry financing has been recovered, Rosneft is entitled to crude oil allocations from Sakhalin-1 equal to 10% of its economic interest. Rosneft intends to prepay in full (approximately USD 1.35 billion) the carry received from Videsh by 31 July 2006. Further funding of the project will be effected through project cash flows and through additional investment by Rosneft. The prepayment of the carry will result in an increase in Rosneft's reportable share of reserves and production in future periods. The carry will be prepaid out of Rosneft's own resources, but Rosneft is considering refinancing the prepayment and other investments through non-recourse/limited recourse bank financing. The prepayment will be reflected mainly as capital expenditure in the period in which it is made.

The project's fields are Chaivo, Odoptu and Arkutun-Dagi. Sakhalin-1 began commercial production of oil and gas in late 2005 from the Chaivo field, with a flow rate of approximately 13,532 barrels per day. Sakhalin-1 will be developed in four stages. The joint venture began developing Chaivo's crude oil reserves in 2005 and plan to begin development of Odoptu's crude oil reserves in 2009. As part of the first stage, the participants have built an onshore drilling pad, from which 16 horizontal wells are being drilled by the "Yastreb" rig, and an offshore platform, called "Orlan," from which 19 production wells will be drilled. In the second stage, the participants plan to begin developing Chaivo's gas reserves starting in 2010. In the third stage, the participants plan to develop Arkutun-Dagi's oil reserves starting in 2015. In the fourth stage, the participants plan to develop further Arkutun-Dagi and Odoptu's oil and gas reserves starting in 2035.

Currently, the joint venture ships crude oil from the onshore processing facilities on Sakhalin Island to Rosneft's De-Kastri export terminal on the mainland and onward to Rosneft's Komsomolskiy Refinery for processing. The joint venture is near completion of a new proprietary export terminal at De-Kastri, which it will then use to export all crude oil produced at Sakhalin-1.

The following table sets forth key information concerning Sakhalin-1:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	**2004**	**2005**	**2005**	**2006**
Exploration					
Exploration drilling, th. meters	9.38	21.18	52.13	0.00	10.92
Exploration wells drilled	1	2	5	0	1
2D seismic, km.	0	0	0	0	0
3D seismic, sq. km.	0	0	0	0	0
Development and production					
Production drilling, th. meters	0	0	0	0	0
New production wells	0	0	2	0	0
Licenses					
Production or combined production and exploration licenses					3
Range of expiration of production or combined production and exploration licenses (years)					2021
Fields in production					3
Exploration licenses					0
Crude oil reserves and production (million barrels)(1)					
Proved	0	13.00	15.14	—	—
Probable(2)	363.34	286.38	238.14	—	—
Proved and probable(2)	363.34	299.38	253.28	—	—
Possible(2)	181.41	187.92	148.01	—	—
Crude oil production	0	0	0.57	0	0.74
Gas reserves and production (bcm)(1)					
Proved	0	0	2.08	—	—
Probable(2)	75.74	73.11	48.81	—	—
Proved and probable(2)	75.74	73.11	50.89	—	—
Possible(2)	24.04	31.61	13.38	—	—
Gas production	0	0	0.03	0	0.03

(1) D&M did not estimate proved crude oil and gas reserves as of 31 December 2003 according to SPE standards. Consequently, volumes of proved reserves set forth as of 31 December 2003 are presented according to SEC standards (economic lives of fields).

(2) Probable and possible reserves have not been adjusted for risk.

Southern Russia

Krasnodarneftegaz

Krasnodarneftegaz is Rosneft's largest subsidiary in Southern Russia in terms of crude oil production. It has produced oil since 1943. Krasnodarneftegaz accounted for approximately 0.63% of Rosneft's proved crude oil reserves as of 31 December 2005 and approximately 2.0% of its crude oil production in 2005. Krasnodarneftegaz is also the Company's third largest gas producing subsidiary, accounting for 17.1% of total gas production in 2005.

The main fields are formed by anticlines enhanced by stratigraphic trapping elements. The reservoirs are formed by sandstones, aleurolites and dolomites of the Triassic, Jurassic, Cretaceous, Paleogene and Neogene ages. These reservoirs have a complex architecture due to their fluviatile environment of deposition. Crude oil and gas accumulations are confined to the depths from Jurassic to Neogene age sediments. Wells penetrate productive reservoirs between depths of 400 and 4,500 m. The crude oil has 0.5% sulfur content and its density ranges from 750–950 kg/m^3 (17°–57° API). Because of the relatively high depletion of its fields and low well output, Krasnodarneftegaz' production depends significantly on the application of secondary recovery techniques.

Krasnodarneftegaz transports its crude oil from its fields via flow lines to the Transneft system, through which it can either be exported via Black Sea marine export terminals operated by Transneft or the CPC or, alternatively, could be transported to Tuapsinskiy Refinery for processing.

The following table sets forth key information concerning Krasnodarneftegaz:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Exploration					
Exploration drilling, th. meters	26.68	23.76	17.38	3.65	4.55
Exploration wells drilled	7	7	8	2	1
2D seismic, km.	49	68	78	0	0
3D seismic, sq. km.	113	109	85	0	0
Development and production					
Production drilling, th. meters	31.92	25.23	0	0	0
New production wells	28	18	4	1	0
Wellstock					
Total wellstock, including:	8,624	8,689	8,699	8,690	8,699
Production wells, including:	3,089	3,081	3,052	3,082	3,008
Active wells(1)	3,035	3,024	2,993	3,026	2,952
Idle wells	53	57	59	56	56
Injection wells, including	146	130	124	130	111
Active wells(1)	66	56	53	57	49
Idle wells	80	75	71	75	62
Well productivity					
Average daily flow per well (barrels)	11.84	10.93	10.30	10.72	10.73
Average daily flow per new well (barrels)	169.72	144.69	246.83	25.83	0
Watercut	61.60%	69.72%	77.70%	74.75%	80.51%
Licenses					
Production or combined production and exploration licenses					50
Range of expiration of production or combined production and exploration licenses (years)					2014–30
Fields in production					52
Exploration licenses					0
Crude oil reserves and production (million barrels)(2)					
Proved	109.34	101.83	93.20	—	—
Probable(3)	51.88	33.96	38.29	—	—
Proved and probable(3)	161.23	135.79	131.49	—	—
Possible(3)	42.26	84.18	85.50	—	—
Crude oil production	12.35	11.44	10.77	2.77	2.73
Gas reserves and production (bcm)(2)					
Proved	12.74	14.23	34.97	—	—
Probable(3)	12.87	4.65	8.01	—	—
Proved and probable(3)	25.61	18.88	42.98	—	—
Possible(3)	5.60	11.33	12.86	—	—
Gas production	1.19	1.45	2.22	0.53	0.69

(1) Includes wells shut for maintenance for less than one month.

(2) D&M did not estimate proved crude oil and gas reserves as of 31 December 2003 according to SPE standards. Consequently, volumes of proved reserves set forth as of 31 December 2003 are presented according to SEC standards (economic lives of fields).

(3) Probable and possible reserves have not been adjusted for risk.

Stavropolneftegaz

Along with Krasnodarneftegaz, Stavropolneftegaz makes up the Rosneft's core production and resource base in Southern Russia. Stavropolneftegaz accounted for approximately 0.5% of Rosneft's proved crude oil reserves as of 31 December 2005 and approximately 1.3% of its crude oil production in 2005.

Crude oil and gas accumulations are generally confined to Cretaceous, Jurassic and lower Triassic sediments, which consist of sandstones, clays and limestones. The reservoir porosity varies from 1.8% to 28%. Wells have found productive reservoirs at depths ranging from 2,350 m (upper Cretaceous sediments) to 3,950 m (lower Triassic sediments). The crude oil has a low sulfur content (0.01%–0.6%), a high paraffin content, is resinous and has a density ranging from 759–864 kg/m^3 (32°–55° API). The watercut at many of the fields exceeds 90%, and Stavropolneftegaz' production depends significantly on secondary recovery operations.

Stavropolneftegaz transports its crude oil from its fields via rail to a Transneft transshipment junction for onward transport, either for export via Black Sea marine export terminals operated by Transneft or the CPC or, alternatively, for processing at Tuapsinskiy Refinery. Rosneft plans to ship most of Stavropolneftegaz' crude oil to Belarus by railway starting in the second half of 2006.

The following table sets forth key information concerning Stavropolneftegaz:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	**2004**	**2005**	**2005**	**2006**
Exploration					
Exploration drilling, th. meters	0.86	0	0	0	0
Exploration wells drilled	1	0	0	0	0
2D seismic, km.	0	0	0	0	0
3D seismic, sq. km.	0	0	0	0	0
Development and production					
Production drilling, th. meters	0	0	0	0	0
New production wells	1	0	0	0	0
Wellstock					
Total wellstock, including:	2,780	2,682	2,679	2,679	2,679
Production wells, including:	529	461	450	449	457
Active wells(1)	504	436	386	423	365
Idle wells	25	25	64	26	92
Injection wells, including	174	130	133	130	133
Active wells(1)	84	59	60	58	57
Idle wells	90	79	73	72	76
Well productivity					
Average daily flow per well (barrels)	49.59	59.72	65.20	60.54	70.68
Average daily flow per new well (barrels)	199.05	0	0	0	0
Watercut	89.88%	89.18%	88.55%	88.91%	88.22%
Licenses					
Production or combined production and exploration licenses					37
Range of expiration of production or combined production and exploration licenses (years)					2019–26
Fields in production					33
Exploration licenses					0
Crude oil reserves and production (million barrels)(2)					
Proved	83.17	70.40	69.80	—	—
Probable(3)	15.44	20.74	23.38	—	—
Proved and probable(3)	98.60	91.15	93.18	—	—
Possible(3)	33.33	50.98	52.67	—	—
Crude oil production	7.50	7.34	7.16	1.61	1.93

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Gas reserves and production (bcm)(2)					
Proved	0	0	0.47	—	—
Probable(3)	0	0	0.17	—	—
Proved and probable(3)	0	0	0.64	—	—
Possible(3)	0	0	0.33	—	—
Gas production	0.11	0.10	0.10	0.02	0.02

(1) Includes wells shut for maintenance for less than one month.

(2) D&M did not estimate proved crude oil and gas reserves as of 31 December 2003 according to SPE standards. Consequently, volumes of proved reserves set forth as of 31 December 2003 are presented according to SEC standards (economic lives of fields).

(3) Probable and possible reserves have not been adjusted for risk.

Grozneftegaz

Grozneftegaz is located in Chechnya, and its infrastructure was badly damaged during conflict in Chechnya in the early 1990s. Before then, Grozneftegaz' fields were among the most productive in Russia and its oil was among the highest quality. In 2000, Rosneft began a program to stabilize production and repair the infrastructure. Consequently, since 2000, production has grown substantially. Grozneftegaz accounted for approximately 1.1% of Rosneft's proved crude oil reserves as of 31 December 2005 and approximately 3.0% of its crude oil production in 2005. The Company holds all of Grozneftegaz' production licenses.

Grozneftegaz' crude oil and gas deposits are confined to the Miocenic and Mesozoic (lower and upper Cretaceous) age sediments. The crude oil and gas is trapped in faulted anticlines, and the reservoirs consist of sandstones and limestones sealed by interbedded shales. The crude oil has a low sulfur content (0%-0.2%) and a density ranging from 793-918 kg/m^3 (23°-47° API).

Grozneftegaz transports crude oil by rail to the CPC pipeline for onward delivery to export markets via the CPC marine export terminal near Novorossiysk.

The following table sets forth key information concerning Grozneftegaz:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Exploration					
Exploration drilling, th. meters	0	1.55	0.71	0.07	0
Exploration wells drilled	0	0	1	0	0
2D seismic, km.	0	0	0	0	0
3D seismic, sq. km.	0	0	0	0	0
Development and production					
Production drilling, th. meters	0.05	0	0	0	1.75
New production wells	0	0	0	0	0
Wellstock					
Total wellstock, including:	4,743	4,745	4,698	4,745	4,700
Production wells, including:	77	138	213	162	217
Active wells(1)	72	135	210	161	215
Idle wells	5	3	3	1	2
Injection wells, including	59	60	23	22	24
Active wells(1)	6	6	9	8	9
Idle wells	53	13	14	52	15
Well productivity					
Average daily flow per well (barrels)	666.74	575.76	391.30	407.24	256.70
Average daily flow per new well (barrels)	0	0	0	0	0
Watercut	21.43%	28.85%	31.62%	31.95%	36.08%
Licenses					
Production or combined production and exploration licenses					21
Range of expiration of production or combined production and exploration licenses (years)					2013-22
Fields in production					19
Exploration licenses					0
Crude oil reserves and production (million barrels)(2)					
Proved	136.54	145.99	161.42	—	—
Probable(3)	52.95	48.54	54.78	—	—
Proved and probable(3)	189.49	194.53	216.20	—	—
Possible(3)	61.75	116.58	138.34	—	—
Crude oil production	13.01	14.44	16.09	3.80	3.70
Gas reserves and production (bcm)(2)					
Proved	4.17	5.16	4.34	—	—
Probable(3)	1.50	1.73	1.50	—	—
Proved and probable(3)	5.67	6.89	5.84	—	—
Possible(3)	3.10	4.19	3.73	—	—
Gas production	0.46	0.51	0.46	0.13	0.11

(1) Includes wells shut for maintenance for less than one month.

(2) D&M did not estimate proved crude oil and gas reserves as of 31 December 2003 according to SPE standards. Consequently, volumes of proved reserves set forth as of 31 December 2003 are presented according to SEC standards (economic lives of fields).

(3) Probable and possible reserves have not been adjusted for risk.

Dagneft and Dagneftegaz

In 2004, Dagneft was split into two separate subsidiaries: Dagneft and Dagneftegaz. Dagneft and Dagneftegaz together accounted for approximately 0.1% of Rosneft's proved crude oil reserves as of 31 December 2005 and approximately 0.5% of its crude oil production in 2005. Dagneft primarily produces crude oil, and Dagneftegaz primarily produces gas. Rosneft is currently considering options for the future of Dagneft and Dagneftegaz.

The main crude oil- and gas-bearing structures of the fields within Dagneft and Dagneftegaz are faulted anticlines. The Jurassic-Cretaceous crude oil- and gas-bearing reservoirs are found at depths ranging from 2,600-4,100 m, whereas the Triassic reservoirs are found at depths ranging from 3,700-4,900 m. The reservoirs are sandy aleurolite series with good porosity and permeability in the Jurassic and fractured limestones and dolomites with lower porosity and permeability in the Triassic. The crude oil has a low sulfur content (0.3%), a high paraffin content (20-30%), a low viscosity and a density of approximately 820 kg/m^3 (41° API).

The following table sets forth key information concerning Dagneft and Dagneftegaz:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	**2004**	**2005**	**2005**	**2006**
Exploration Dagneft					
Exploration drilling, th. meters	0.04	4.05	3.10	0.25	1.10
Exploration wells drilled	1	0	1	0	0
2D seismic, km.	0	0	35	0	0
3D seismic, sq. km.	0	0	140	0	0
Development and production Dagneft					
Production drilling, th. meters	3.91	3.39	0	0	0
New production wells	1	1	3	1	0
Exploration Dagneftegaz					
Exploration drilling, th. meters	0	0.27	2.46	0.25	0
Exploration wells drilled	0	0	0	0	0
2D seismic, km.	0	0	111	0	0
3D seismic, sq. km.	0	0	0	0	0
Development and production Dagneftegaz					
Production drilling, th. meters	0	1.05	0.90	0.87	0
New production wells	0	0	1	0	0
Wellstock Dagneft					
Total wellstock, including:	1,675	695	698	689	700
Production wells, including:	135	117	109	118	109
Active wells(1)	107	95	93	95	93
Idle wells	28	22	16	23	16
Injection wells, including	11	12	12	12	12
Active wells(1)	7	3	5	5	6
Idle wells	4	7	7	6	6
Well productivity					
Average daily flow per well (barrels)	71.60	79.22	84.25	78.90	91.10
Average daily flow per new well (barrels)	515.10	644.09	199.22	566.18	0
Watercut	74.45%	78.32%	77.47%	78.22%	76.54%
Wellstock Dagneftegaz					
Total wellstock, including:	0	423	424	423	424
Production wells, including:	0	22	24	22	23
Active wells(1)	0	19	20	18	21
Idle wells	0	3	4	4	2
Injection wells, including	0	3	2	3	2
Active wells(1)	0	2	2	2	2
Idle wells	0	1	0	1	0
Well productivity					
Average daily flow per well (barrels)	43.12	40.53	31.65	34.38	24.10
Average daily flow per new well (barrels)	0	0	4.39	0	0
Watercut	54.27%	55.42%	66.36%	63.93%	68.49%

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Licenses Dagneft					
Production or combined production and exploration licenses					36
Range of expiration of production licenses (years)	35 licenses through the economic life of the field 1 license until 2018				
Fields in production					34
Exploration licenses					1
Licenses Dagneftegaz					
Production or combined production and exploration licenses					12
Range of expiration of production or combined production and exploration licenses (years)	6 licenses through the economic life of the field 6 licenses from 2017-21				
Fields in production					6
Exploration licenses					0
Crude oil reserves and production Dagneft (million barrels)					
Proved	—	—	14.49	—	—
Probable(2)	—	—	3.96	—	—
Proved and probable(2)	—	—	18.45	—	—
Possible(2)	—	—	3.56	—	—
Crude oil production Dagneft	2.46	2.11	2.10	0.51	0.50
Crude oil reserves and production Dagneftegaz (million barrels)					
Proved	—	—	3.13	—	—
Probable(2)	—	—	1.23	—	—
Proved and probable(2)	—	—	4.36	—	—
Possible(2)	—	—	2.07	—	—
Crude oil production Dagneftegaz	0.04	0.44	0.36	0.09	0.07
Gas reserves and production Dagneft (bcm)					
Proved	—	—	0	—	—
Probable(2)	—	—	0	—	—
Proved and probable(2)	—	—	0	—	—
Possible(2)	—	—	0	—	—
Gas production Dagneft	0.66	0.03	0.03	0.01	0.01
Gas reserves and production Dagneftegaz (bcm)					
Proved	—	—	6.41	—	—
Probable(2)	—	—	2.32	—	—
Proved and probable(2)	—	—	8.73	—	—
Possible(2)	—	—	3.42	—	—
Gas production Dagneftegaz	0.06	0.70	0.64	0.17	0.12

(1) Includes wells shut for maintenance for less than one month.

(2) Probable and possible reserves have not been adjusted for risk.

Eastern Siberia

Vankorskoye Field

The Vankorskoye field is split by the administrative boundary of the Turukhan region of Krasnoyarskiy Kray and the Dudinskiy region of Taymirskiy Okrug and is located East of Purneftegaz. Its exploration and development requires licenses from both jurisdictions. Vankorneft holds the license for the southern part of the field, while Taymirneft holds the license for the northern part. The majority of the reserves are in the southern part of the field. Exploration drilling at the Vankorskoye deposit began in 1988. In 2003, after gaining control of the field through the acquisition of Anglo-Siberian Oil Company, Rosneft started large-scale development of the Vankorskoye field. The Company is currently engaged in certain arbitration proceedings with Total concerning the Vankorskoye field. See "—Litigation and Arbitration."

The main oil- and gas-bearing structure lies in the Vankorskoye local uplift. Crude oil and gas accumulations are confined to Cretaceous sediments. The reservoirs consist of sandstones and aleurolites having high porosity and permeability. The productive reservoirs are found at depths of 1,000-2,800 m. The crude oil has a low sulfur content (0.11%–0.22%) and a density of 823-902 kg/m^3 (31° API). Light oil occurs in productive reservoirs at depths ranging from 2,600-2,800 m.

Rosneft expects to drill the field primarily with horizontal wells, 75% of which will be with "smart" completion. Most producing wells will be equipped with submersible pumps, but some will employ gaslift technology. Gas and water injection will be used to ensure reservoir pressure maintenance.

Once production commences, crude oil will be transported via the proprietary 550 km Vankor - Pur-Pe pipeline, which is currently under construction. The Vankor - Pur-Pe pipeline will, at a junction close to Purneftegaz' fields, connect to a Transneft trunk pipeline, which, in turn, is expected to connect to Transneft's proposed Eastern Siberian Pipeline. Crude oil from other regional producers may also be shipped via the Vankor - Pur-Pe pipeline. Once the anticipated construction of Transneft's Eastern Siberian Pipeline is completed, Rosneft's oil production in the Vankor region could be scaled up to peak production, and the exploration and development of the license blocks in the vicinity of the Vankorskoye field could accelerate. Rosneft estimates that the cost of constructing the pipeline will be approximately USD 1.3 billion and has already acquired the pipes for its construction.

The following table sets forth key information concerning the Vankorskoye field:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Exploration					
Exploration drilling, th. meters	0	8.64	16.99	4.33	2.39
Exploration wells drilled	0	3	5	0	0
2D seismic, km.	0	0	400.00	261.20	86.00
3D seismic, sq. km.	0	170.00	200.00	122.10	0
Licenses					
Production or combined production and exploration licenses					2[(1)]
Range of expiration of production or combined production and exploration licenses (years)					
Southern part of field					2017
Northern part of field					2025
Fields in development					1
Exploration licenses					0
Crude oil reserves (million barrels)					
Proved	182.00	663.56	945.90	—	—
Probable[(2)]	309.48	586.80	956.87	—	—
Proved and probable[(2)]	491.48	1,250.36	1,902.77	—	—
Possible[(2)]	344.40	499.33	394.78	—	—
Gas reserves (bcm)					
Proved	0	0	0	—	—
Probable[(2)]	0	0	0	—	—
Proved and probable[(2)]	0	0	0	—	—
Possible[(2)]	0	0	0	—	—

(1) An administrative boundary splits the Vankorskoye field, with Vankorneft and Taymirneft holding the licenses for the southern and northern parts, respectively.

(2) Probable and possible reserves have not been adjusted for risk.

Verkhnechonskneftegaz

The Verkhnechonskoye field is located in the Khatangskiy district of Irkutsk Oblast in Eastern Siberia, approximately 420 kilometers northwest of Ust-Kut. Together with the Vostochno-Sugdinskiy block, the Verkhnechonskoye field is of key importance to Rosneft in the southern part of Eastern Siberia.

The Company holds a 25.94% interest in Verkhnechonskneftegaz. TNK-BP is the majority shareholder, with a 62.71% stake, with the Irkutskaya Oblast administration holding the remaining 11.29%.

The Verkhnechonskoye field is located on a major anticlinal fold that forms part of a regional uplift. The size of the anticlinal fold is 55 km by 50 km, and it has a vertical relief of 80 m. Commercial hydrocarbon accumulations are confined to lower Cambrian subsalt clastic-carbonate reservoirs. The crude oil has an average density of 850 kg/m^3, with average sulfur content of 0.48%, and a paraffin content of 1.87%. The density of gas is 923 kg/m^3 (35° API). The gas has a methane content of 77.81%, an ethane content of 12.97%, a propane content of 4.53% and a butane content of 0.82%.

Originally, the Verkhnechonskoye field development plan assumed the construction of a 572 km-long pipeline through the field to Ust-Kut junction. Recent press reports indicate that President Putin has encouraged Transneft to route this pipeline further north than initially planned, away from Lake Baikal, due to environmental considerations. Rosneft believes this move will reduce the cost of constructing side pipelines from Verkhnechonskoye and other regional fields to Transneft's proposed Eastern Siberian Pipeline. Once the anticipated construction of the Eastern Siberian Pipeline is completed, the expected costs of transportation of crude oil to export markets could be considerably reduced. Alternative plans for transportation envisage shipment by rail to domestic refineries and export destinations in China and the Russian Far East.

The following table sets forth key information concerning Verkhnechonskneftegaz:

	As of and for the year ended 31 December			As of and for the three months ended 31 March	
	2003	2004	2005	2005	2006
Licenses					
Production or combined production and exploration licenses					1
Range of expiration of production licenses (years)					2017
Fields in development					1
Exploration licenses					0
Crude oil reserves (million barrels)					
Proved	—	—	81.79	—	—
Probable(1)	—	—	130.74	—	—
Proved and probable(1)	—	—	212.53	—	—
Possible(1)	—	—	152.38	—	—
Gas reserves (bcm)					
Proved	—	—	0	—	—
Probable(1)	—	—	0	—	—
Proved and probable(1)	—	—	0	—	—
Possible(1)	—	—	0	—	—

(1) Probable and possible reserves have not been adjusted for risk.

Exploration Projects

Acquiring and developing attractive resource assets is one of Rosneft's strategic priorities. One of Rosneft's core regions for exploration in Russia is Eastern Siberia, which includes the license areas around the Vankorskoye field and the Vostochno-Sugdinskiy block, which is adjacent to the Verkhnechonskoye field. Another such core region is the Russian Far East, which includes projects on Sakhalin Island and the West Kamchatka shelf. The final core region for exploratory work is Southern Russia, which includes offshore projects on the Black Sea shelf and the Sea of Azov shelf.

Rosneft views its exploration projects in the Russian Far East and Eastern Siberian regions as key to meeting long-term demand from Pacific Rim countries, primarily China, Japan and Korea and the U.S. The construction of the Eastern Siberian pipeline will be instrumental in meeting such demand. Similarly, Rosneft views its exploration projects in Southern Russia as key to meeting long-term demand from European countries. Rosneft has reloading and transshipment facilities at Nakhodka in the Russian Far East and at Tuapse in Southern Russia to facilitate both these export routes. In particular, Rosneft is currently further developing and upgrading the marine reloading facilities in Tuapse to match the expected growth of crude export flows to Europe. Rosneft also has exploration projects in Kazakhstan and Algeria.

Rosneft takes a systematic approach to project assessment and monitors risks continuously throughout a project's life. Rosneft ranks projects using five main criteria—net present value, discounted payback period, unit technical cost, internal rate of return and discounted profitability index—and allocates capital to projects according to this ranking. Projects generally pass through the following decision-making process, and progression to each subsequent phase is subject to the approval of Rosneft's Investment Committee.

- *Project concept phase.* In the initial project concept phase, Rosneft gathers data on the proposed project, assesses its strategic fit within the company and defines the project parameters.
- *Design phase.* In the design phase, Rosneft prepares a development plan for the field and conducts a geological and economic risk assessment of the project. As part of this risk assessment, Rosneft reviews existing seismic data and evaluates geological risk using Monte Carlo simulations. The development plan incorporates various macroeconomic assumptions and assumptions concerning logistics, including likely sales channels for extracted hydrocarbons.
- *Exploration and appraisal phase.* The exploration phase consists of detailed geological surveys, principally the collection and interpretation of 2D and 3D seismic data and exploration drilling. The exploration and appraisal phase involves sophisticated modeling by highly skilled staff at Rosneft's research institutes, who use state-of-the-art modeling software.
- *Investment, production and exit phases.* The subsequent phases of the project's life are the investment phase, production phase and exit phases.

Rosneft often diversifies geological risk by sharing it with one or more partners through carry arrangements. Pursuant to these carry arrangements, one or more of Rosneft's counterparties finances a specified portion of Rosneft's share of exploration and development costs. In exchange, once production commences, the counterparty receives a priority claim to profits from crude oil and gas sold until the financing so obtained has been repaid. In other cases, Rosneft may seek a partner that can provide a specific technology for the development of the project or that can provide access to certain markets.

The following table sets forth Rosneft's key exploration projects and their general characteristics:

No.	Assets	Operator	Partner(s)	Rosneft interest	Geographic location	Special comment on finance
Exploration projects within the Russian Federation						
	Licenses directly held by Rosneft					
1	License areas around Vankorskoye field	N/A	N/A	100.0%	Eastern Siberia	No
2	Vostochno-Sugdinskiy Block	N/A	N/A	100.0%	Eastern Siberia	No
3	Tuapsinskiy Trough (Black Sea)	N/A	N/A	100.0%	Southern Russia	No
	Licenses held by joint venture entities and partnerships					
4	Venineft (Sakhalin-3)	Venineft	• Regional State Unitary Enterprise Sakhalinskaya Oil Company • China Petrochemical Corporation	49.8%(1)	Russian Far East	Carry
5	West Schmidtneftegaz (Sakhalin-4)	West Schmidtneftegaz	• BP Exploration Operating Company Limited	51.0%(1)	Russian Far East	Carry
6	East Schmidtneftegaz (Sakhalin-5)	East Schmidtneftegaz	• BP Exploration Operating Company Limited	51.0%(1)	Russian Far East	Carry
7	Kayganneftegaz (Sakhalin-5)	Elvary Neftegaz	• BP Holdings International B.V.	51.0%(1)	Russian Far East	Carry
8	Kamchatneftegaz (West Kamchatka)	Kamchatneftegaz	• Korean National Oil Company	60.0%(1)	Russian Far East	Carry
9	Temryuksko-Akhtarskiy Block (Sea of Azov)	Priazovneft	• LUKOIL • The State Property Fund of Krasnodarskiy Kray	42.5%	Southern Russia	No
Exploration projects outside the Russian Federation						
10	Kurmangazy	RN-Kazakhstan	• KazMunayGaz (Republic of Kazakhstan)	25.0%	Kazakhstan	PSA
11	Aday	Aday Petroleum Company	• Sinopec International Petroleum Exploration & Production Corporation	50.0%	Kazakhstan	PSA
12	245 S Block	Rosneft-Stroytransgaz Ltd.	• Algerian State Oil Company Sonatrach • Stroytransgaz	30.0%	Algeria	PSA

(1) Until carry financing has been recovered, Rosneft is entitled to crude oil allocations from the relevant project equal to 10% of its economic interest, except for Sakhalin-3, where Rosneft is entitled to 5% of its economic interest.

Exploration subsidiaries and joint ventures, together referred to as "exploration projects," are those that have neither entered the development phase nor are currently producing commercial volumes of crude oil or gas. Rosneft believes that these projects will not begin to contribute to its production until 2013 at the earliest. As of 31 December 2005, Rosneft directly held 12 exploration licenses, ten of which were for the license areas around Vankorskoye field. In May 2006, Rosneft received three additional licenses for the blocks around Vankorskoye field, which it won at an auction in the first quarter of 2006, bringing the total number of licenses that Rosneft holds around Vankorskoye field to 13. Joint ventures, partnerships or other entities hold a further six licenses. In addition, Rosneft is currently engaged in exploration activities at three sites outside Russia via PSA agreements.

The following table sets forth certain aggregate data concerning exploration activities at Rosneft's exploration projects:

	For the year ended 31 December			Planned for 2006
	2003	2004	2005	
Exploration				
Exploration drilling, th. meters	3.93	25.42	26.19	40.23
Exploration wells drilled	2	17	19	23
2D seismic, km.	1,802.0	6,619.7	12,394.0	10,370.0
3D seismic, sq. km.	2,388.0	100.0	3,551.0	4,070.0

Eastern Siberia Resource Base

Further expansion into Eastern Siberia, including the license areas around the Vankorskoye field and the Vostochno-Sugdinskiy block, is a core element of Rosneft's long-term growth strategy. The Eastern Siberia region will be an important source of crude oil for fast-growing Pacific Rim markets, including China, Japan and Korea, and the U.S. West Coast. Moreover, the anticipated construction of the Eastern Siberian pipeline, with potential branches to China and Nakhodka, could accelerate the implementation of Rosneft's Eastern Siberian projects.

License Areas around Vankorskoye Field

Since the beginning of 2004, Rosneft has acquired 13 exploration licenses to areas around the Vankorskoye field in Eastern Siberia. These acquisitions form part of Rosneft's strategy to grow its resource base in Eastern Siberia. The "Vankorskoye group of licenses" consists of 13 license areas of which eight are in Krasnoyarskiy Kray, four in the Taymir Autonomous Okrug and one in the Yamalo-Nenets Autonomous Okrug (on the border of the Taymir Autonomous Okrug).

After the acquisition of the Severo-Charskiy area on 4 July 2006, the total number of licenses in areas around the Vankorskoye field in Eastern Siberia was brought to 14.

Rosneft believes that most crude oil and gas deposits in the license areas will be found in the Cretaceous and Jurassic sediments. With one exception—pinch-outs in the lower Cretaceous sediments—all potential structures are formed by anticlines. Rosneft is currently conducting 2D seismic explorations and geochemical surveys of most of the license areas. Rosneft expects the crude oil to be of a similar quality to that found at the Vankorskoye field. Rosneft plans to engage international service companies such as Halliburton, Schlumberger and SNC Lavalin to develop these license areas if exploration results are successful.

These licenses are especially attractive to Rosneft because of their relative proximity to the Vankorskoye field, for which Rosneft is already building an infrastructure, including the construction of a 550 km-long pipeline between the Vankorskoye field and Purneftegaz, which will integrate the two sites into a single logistics system.

The following table sets forth certain data concerning exploration activities at the license areas around the Vankorskoye field:

	For the year ended 31 December			Planned for 2006
	2003	2004	2005	
Exploration				
Exploration drilling, th. meters	0	0	0	3.20
Exploration wells drilled	0	0	0	0
2D seismic, km.	0	0	550	2,850
3D seismic, sq. km.	0	0	0	0

The following table sets forth, on a 100% basis, D&M's estimates of the prospective resources in the ten license areas around the Vankorskoye field held as of 31 December 2005, as measured in accordance with SPE standards as of 31 December 2005, should the prospects result in successful discoveries and development. These estimates were made on the basis of the methodology set forth in Appendix I: Classification of Reserves and Resources and in the Resources Report on prospective resources. **PROSPECTIVE RESOURCES RELATE TO UNDISCOVERED ACCUMULATIONS AND, ACCORDINGLY, ARE HIGHLY SPECULATIVE. A POSSIBILITY EXISTS THAT THE PROSPECTS WILL NOT RESULT IN THE SUCCESSFUL DISCOVERY OF ECONOMIC RESOURCES, IN WHICH CASE THERE WOULD BE NO COMMERCIAL DEVELOPMENT.**

Prospect	Low estimate (P_{90})(1)	Median estimate (P_{50})(1)	Best estimate(1)	High estimate (P_{10})(1)	P_e-adjusted best estimate(1)
			(million barrels)		
Baikalovskoye	45.68	165.49	313.53	716.33	30.23
Yakovlevskoye	264.56	561.94	679.33	1,235.15	65.72
East Lodochniy	40.75	163.24	310.50	723.61	14.50
Lebyazhiy	40.11	164.25	299.57	691.60	14.19
Nizhnebaikhskiy	41.74	165.79	310.13	744.92	14.45
Peschaniy	42.73	166.02	297.92	712.11	14.28
Polyarniy	39.50	155.88	311.63	742.39	14.47
Protochniy	40.38	170.09	314.83	738.16	14.63
Noskovskaya	241.66	571.57	673.09	1,217.84	32.38
Samoedskiy	39.06	168.67	307.95	678.43	14.18
Sovetskiy	41.32	175.75	306.20	689.27	14.55
West Lodochniy	17.06	57.86	89.77	203.59	24.78
Total(2)			**4,214.45**		**268.37**

(1) For a definition of this term, see "Appendix I: Classification of Reserves and Resources—Prospective and Contingent Resources—Standard Petroleum Industry Terms for Probabilistic Resource Quantities."

(2) P_{90}, P_{50} and P_{10} estimates cannot be summed arithmetically.

Vostochno-Sugdinskiy Block

Rosneft's December 2005 acquisition of the license to the Vostochno-Sugdinskiy block, which covers approximately 2,400 sq. km., was a continuation of Rosneft's expansion in the southern part of Eastern Siberia. The Vostochno-Sugdinskiy license block is especially attractive to Rosneft because of its relative proximity to the Verkhnechonskoye field, which anchors Rosneft's presence in a promising part of the Eastern Siberian region.

The following table sets forth, on a 100% basis, D&M's estimates of the Vostochno-Sugdinskiy block's prospective resources, as measured in accordance with SPE standards, as of 31 December 2005, should the prospects result in successful discoveries and development. These estimates were made on the basis of the methodology set forth in Appendix I: Classification of Reserves and Resources and in the Resources Report on prospective resources. **PROSPECTIVE RESOURCES RELATE TO UNDISCOVERED ACCUMULATIONS AND, ACCORDINGLY, ARE HIGHLY SPECULATIVE. A POSSIBILITY EXISTS THAT THE PROSPECTS WILL NOT RESULT IN THE SUCCESSFUL DISCOVERY OF ECONOMIC RESOURCES, IN WHICH CASE THERE WOULD BE NO COMMERCIAL DEVELOPMENT.**

Prospect	Low estimate (P_{90})(1)	Median estimate (P_{50})(1)	Best estimate(1)	High estimate (P_{10})(1)	P_e-adjusted best estimate(1)
			(million barrels)		
Vostochno-Sugdinskiy	525.58	940.20	1,048.45	1,745.13	327.40
Total(2)			**1,048.45**		**327.40**

(1) For a definition of this term, see "Appendix I: Classification of Reserves and Resources—Prospective and Contingent Resources—Standard Petroleum Industry Terms for Probabilistic Resource Quantities."

(2) P_{90}, P_{50} and P_{10} estimates cannot be summed arithmetically.

Russian Far East Resource Base

Two important regions for Rosneft's long-term growth are Sakhalin Island and West Kamchatka in the Russian Far East. Management believes that Rosneft is the leading oil and gas company in these regions, holding licenses to explore approximately one-third of their prospective resources.

The region is strategically located for access to fast growing hydrocarbon markets such as China, Japan and Korea, as well as the U.S. West Coast.

Rosneft's projects in the Russian Far East include the Veninskiy block (Sakhalin-3), West Schmidtovskiy block (Sakhalin-4), the East Schmidtovskiy and Kaygansko-Vasyukanskiy blocks (Sakhalin-5) and the West Kamchatka block.

West Schmidtovskiy (Sakhalin-4), Kaygansko-Vasyukanskiy and East Schmidtovskiy (Sakhalin-5)

The West Schmidtovskiy (Sakhalin-4), Kaygansko-Vasyukanskiy and East Schmidtovskiy (Sakhalin-5) prospects were discovered in the mid-1980s, and large-scale exploration of these prospects began in the late 1990s, when Rosneft entered into an agreement with BP Exploration Operating Company Limited ("**BP**") to cooperate in exploring and developing them. Under the applicable joint venture agreements, Rosneft has a 51% interest in each joint venture, and BP has the remaining 49% interest.

BP has agreed to carry a portion of Rosneft's financing of these projects. The total amount of funding from BP including capitalized interest as of 31 March 2006 for the West Schmidtovskiy block (Sakhalin-4), East Schmidtovskiy block (Sakhalin-5) and Kaygansko-Vasyukanskiy shelf area (Sakhalin-5) was USD 7.7 million, USD 5.3 million, and USD 129.0 million respectively.

- The *West-Schmidtovskiy block* is located in the Okhotsk Sea on the northern shelf of Sakhalin Island west and northwest of the Schmidt Peninsula. The license area covers 11,840 sq. km. The sea depth ranges from 40-160 m. The structures are mainly anticlines enhanced with stratigraphic trapping elements. Multiple reservoir/seal pairs are found in the Paleogene-age sedimentary sequences. The reservoirs are mainly sandstones and aluerites sealed by interbedded claystones. The total formation thickness varies from a few meters to 100 m. As of 31 December 2005, exploration activities had discovered ten potential hydrocarbon-bearing structures. Within the next three to five years, Rosneft plans to conduct approximately 1,000 sq. km of 3D seismic studies and to drill two exploration wells.

The following table sets forth certain data concerning exploration activities at the West Schmidtovskiy block:

	License agreement requirement	For the year ended 31 December			Planned for 2006
		2003	2004	2005	
Exploration					
Exploration drilling, th. meters	—	0	0	0	2.73
Exploration wells drilled	3	0	0	0	1
2D seismic, km.	2,469	0	2,469	0	0
3D seismic, sq. km.	2,500	0	0	1,706	0

- *The Kaygansko-Vasyukanskiy block* is located in the Okhotsk Sea, 20-30 km east of the coastal crude oil- and gas-bearing province of Okha-Ekabi on the northern part of Sakhalin Island. The license area covers 7,183 sq. km. The sea depth ranges from 90-120 m. The structures are mainly anticlines with enhanced stratigraphic trapping elements. The prospective Miocene-age sequence consists of sand and interbedded claystones ranging in thickness from 700-1,800 m and forms multiple reservoir/seal pairs at a depth ranging from 2,000-5,000 m.

In 2004, the Pela-Leich-1 exploration well was drilled and reached a depth of 3,572.0 m. The total potential pay zone discovered by the well consists of four sand formations with a total thickness of 160 m. In 2005, the Udachnaya-1 exploration well was drilled and reached a depth of 2,705 m, striking one productive horizon. Extensive geological studies have determined the existence of 13 potential structures within the block. Within the next three to five years, Rosneft plans to conduct approximately 2,000 sq. km of 3D seismic surveys and to drill five exploration wells.

The following table sets forth certain data concerning exploration activities at the Kaygansko-Vasyukanskiy block:

	License agreement requirement	For the year ended 31 December 2003	2004	2005	Planned for 2006
Exploration					
Exploration drilling, th. meters	—	0	3.57	2.71	4.00
Exploration wells drilled	5	0	1	1	2
2D seismic, km.	4,000	0	0	0	0
3D seismic, sq. km.	600	2,350	0	0	0

- *The East Schmidtovskiy block* is located in the Okhotsk Sea in the northeastern part of the Sakhalin shelf area of the Schmidt Peninsula. The license covers 9,400 sq. km. The sea depth ranges from 90-120 m. Rosneft believes that in the most promising structures of the block, potential reservoirs will be found in a broad stratigraphic range ranging from Paleogene to Pliocene. The main crude oil and gas prospects consist of interbedded sandstone-aleurites and shales. Seismic data on the block have revealed a wide variety of potential traps, including anticlines with and without stratigraphic trapping elements and pure stratigraphic traps. In addition, the seismic data show direct hydrocarbon indicators that could indicate the presence of hydrocarbons. Geological studies have identified seven structures with potential hydrocarbon-bearing reservoirs. Within the next three to five years, Rosneft plans to conduct approximately 3,000 sq. km of 3D seismic surveys and to drill one exploration well.

The following table sets forth certain data concerning exploration activities at the East Schmidtovskiy block:

	License agreement requirement	For the year ended 31 December 2003	2004	2005	Planned for 2006
Exploration					
Exploration drilling, th. meters	—	0	0	0	0
Exploration wells drilled	3	0	0	0	0
2D seismic, km.	3,462	0	3,462	0	0
3D seismic, sq. km.	2,500	0	0	1,300	3,000

The following table sets forth, on a 100% basis, D&M's estimates of the West Schmidtovskiy block's prospective resources, as measured in accordance with SPE standards, as of 31 December 2005, should the prospects result in successful discoveries and development. These estimates were made on the basis of the methodology set forth in Appendix I: Classification of Reserves and Resources and in the Resources Report on prospective resources. **PROSPECTIVE RESOURCES RELATE TO UNDISCOVERED ACCUMULATIONS AND, ACCORDINGLY, ARE HIGHLY SPECULATIVE. A POSSIBILITY EXISTS THAT THE PROSPECTS WILL NOT RESULT IN THE SUCCESSFUL DISCOVERY OF ECONOMIC RESOURCES, IN WHICH CASE THERE WOULD BE NO COMMERCIAL DEVELOPMENT.**

Prospect	Low estimate (P_{90})(1)	Median estimate (P_{50})(1)	Best estimate(1)	High estimate (P_{10})(1)	P_c-adjusted best estimate(1)
			(million barrels)		
East Sakhalinskaya (Krolik)	309.64	566.65	620.44	1,016.51	148.20
Espenbergskaya (WS-Lead 1)	5.95	10.68	12.09	20.35	1.11
Medved	52.72	112.35	129.27	234.87	30.47
Monchigarskaya (WS-Lead 2)	1.94	3.33	3.75	6.04	0.10
North Astrakhanovskaya	16.99	25.80	27.13	39.11	5.91
North Espenbergskaya	76.07	152.61	175.22	304.24	40.58
South Tayezhnaya	52.96	96.52	102.68	160.21	23.86
Tayezhnaya	22.53	59.06	75.43	154.40	16.84
Toyskaya	41.92	84.17	95.20	158.25	22.19
Tsentralno-Astrakhanovskaya	45.27	68.54	72.26	101.92	17.18
Total(2)			**1,313.48**		**306.44**

(1) For a definition of this term, see "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources—Standard Petroleum Industry Terms for Probabilistic Resource Quantities."

(2) P_{90}, P_{50} and P_{10} estimates cannot be summed arithmetically.

The following table sets forth, on a 100% basis, D&M's estimates of the Kaygansko-Vasyukanskiy block's prospective resources, as measured in accordance with SPE standards, as of 31 December 2005, should the prospects result in successful discoveries and development. These estimates were made on the basis of the methodology set forth in Appendix I: Classification of Reserves and Resources and in the Resources Report on prospective resources. **PROSPECTIVE RESOURCES RELATE TO UNDISCOVERED ACCUMULATIONS AND, ACCORDINGLY, ARE HIGHLY SPECULATIVE. A POSSIBILITY EXISTS THAT THE PROSPECTS WILL NOT RESULT IN THE SUCCESSFUL DISCOVERY OF ECONOMIC RESOURCES, IN WHICH CASE THERE WOULD BE NO COMMERCIAL DEVELOPMENT.**

Prospect	Low estimate (P_{90})(1)	Median estimate (P_{50})(1)	Best estimate(1)	High estimate (P_{10})(1)	P_e-adjusted best estimate(1)
			(million barrels)		
Chukskaya	463.74	759.17	798.79	1,181.61	309.06
East Kaiganskaya	1,020.79	1,634.00	1,760.31	2,679.37	681.46
Kaiganskaya	334.08	504.17	526.90	753.42	203.35
Loni	156.53	246.50	264.31	392.03	102.89
North Kaiganskaya	188.02	351.27	401.73	691.18	154.69
North Odoptinskaya	760.27	1,115.11	1,181.72	1,673.75	456.63
Ombinskaya	67.07	96.10	100.25	137.85	38.64
Savitskaya	1,553.41	2,495.05	2,662.10	4,014.34	1,031.29
South Ombinskaya	56.40	87.90	92.90	136.96	35.82
South-Vasyukanskaya	65.62	105.82	112.80	171.38	43.75
Teni	338.31	532.96	568.04	854.54	220.18
Troptunskaya	3.58	5.43	5.75	8.39	2.09
West Khanguzinskaya	12.04	21.60	24.56	40.71	9.02
Total(2)			**8,500.16**		**3,288.86**

(1) For a definition of this term, see "Appendix I: Classification of Reserves and Resources—Prospective and Contingent Resources—Standard Petroleum Industry Terms for Probabilistic Resource Quantities."

(2) P_{90}, P_{50} and P_{10} estimates cannot be summed arithmetically.

The following table sets forth, on a 100% basis, D&M's estimates of the East Schmidtovskiy block's prospective resources, as measured in accordance with SPE standards, as of 31 December 2005, should the prospects result in successful discoveries and development. These estimates were made on the basis of the methodology set forth in Appendix I: Classification of Reserves and Resources and in the Resources Report on prospective resources. **PROSPECTIVE RESOURCES RELATE TO UNDISCOVERED ACCUMULATIONS AND, ACCORDINGLY, ARE HIGHLY SPECULATIVE. A POSSIBILITY EXISTS THAT THE PROSPECTS WILL NOT RESULT IN THE SUCCESSFUL DISCOVERY OF ECONOMIC RESOURCES, IN WHICH CASE THERE WOULD BE NO COMMERCIAL DEVELOPMENT.**

Prospect	Low estimate (P_{90})(1)	Median estimate (P_{50})(1)	Best estimate(1)	High estimate (P_{10})(1)	P_e-adjusted best estimate(1)
			(million barrels)		
Glenskaya	53.47	91.89	103.97	167.92	24.79
Kugdinskaya	13.66	24.69	27.70	46.08	6.14
Lisa	472.38	840.60	963.19	1,637.07	224.11
North Schmidtovskiy	428.29	697.59	740.18	1,105.36	175.83
Talikskaya	226.75	392.90	428.30	680.39	102.59
Uzornaya	293.13	513.73	584.44	963.13	140.02
Yelizavetinskaya	71.37	118.46	131.95	210.29	31.41
Total(2)			**2,979.71**		**704.89**

(1) For a definition of this term, see "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources—Standard Petroleum Industry Terms for Probabilistic Resource Quantities."

(2) P_{90}, P_{50} and P_{10} estimates cannot be summed arithmetically.

Rosneft believes that the quality of the geological formations and the potential traps suggest a high probability of successful exploration and eventual development of discovered structures. If exploration gives successful results, Rosneft plans to develop the three blocks as a single project with a common infrastructure. In that scenario, Rosneft plans to conduct both offshore and onshore drilling, much like the Sakhalin-1 project. During the production of crude oil, Rosneft anticipates re-injecting all associated gas and water to maintain the reservoir pressure. After production of the recoverable crude oil, Rosneft can choose to produce gas if commercial development and transportation of gas becomes viable.

Current plans envisage using an underwater manifold system from which crude oil produced will be transported to an on-shore processing complex. After treatment, the crude oil will be shipped to the De-Kastri mainland export terminal through Rosneft's proprietary pipeline. It is expected that, should all projects deliver successful exploration results, this infrastructure would need to be upgraded to enable it to reload the additional volumes of crude oil for export to Pacific Rim countries, such as China, Japan and Korea.

Venineft (Sakhalin-3)

The Veninskiy (Sakhalin-3) block is located in the Okhotsk Sea to the east of the Sakhalin Island. The license area covers approximately 5,300 sq. km. The sea depth ranges from 25-150 meters.

In June 2005, the Company and China Petrochemical Corporation ("**Sinopec Group**") entered into a memorandum of understanding (the "**Sakhalin-3 MOU**") to explore and develop crude oil and gas deposits of the Veninskiy block. Concurrently, the Company and Sinopec entered into a protocol, which formed part of the MOU, pursuant to which the parties established a joint venture to develop the Veninskiy (Sakhalin-3) license area. Under the MOU, the participants in the joint venture are the Company (49.8%), Regional State Unitary Enterprise Sakhalinskaya Oil Company (25.1%) and the Sinopec Group (25.1%). Venineft, a company established in October 2005, will act as the project's operator.

If Regional State Unitary Enterprise Sakhalinskaya Oil Company withdraws from the joint venture, the Company and Sinopec Group would reallocate their participation interests as follows: the Company (51%) and the Sinopec Group (49%).

Under the agreement between the Company and the Sinopec Group, the Sinopec Group undertakes to carry the Company's interest during the exploration stage and provide a certain portion of funding for the Company's share of costs during the development stage.

Interpretation of seismic data acquired to date has shown the presence of six prospective structures. These structures are anticlines with and without stratigraphic trapping elements. Within the next three to five years, Venineft plans to conduct approximately 650 sq. km. of 3D seismic studies and to drill three exploration wells.

The following table sets forth certain data concerning exploration activities at the Veninskiy block:

	License agreement requirement	For the year ended 31 December			Planned for 2006
		2003	2004	2005	
Exploration					
Exploration drilling, th. meters	—	0	0	0	3.50
Exploration wells drilled	0	0	0	0	1
2D seismic, km.	6,000	0	0	0	0
3D seismic, sq. km.	300	0	0	300	650

The following table sets forth, on a 100% basis, D&M's estimates of the Veninskiy block's prospective resources, as measured in accordance with SPE standards, as of 31 December 2005, should the prospects result in successful discoveries and development. These estimates were made on the basis of the methodology set forth in Appendix I: Classification of Reserves and Resources and in the Resources Report on prospective resources. **PROSPECTIVE RESOURCES RELATE TO UNDISCOVERED ACCUMULATIONS AND, ACCORDINGLY, ARE HIGHLY SPECULATIVE. A POSSIBILITY EXISTS THAT THE**

PROSPECTS WILL NOT RESULT IN THE SUCCESSFUL DISCOVERY OF ECONOMIC RESOURCES, IN WHICH CASE THERE WOULD BE NO COMMERCIAL DEVELOPMENT.

Prospect	Low estimate (P_{90})(1)	Median estimate (P_{50})(1)	Best estimate(1)	High estimate (P_{10})(1)	P_e-adjusted best estimate(1)
			(million barrels)		
Aiyashskaya	114.40	180.33	190.46	281.15	73.16
Niyskaya	10.93	30.14	39.22	77.91	14.72
North Veninskaya	32.21	51.91	55.72	84.12	21.12
South Aiyashskaya	70.83	151.38	179.83	324.30	68.08
Veninskaya Northern Pericline	227.73	324.02	336.89	461.20	126.78
West Aiyashskaya	246.46	402.56	425.64	631.11	162.04
Total(2)			**1,227.76**		**465.91**

(1) For a definition of this term, see "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources—Standard Petroleum Industry Terms for Probabilistic Resource Quantities."

(2) P_{90}, P_{50} and P_{10} estimates cannot be summed arithmetically.

Exploration wells will be drilled from the shore, using state-of-the-art technology similar to that used in the Sakhalin-1 project. The length of wells from shore will range from approximately 5,000 to 8,500 m.

According to current development plans and depending on successful exploration, all wells will be drilled using horizontal directional drilling methods either from the shore or from offshore platforms. Associated gas and reservoir water will be re-injected.

Current plans envisage oil to be transported to an on-shore processing complex and after treatment, to be shipped to the De-Kastri export terminal through Rosneft's proprietary pipeline. This infrastructure is envisaged to be upgraded during the development of the Sakhalin-4 and Sakhalin-5 projects. From De-Kastri the crude oil will be shipped by tanker to Pacific Rim countries, such as China, Japan and Korea.

Kamchatneftegaz (West Kamchatka)

In September 2004, the Company entered into an agreement with the Korean National Oil Corporation ("**KNOC**") to establish a joint venture to explore and develop the West Kamchatka license area. The Company holds a 60% interest in the joint venture and KNOC a 40% interest. Kamchatneftegaz is the project's operator. Under the joint venture agreement, KNOC will carry Rosneft's share of costs in full during the exploration stage and in part during the development stage. KNOC provided USD 6.3 million in funding as of 31 December 2005 and USD 7.9 million as of 31 March 2006, in each case including capitalized interest.

The West Kamchatka license area is located in the Okhotsk Sea west of the Kamchatka Peninsula. The license area cover 62,680 sq. km. The sea depth ranges from 40-150 m in the southwestern part and from 300-400 m in the northwestern part of the license area.

Interpretation of 2D seismic data acquired during the late 1980s to the late 1990s, identified over 40 local structures. These surveys covered an area of 13,900 km. The three main prospective series are of the Paleocene-Eocene, lower-middle Miocene and middle-upper Miocene age. Oligocene and Pliocene series contain prospective structures. All structures are local anticline uplifts. Currently, exploratory studies have proved 30 potential anticlinal structures.

The following table sets forth certain data concerning exploration activities at the West Kamchatka block:

	License agreement requirement	For the year ended 31 December			Planned for 2006
		2003	2004	2005	
Exploration					
Exploration drilling, th. meters	—	0	0	0	0
Exploration wells drilled	3	0	0	0	0
2D seismic, km.	8,000	0	0	7,588	7,000
3D seismic, sq. km.	420	0	0	0	0

The following table sets forth, on a 100% basis, D&M's estimates of Kamchatneftegaz' prospective resources, as measured in accordance with SPE standards, as of 31 December 2005, should the prospects result in successful discoveries and development. These estimates were made on the basis of the methodology set forth in Appendix I: Classification of Reserves and Resources and in the Resources Report on prospective resources. **PROSPECTIVE RESOURCES RELATE TO UNDISCOVERED ACCUMULATIONS AND, ACCORDINGLY, ARE HIGHLY SPECULATIVE. A POSSIBILITY EXISTS THAT THE PROSPECTS WILL NOT RESULT IN THE SUCCESSFUL DISCOVERY OF ECONOMIC RESOURCES, IN WHICH CASE THERE WOULD BE NO COMMERCIAL DEVELOPMENT.**

Prospect	Low estimate (P_{90})(1)	Median estimate (P_{50})(1)	Best estimate(1)	High estimate (P_{10})(1)	P_e-adjusted best estimate(1)
			(million barrels)		
Amaninskaya	164.09	384.19	445.23	812.49	101.55
BN	52.06	112.86	126.22	210.81	29.64
Bolsheretskaya	91.74	177.64	190.76	311.78	45.65
Central 1	23.75	53.31	64.17	119.67	15.37
Central 2	30.62	56.53	62.29	100.43	14.90
East Kalavayamskaya-2	284.94	429.95	455.80	666.29	108.48
East Sukhanovskaya	48.65	104.42	118.99	209.15	28.56
Evenskaya	309.96	503.24	544.16	834.86	128.98
Inushskaya Dome 1	8.37	17.72	20.02	35.19	4.77
Inushskaya Dome 2	6.24	13.60	15.42	26.56	3.68
Kalavayamskaya-1	262.09	469.42	521.13	851.43	124.61
Kalavayamskaya-2	727.29	1,183.39	1,275.84	1,918.99	301.54
Krutogorovska	408.36	916.06	1,109.67	2,020.02	260.33
Kunzhikskaya	182.50	301.75	320.92	487.40	76.55
Morosechnaya	14.39	32.28	38.69	70.12	9.29
Noname 2	4.77	11.24	12.77	22.04	3.04
Noname 1 Dome 1	6.15	13.79	15.34	26.58	3.59
Noname 1 Dome 2	7.48	15.61	17.96	31.18	4.26
Oblukovinskaya-1	198.54	317.14	342.76	518.97	81.91
Prievenskaya	108.86	195.85	213.16	337.43	50.74
South Kamchatka Dome 2	6.47	13.76	15.50	27.27	3.65
South Kamchatka Dome 1	11.25	23.53	27.43	48.22	6.39
Sukhanovskaya	146.45	309.33	357.95	621.72	86.71
Tigilskaya	63.93	116.25	133.88	226.39	32.06
Tundrovaya-1	308.78	498.71	534.26	801.49	127.10
Tundrovaya-2	175.71	287.91	308.82	473.05	73.58
Uikanskaya	49.60	91.72	100.90	164.89	24.07
Ust-Tigilskaya	40.79	70.15	80.13	130.74	19.16
West Sukhanovskaya	10.04	21.19	24.43	43.27	5.84
Total(2)			**7,494.61**		**1,776.01**

(1) For a definition of this term, see "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources—Standard Petroleum Industry Terms for Probabilistic Resource Quantities."

(2) P_{90}, P_{50} and P_{10} estimates cannot be summed arithmetically.

If exploration is successful, current plans envisage the offshore production and treatment of crude oil on marine platforms, with further treatment of crude oil onshore. These plans also envisage the transportation of crude oil to an export terminal at Petropavlovsk-Kamchatskiy for subsequent export by tanker to Pacific Rim countries, such as China, Japan and Korea.

Southern Russia Resource Base

Rosneft's resource base in Southern Russia consists of Tuapsinskiy Trough in the Black Sea and the Temryukhsko-Akhtarskiy block in the Sea of Azov. If exploration is successful, crude oil and gas from these areas are expected to be sold to southeastern Europe and, potentially, the United States.

Tuapsinskiy Trough (Black Sea)

Tuapsinskiy Trough is located in the northeastern part of the Black Sea, approximately 100-140 km off the shore of the Kerch Peninsula in Ukraine and the Taman Peninsula in Russia and southwest of the Caucasian coast. The license area covers approximately 11,220 sq. km. The sea depth is approximately 1,000-2,000 m. Rosneft holds a 100% interest in the project.

Seismic surveys conducted from 1998-2005 identified approximately 70 local prospective hydrocarbon-bearing structures for the Russian shelf zone of the Black Sea. Of these, 26 anticlines have been discovered and outlined in Tuapsinskiy Trough, of which 13 were evaluated by D&M. Within the next three to five years, Rosneft plans to conduct approximately 500 km of additional 2D seismic and approximately 1,500 sq. km. of 3D seismic studies and to drill one exploration well.

The following table sets forth certain data concerning exploration activities at Tuapsinskiy Trough:

	License agreement requirement	For the year ended 31 December			Planned for 2006
		2003	2004	2005	
Exploration					
Exploration drilling, th. meters	—	0	0	0	0
Exploration wells drilled	1	0	0	0	0
2D seismic, km.	2,000	0	100	2,000	0
3D seismic, sq. km.	400	0	0	0	0

The following table sets forth, on a 100% basis, D&M's estimates of Tuapsinskiy Trough's prospective resources, as measured in accordance with SPE standards, as of 31 December 2005, should the prospects result in successful discoveries and development. These estimates were made on the basis of the methodology set forth in Appendix I: Classification of Reserves and Resources and in the Resources Report on prospective resources. **PROSPECTIVE RESOURCES RELATE TO UNDISCOVERED ACCUMULATIONS AND, ACCORDINGLY, ARE HIGHLY SPECULATIVE. A POSSIBILITY EXISTS THAT THE PROSPECTS WILL NOT RESULT IN THE SUCCESSFUL DISCOVERY OF ECONOMIC RESOURCES, IN WHICH CASE THERE WOULD BE NO COMMERCIAL DEVELOPMENT.**

Prospect	Low estimate (P_{90})(1)	Median estimate (P_{50})(1)	Best estimate(1)	High estimate (P_{10})(1)	P_c-adjusted best estimate(1)
			(million barrels)		
BB Folds	440.96	797.01	898.37	1,485.31	146.66
C1-1	257.38	450.03	513.01	847.67	105.36
C1-2	265.08	470.14	540.12	919.38	107.73
C1-3	143.38	254.19	285.92	468.08	57.59
D1	67.64	122.11	134.58	219.79	27.81
F1-1	107.34	195.54	214.25	351.04	43.88
F1-2	106.05	190.70	215.58	362.75	43.97
F2-1	83.07	142.52	160.65	258.32	32.88
F2-2	158.23	284.71	322.86	531.85	65.73
F2-3	71.13	127.68	143.68	239.67	29.15
F3-3	176.99	320.40	359.70	594.10	72.80
Kerch Taman Trough	90.81	161.23	178.73	292.86	34.18
T4	178.91	318.97	356.70	570.40	73.13
Total(2)			**4,324.15**		**840.87**

(1) For a definition of this term, see "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources—Standard Petroleum Industry Terms for Probabilistic Resource Quantities."

(2) P_{90}, P_{50} and P_{10} estimates cannot be summed arithmetically.

Rosneft currently expects to produce only crude oil at Tuapsinskiy Trough and to reinject all associated gas and water to maintain the reservoir pressure. Rosneft expects to drill all wells using horizontal and directional drilling techniques from stationary marine platforms that it will install at the largest fields.

Crude oil will be delivered to one of the Black Sea export terminals for onward transportation.

Temryuksko-Akhtarskiy (Sea of Azov)

In 2003, the Company, LUKOIL and the State Property Fund of Krasnodarskiy Kray entered into an agreement to establish a joint venture for the exploration and development of the Temryuksko-Akhtarskiy license area in the Sea of Azov shelf. Under the agreement, the Company holds a 42.5% interest in the joint venture, LUKOIL a 42.5% interest, and the State Property Fund of Krasnodarskiy Kray a 15% interest. Priazovneft, a company established in 2003, will act as the project's operator. The Company and LUKOIL will finance the project equally, and after repayment of all investments, revenues will be distributed *pro rata* according to each party's ownership interest.

The license area is located within the Russian sector of the Sea of Azov, to the southeast of the Temryuk bay. The license area covers approximately 5,444 sq. km. The sea depth is approximately 10 m. The deposits are mainly anticlines made of Cretaceous sandstones at a depth of 3,400-4,000 m. Exploration studies have identified five structures with potential hydrocarbon-bearing deposits. Within the next three to five years, Rosneft plans to conduct approximately 250 km of 2D seismic studies and to drill two exploration wells.

The following table sets forth certain data concerning exploration activities in the Temryuksko-Akhtarskiy license area:

	License agreement requirement	For the year ended 31 December			Planned for 2006
		2003	2004	2005	
Exploration					
Exploration drilling, th. meters	—	0	0	0	1.90
Exploration wells drilled	3	0	0	0	0
2D seismic, km.	1,000	400	391	71	200
3D seismic, sq. km.	300	0	0	0	0

The following table sets forth, on a 100% basis, D&M's estimates of Temryuksko-Akhtarskiy's prospective resources, as measured in accordance with SPE standards, as of 31 December 2005, should the prospects result in successful discoveries and development. These estimates were made on the basis of the methodology set forth in Appendix I: Classification of Reserves and Resources and in the Resources Report on prospective resources. **PROSPECTIVE RESOURCES RELATE TO UNDISCOVERED ACCUMULATIONS AND, ACCORDINGLY, ARE HIGHLY SPECULATIVE. A POSSIBILITY EXISTS THAT THE PROSPECTS WILL NOT RESULT IN THE SUCCESSFUL DISCOVERY OF ECONOMIC RESOURCES, IN WHICH CASE THERE WOULD BE NO COMMERCIAL DEVELOPMENT.**

Prospect	Low estimate (P_{90})[(1)]	Median estimate (P_{50})[(1)]	Best estimate[(1)]	High estimate (P_{10})[(1)]	P_e-adjusted best estimate[(1)]
			(million barrels)		
Aprelska	21.29	45.52	52.56	92.97	11.32
East Gelendzhik	0.82	2.03	2.52	4.87	0.61
Gelendzhik	72.84	115.17	120.04	174.80	28.51
Pribrezhnaya	12.96	35.06	44.30	87.74	9.97
Tizdar	16.78	31.68	36.73	62.35	8.80
Total[(2)]			**256.15**		**59.22**

(1) For a definition of this term, see "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources—Standard Petroleum Industry Terms for Probabilistic Resource Quantities."

(2) P_{90}, P_{50} and P_{10} estimates cannot be summed arithmetically.

Rosneft currently expects to produce only crude oil at Temryuksko-Akhtarskiy and to re-inject all associated gas and water to maintain the reservoir pressure. Priazovneft expects to drill all wells using horizontal and directional drilling techniques. The wells of adjacent fields will be connected to a central technological platform via seabed manifolds. Crude oil will be pumped onshore via a pipeline and will then be transported to marine export terminals for onward transportation.

International Resource Base

Rosneft is currently engaged in exploration activities at three sites outside Russia via PSA agreements, two of which are located in Kazakhstan and one in Algeria.

Kurmangazy

In July 2005, the Company's subsidiary RN-Kazakhstan entered into a PSA (the "**Kurmangazy PSA**") with the Ministry of Energy and Mineral Resources of Kazakhstan and KazMunayTeniz, which is a subsidiary of the Kazakh national oil company KazMunayGaz, for the exploration and production of crude oil and gas at Kurmangazy. Concurrently, RN-Kazakhstan and KazMunayTeniz entered into a joint operating agreement (the "**Kurmangazy Joint Operating Agreement**"). These two agreements established the Kurmangazy joint venture, of which Rosneft currently beneficially owns 25% and KazMunayTeniz owns 50%. The remaining 25% is not allocated to any beneficial owner and is carried by Rosneft during the exploration stage. For purposes of the Company's estimates of reserves, the Company's interest in Kurmangazy is reflected at 25%.

After discovery of the first commercial hydrocarbons, RN-Kazakhstan and KazMunayTeniz must notify the Russian Federation of its right to acquire the 25% participation interest in the Kurmangazy project that is currently not allocated. Upon such notification, the Russian Federation may exercise its option during a six-month period at a fair market price to be determined either by a tender process or by an independent appraiser. If the price is determined by a tender process, the Russian Federation will have a preferential right to exercise its option at an exercise price equal to that of the highest bid offered. If the Russian Federation does not acquire the 25% participation interest, it will be sold to the winner in the tender or to another party found by RN-Kazakhstan and KazMunayTeniz. The proceeds from the sale of the participation interest are to be used to cover Rosneft's expenses in the project relating to the unallocated interest and the margin is to be shared equally between RN-Kazakhstan and KazMunayTeniz. If no purchaser for the 25% is found, then a 12.5% participating interest will be transferred to KazMunayTeniz, and the remaining 12.5% participating interest will be transferred to RN-Kazakhstan.

Pursuant to the Kurmangazy Joint Operating Agreement, KazMunayTeniz has established Kurmgangazy-Petroleum LLC, a wholly owned company that acts as the project's operator. The drilling contractor is LUKOIL-Shelf Ltd. The joint venture's managing committee must approve contracts with a value greater than USD 500,000 during the exploration phase and with a value greater than USD 1,500,000 during the development and production phase.

Under the Kurmangazy PSA, RN-Kazakhstan and KazMunayTeniz on the one hand and the Republic of Kazakhstan on the other will divide crude oil produced based on several criteria. The RN-Kazakhstan and KazMunayTeniz share of such crude oil can range from 10%-70%. In addition, Kazakhstan has an option to purchase specified amounts of crude oil from RN-Kazakhstan and KazMunayTeniz. Furthermore, RN-Kazakhstan and KazMunayTeniz must spend approximately USD 300,000 during the exploration period, and approximately USD 500,000 during the development and production period, on social projects annually.

Kurmangazy is located on the north Caspian shelf between the oil and gas fields of Kashagan and South Korchagina (Shirotnoye). The license area covers approximately 3,570 sq. km. The sea depth is approximately 4-6 m.

Structurally, Kurmangazy is situated on the southern slope of the north Caspian Bozashinskaya uplift. Exploration studies have identified Jurassic and Cretaceous sediments as prospective for hydrocarbons. These sediments are expected to have multiple reservoir/seal pairs separated by claystone layers of up to 100-150 m thick. Additionally, Triassic formations may be prospective as well. These studies have identified one large structure. The prospective interval lies above the salt. Within the next three to five years, Rosneft plans to conduct approximately 700 sq. km of 3D seismic studies and to drill five exploration wells.

In May 2006, the first exploration well at Kurmangazy was drilled. Although the well did not find crude oil, the well generated valuable data on the geological properties of the structure and identified certain reservoirs and seals of the Cretaceous and Jurassic ages. Based on this data, Rosneft is planning additional seismic and drilling activities.

The following table sets forth certain data concerning exploration activities at Kurmangazy:

	For the year ended 31 December			Planned for 2006
	2003	2004	2005	
Exploration				
Exploration drilling, th. meters	0	0	0	2.0
Exploration wells drilled	0	0	0	1
2D seismic, km.	0	0	0	0
3D seismic, sq. km.	0	0	0	0

The following table sets forth, on a 100% basis, D&M's estimates of Kurmangazy's prospective resources, as measured in accordance with SPE standards, as of 31 December 2005, should the prospects result in successful discoveries and development. These estimates were made on the basis of the methodology set forth in Appendix I: Classification of Reserves and Resources and in the Resources Report on prospective resources. **PROSPECTIVE RESOURCES RELATE TO UNDISCOVERED ACCUMULATIONS AND, ACCORDINGLY, ARE HIGHLY SPECULATIVE. A POSSIBILITY EXISTS THAT THE PROSPECTS WILL NOT RESULT IN THE SUCCESSFUL DISCOVERY OF ECONOMIC RESOURCES, IN WHICH CASE THERE WOULD BE NO COMMERCIAL DEVELOPMENT.**

Prospect	Low estimate (P_{90})(1)	Median estimate (P_{50})(1)	Best estimate(1)	High estimate (P_{10})(1)	P_e-adjusted best estimate(1)
			(million barrels)		
Kurmangazy	5,431.52	11,733.05	13,141.48	22,798.98	3,685.43
Total(2)			**13,141.48**		**3,685.43**

(1) For a definition of this term, see "Appendix I: Classification of Reserves and Resources—SPE Standards—Prospective and Contingent Resources—Standard Petroleum Industry Terms for Probabilistic Resource Quantities."

(2) P_{90}, P_{50} and P_{10} estimates cannot be summed arithmetically.

Rosneft currently expects to produce only crude oil at Kurmangazy and to re-inject all associated gas and water to maintain the reservoir pressure. Small volumes of gas may be used for power generation and local utilities onshore. Rosneft expects to drill all wells using horizontal and directional drilling techniques. Drilling will take place at three equidistant central marine platforms. Rosneft plans to transport crude oil to the central processing facility via three pipelines, one for each central marine platform, and then further to onshore facilities located near the Kazakhstan-Russia border. It will then export oil to Turkey via the Baku-Tbilisi-Ceyhan pipeline, the CPC pipeline and via an existing pipeline to Samara.

Aday (Kazakhstan)

In May 2001, the Company's subsidiary RN-Kazakhstan and First International Oil Corporation, a privately held American company, established a joint operating company, Aday Petroleum Company LLC ("**Aday Petroleum**"). Also in May 2001, RN-Kazakhstan and First International Oil Corporation entered into a joint operating agreement (the "**Aday Joint Operating Agreement**"). In July 2001, First International Oil Corporation assigned all its rights and obligations under a PSA with the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan dated October 2000 (the "**Aday PSA**") to Aday Petroleum. These two agreements govern the operation of the Aday joint venture, of which the Company initially owned 50% and First International Oil Corporation owned 50%. In 2004, Sinopec International Petroleum Exploration & Production Corporation ("**Sinopec Group**"), a Chinese state-owned oil company, acquired First International Oil Corporation. Accordingly, the Company currently owns 50% of the joint venture and Sinopec Group the other 50%. Aday Petroleum acts as the project's operator, on the basis of the Aday PSA signed in accordance with the existing legislation of Kazakhstan.

Under the Aday PSA, Aday Petroleum and Kazakhstan divide crude oil produced according to the following criteria:

Amount of produced crude oil per year (metric tonnes)	Aday Petroleum share	Kazakhstan share
1–1,000,000	90%	10%
1,000,000–2,000,000	80%	20%
2,000,000–3,000,000	70%	30%
3,000,000–4,000,000	60%	40%
More than 4,000,000	40%	60%

Kazakhstan may receive its share in the form of crude oil or in the form of cash proceeds from sales of its share of the crude oil. Kazakhstan is also entitled to royalty payments and has an option to purchase specified amounts of crude oil from Aday Petroleum at world spot market prices. Furthermore, Aday Petroleum must refine at least 15% of produced crude oil at refineries in Kazakhstan. Under the Aday PSA, Aday Petroleum must solicit competitive bids for all contracts over USD 500,000.

Exploration studies have identified 19 structures with potential hydrocarbon-bearing reservoirs in the Aday block. This prospective sequence consists of the post-salt Cretaceous, Jurassic and Triassic sandstones, as well as pre-salt Devonian and Carboniferous carbonates. The depth of the latter ranges from

4,000 to 5,000 m. Exploratory wells have reached the post-salt Triassic and Jurassic formations. In 2005, exploration drilling at one of these structures revealed crude oil flows. Currently, Rosneft is ascertaining the size of crude oil reserves and well production capacities. Within the next three to five years, Rosneft plans to conduct approximately 620 km. of 2D seismic and 550 sq. km. of 3D seismic studies and to drill 15 exploration wells. The crude oil from both horizon types has a low sulfur content (0.11%-0.3%), a low paraffin content, a low tar content and a density of approximately 827-855 kg/m^3 (34°-40° API).

	For the year ended 31 December			Planned for 2006
	2003	2004	2005	
Exploration				
Exploration drilling, th. meters	2.30	14.06	20.16	17.10
Exploration wells drilled	2	14	16	16
2D seismic, km.	226	198	1,585	320
3D seismic, sq. km.	38	0	0	230

D&M has not estimated the size of Aday's reserves or prospective resources.

245 S Block (Algeria)

In March 2001, Rosneft-Stroytransgaz Ltd. ("**Rosneft-Stroytransgaz**"), a partnership between the Company and Stroytransgaz, entered into an agreement with Algerian State Oil Company Sonatrach ("**Sonatrach**"), a state-owned Algerian oil and gas company, for the exploration and development and production of hydrocarbons at the 245 S Block in Algeria. Under the agreement, Rosneft-Stroytransgaz has a 60% interest in the project and Sonatrach a 40% interest. Since the Company holds a 50% interest in Rosneft-Stroytransgaz, its indirect interest in the project is 30%. The parties fund operational expenditures for the exploration, production and development in proportion to their ownership interests in the project.

Furthermore, under this agreement, Rosneft-Stroytransgaz funds 40% of Sonatrach's share of capital investments in the project at the exploration stage recoverable only from the Sonatrach share of income generated by the project. In consideration, Sonatrach provides subsoil development rights and related technical knowledge. In the event of the discovery of commercially recoverable natural gas at the deposit, Sonatrach has the exclusive right to develop, produce, and pump natural gas. Rosneft is currently considering options for the future of the 245 S Block.

The 245 S block covers approximately 6,548 square kilometers. During 2001-04, Rosneft-Stroytransgaz fulfilled certain requirements for exploratory work, which led to the identification in 2004 of two prospects in the Illizi basin. Schlumberger subsequently drilled two exploration wells: Takuazet East and Takuazet West. Tests revealed crude oil flows and confirmed the presence of hydrocarbons in the F6 and Ordovician layers Rosneft-Stroytransgaz plans to drill two wells in 2006 to confirm the presence of commercially viable reserves in the two reservoirs. If such reserves are confirmed, the project is expected to enter the development stage in 2006 or 2007. Within the next three to five years, Rosneft plans to drill three exploration wells.

The following table sets forth key information concerning the 245 S Block:

	For the year ended 31 December			Planned for 2006
	2003	2004	2005	
Exploration				
Exploration drilling, th. meters	—	5.22	2.90	5.80
Exploration wells drilled	—	2	1	2
2D seismic, km.	600	0	600	0
3D seismic, sq. km.	—	100	245	190

D&M has not estimated the size of the 245 S Block's reserves or prospective resources.

Downstream Operations

Transportation and Logistics

Transportation of Crude Oil and Petroleum Products

Rosneft transports crude oil from its fields to its customers and refineries, and its petroleum products to its customers, in several ways, including the Transneft and Transnefteprodukt pipeline systems, owned-and-operated pipelines, rail and barges and via proprietary and Transneft-operated marine terminals. Rosneft does not currently own any infrastructure for the transportation of gas.

Transneft and Transnefteprodukt

The state-owned Transneft trunk pipeline system is the principal system for transport of crude oil to Russian refineries and export markets. The system consists of pipelines, marine export terminals and pipeline transshipment points. In 2005, approximately 92% of the crude oil produced by Rosneft was transported through the Transneft pipeline system for all or part of its journey to refineries or customers.

The crude oil that Rosneft transports through the Transneft pipeline system is generally blended with crude oil of other producers that may differ in quality. The standard type of Russian blended crude is usually referred to as "Urals blend." The quality of Rosneft's crude oil at some of its oil fields is superior to that of Urals blend. Since Transneft does not operate a "quality bank," Rosneft does not receive any premium for supplying superior quality crude oil to the Transneft system. See "Regulation of the Russian Oil and Gas Industry—Transportation of Crude Oil and Petroleum Products." However, Transneft operates a dedicated pipeline linking Rosneft's Western Siberian fields both with Tuapsinskiy Refinery and with the Trasneft-controlled marine export terminal at Tuapse. Crude oil transported through this pipeline is not blended and is referred to as Siberian Light quality, which has a price premium over Urals blend.

Pursuant to the Natural Monopolies Law, the Ministry of Industry and Energy, based on information provided by the Federal Energy Agency, allocates Transneft pipeline network and sea terminal capacity to oil producers for export deliveries on a quarterly basis. The Ministry of Industry and Energy also establishes export quotas for the Transneft system. See "Regulation of the Russian Oil and Gas Industry—Transportation of Crude Oil and Petroleum Products."

The state-owned Transnefteprodukt pipeline network is a system for transporting petroleum products to customers. See "Regulation of the Russian Oil and Gas Industry—Transportation of Crude Oil and Petroleum Products." Through this system, Rosneft transports a portion of the petroleum products refined by Yukos-controlled refineries in Samara Oblast.

The FTS sets the tariffs for the use of Transneft and Transnefteprodukt pipelines.

Owned-and-Operated Pipelines

Rosneft's subsidiary Sakhalinmorneftegaz owns a crude oil pipeline that runs from Okha, on Sakhalin Island, to its De-Kastri export terminal and onward to Komsomolskiy Refinery. Rosneft uses this pipeline to transport the crude oil produced by its Far Eastern subsidiaries and joint ventures. In 2005, Sakhalinmorneftegaz accounted for approximately 2.6% of Rosneft's production. Although the Sakhalinmorneftegaz pipeline's design capacity is 3 million tonnes per year, its utilization rate in 2005, including volumes produced by Sakhalinmorneftegaz and Sakhalin-1, was approximately 72%, or 2.17 million tonnes. In the first quarter of 2006, Sakhalinmorneftegaz and Sakhalin-1 shipped 0.97 million tonnes of crude oil through the Sakhalinmorneftegaz pipeline. Rosneft exports part of the crude oil produced by Sakhalinmorneftegaz and Sakhalin-1 via the De-Kastri export terminal and refines the remainder at Komsomolskiy Refinery.

Rosneft is planning to build a proprietary 550 km pipeline from Vankor to Pur-Pe and has already acquired the pipes for its construction. See "—Upstream Operations—Production and Development Subsidiaries and Joint Ventures—Eastern Siberia—Vankorskoye Field."

Caspian Pipeline Consortium

The CPC pipeline connects the oil fields of Western Kazakhstan with a new CPC-owned marine export terminal near Novorossiysk. The length of the pipeline is 1,510 km. The first phase of the CPC pipeline was completed in April 2003 and includes, in addition to the pipeline itself, a marine export terminal, pumping stations and a communications network. The capacity of the first CPC pipeline after completion of the first phase was 561.15 thousand barrels per day (28.0 million tonnes per year). In the first quarter of 2006, this capacity increased to 650.00 thousand barrels per day (32.5 million tonnes per year) (including 130.00 thousand barrels per day of Russian oil delivered by rail via Kropotkin) by the use of anti-friction additives. The CPC transported approximately 449.89 thousand barrels per day (22.51 million tonnes per year) of crude oil in 2004 and approximately 611.25 thousand barrels per day (30.50 million tonnes per year) of crude oil in 2005. The CPC plans to expand the pipeline's capacity to 1,342.75 thousand barrels per day (67.0 million tonnes per year) by 2009.

In November 2004, the CPC began injecting Russian crude oil into the CPC pipeline at Kropotkin in Krasnodarskiy Kray. The volume of Russian crude oil injected at this location increased to 120.25 thousand barrels per day (6.0 million tonnes per year) in 2005, providing an additional and valuable export outlet for Russian crude oil.

In 1996, the Company and Shell-Caspian B.V. entered into agreements to establish a Rosneft-Shell joint venture for participation in the CPC project. The Company holds a 51% interest in the joint venture and Shell-Caspian B.V. holds the remaining 49% interest. The Rosneft-Shell joint venture holds 7.5% of the shares in the CPC.

In 2005, Rosneft's subsidiaries Grozneftegaz, Purneftegaz and Yuganskneftegaz collectively delivered approximately 56.72 thousand barrels per day (2.83 million tonnes) into the CPC system, or about 50% of the total Russian input into the pipeline. In the first quarter of 2006, the deliveries of crude oil from Yuganskneftegaz terminated and deliveries of crude oil from Krasnodarneftegaz commenced. During the first half of 2006, Rosneft's deliveries to the CPC pipeline were approximately 100.21 barrels per day (2.5 million tonnes), which accounted for more than 70% of total Russian deliveries into the CPC pipeline.

Crude oil from Western Siberia is shipped by Transneft trunk pipeline to the Tikhoretskaya railway junction in Krasnodarskiy Kray, where it is reloaded into rail cars for shipment approximately 74 km to the south to the Getmonovskya railway junction, which is operated by CJSC Naftatrans. From there, it is shipped 19 km by pipeline which is also operated by CJSC Naftatrans to the CPC junction near the town of Kropotkin in Krasnodarskiy Kray, where it is injected into the CPC pipeline and travels 200 km to the CPC-controlled Yuzhno-Ozereevka marine export terminal near Novorossiysk. Crude oil produced by Grozneftegaz, Krasnodarneftegaz and Stavropolneftegaz is shipped by rail directly from their fields to the Getmonovskaya railway junction, from where it is shipped to the CPC junction near the town of Kropotkin for onward shipment via the CPC pipeline.

The CPC operates a "quality bank" system, under which exporters who supply high-quality hydrocarbons receive a price premium, and those who supply lower-quality hydrocarbons receive a price discount, to the average blend transported through the CPC pipeline. The blend of oil transported through the CPC pipeline is referred to as "CPC blend," the price for which is quoted separately with a premium over Urals blend. The operating data on the CPC pipeline set forth above are converted from tonnes to barrels using the standard ratio of 7.315 barrels per tonne used in this Prospectus. The actual CPC blend conversion ratio is 7.8 barrels per tonne.

Marine Export Terminals

Rosneft owns and operates marine export terminals at Arkhangelsk in Northern Russia, at Nakhodka and De-Kastri in the Russian Far East and at Tuapse in Southern Russia. Rosneft uses these terminals to store and reload crude oil and petroleum products for export. Rosneft currently transports crude oil and petroleum products to these terminals both by pipeline and rail. The upgrade and expansion of existing terminals to meet further production growth and the increase in refining throughput is a priority for Rosneft. For example, Rosneft is upgrading its transshipment terminal at Tuapse to increase loading capacity.

In 2004, Rosneft constructed the floating Belokamenka facility, located in the ice-free Kola Bay near Murmansk. Crude oil is first transported from Severnaya Neft's fields in Timano-Pechora by Transneft pipeline. It is then reloaded at the Privodino rail junction, which is located approximately halfway between Severnaya Neft's fields and the western border of Russia, for shipment by rail to Arkhangelsk. Alternatively, crude oil could be transported to Arkhagelsk directly by rail cars. From there, it is shipped by shuttle tankers to Belokamenka for onward shipment to markets in northern Europe and the United States.

Belokamenka has an annual transshipment capacity of approximately 87.78 million barrels (12.0 million tonnes) of crude oil. To facilitate deliveries from Arkhangelsk to Belokamenka, Rosneft has constructed a tank farm at the marine terminal in Arkhangelsk and a crude oil loading terminal at the Privodino railway station. In addition, Rosneft is in the process of constructing three ice-breaking shuttle tankers to facilitate the shipment of crude oil from Arkhangelsk to Belokamenka.

Rail

Rosneft also transports crude oil and petroleum products by rail. Rosneft does not own any rail cars, although it rents approximately 448 rail cars from RN-Leasing LLC. Rosneft has entered into contracts with transportation companies such as RZD, OJSC Far East Transportation Group, CJSC Transoil, OJSC Novaya Perevozochnaya Kompaniya, CJSC Yukos Transservis, LLC Yurganz and CJSC Transcom for the transportation of Rosneft's crude oil and petroleum products by rail cars owned or leased by such companies.

Although railways are generally more expensive than pipelines, they offer benefits such as:

- *Overcoming capacity constraints in the Transneft system.* For example, export of crude oil by rail to Belarus and Arkhangelsk marine export terminal allows Severnaya Neft to overcome capacity constraints in the Transneft pipeline system.
- *Entering new markets.* Rosneft has crude oil delivery obligations to China until 2010. Since there is currently no direct Transneft export pipeline to China, the use of railways in addition to Transneft pipelines enables Rosneft to transport its crude oil to this market.
- *Safeguarding quality and maximizing profitability.* Rosneft uses railways to transport gas condensate from Purneftegaz to the CPC pipeline to avoid the blending that would result from the use of pipelines. Because the CPC operates a "quality bank," Rosneft receives a premium for delivering unblended crude oil to the CPC pipeline.
- *Transporting crude oil and petroleum products where no pipelines are in place.*
  - ➢ Stavropolneftegaz transports its crude oil from its fields directly by rail to a nearby Transneft transshipment point for onward delivery into the CPC system. Similarly, Grozneftegaz, Dagneft and Dagneftegaz transport part of their crude oil by rail for this reason.
  - ➢ Rosneft transports most of its petroleum products by rail from Tuapsinskiy and Komsomolskiy Refineries, as well as from the Yukos-controlled refineries in Samara and at Angarsk and Achinsk.

In addition, Rosneft uses barges to transport petroleum products from Yukos-controlled refineries in Samara Oblast to export and domestic markets.

Transportation of Gas

With the exception of sales by Sakhalinmorneftegaz, Rosneft sells its gas either directly to Gazprom, to independent regional gas traders or to independent industrial consumers through the UGSS or other Gazprom-controlled pipelines. The natural gas is delivered via the Gazprom-controlled UGSS trunk pipeline system. In Siberia associated gas is transported to Sibur gas processing facilities via a Rosneft-controlled network of field pipelines. Sibur is a petrochemicals company and a subsidiary of Gazprom. Sakhalinmorneftegaz the Company's only subsidiary that sells 100% of its gas to customers through pipelines not controlled by Gazprom, in particular, the Daltransgaz pipeline system, in which the Company holds a minority interest.

Sales of Hydrocarbons

Sales of Crude Oil

Crude oil produced by Rosneft's production subsidiaries may be sold in the export market or in the CIS, used internally as feedstock for Rosneft's refineries, processed by third party refineries under tolling arrangements or sold in Russia.

Rosneft uses a proprietary system, known as a "spider," that monitors volumes of crude oil and petroleum products delivered and that calculates netbacks for each possible routing of such deliveries. This system allows Rosneft to maximize its netbacks and allocate capital between its upstream and downstream segments accordingly. The spider identifies netback-maximizing volumes and optimal routes based on criteria such as:

- Sales prices;
- Transportation and refining costs;
- Transportation capacity constraints;
- Anticipated production and throughput volumes; and
- Taxes, including export duty, excise tax and VAT.

In 2005, the ranking of sales routes by netback value was as follows:

Sales Route	Netback (USD/bbl) of crude oil
Sales of petroleum products produced by Rosneft refineries	29.8
Export of crude oil outside the CIS via Transneft	26.7
Sales of crude oil in the CIS via Transneft	25.7
Sales of petroleum products produced by third party refineries	25.3
Export of crude oil outside the CIS other than via Transneft	25.2
Sales of crude oil in the CIS other than via Transneft	23.9
Sales of crude oil in Russia	19.9

The following table sets forth a breakdown of Rosneft's crude oil deliveries and sales for the years ended 31 December 2003, 2004 and 2005 and for the three months ended 31 March 2005 and 2006. The table reflects data for Rosneft's fully consolidated subsidiaries only:

	For the year ended 31 December						For the three months ended 31 March			
	2003		2004		2005		2005		2006	
(million barrels)	No.	%	No.	%	No.	%	No.	%	No.	%
Crude oil produced	137.60	99.4%	148.26	99.8%	535.16	99.3%	127.79	100.0%	136.11	95.3%
Crude oil purchased										
Sakhalin-1 crude oil	0.00	0.0%	0.00	0.0%	2.60	0.5%	0.00	0.0%	3.60	2.5%
Purchases from third parties	0.81	0.6%	0.30	0.2%	1.11	0.2%	0.01	0.0%	3.10	2.2%
Total crude oil for distribution	138.41	100.0%	148.56	100.0%	538.86	100.0%	127.80	100.0%	142.81	100.0%
Sales of crude oil										
Export of crude oil outside the CIS	57.95	41.9%	65.99	44.4%	283.23	52.6%	57.93	45.3%	83.47	58.5%
Sales of crude oil in the CIS	12.41	9.0%	17.76	11.9%	48.33	9.0%	12.58	9.9%	11.52	8.1%
Crude oil delivered to Rosneft refineries	50.95	36.8%	49.41	33.3%	76.55	14.2%	18.84	14.7%	19.25	13.5%
Crude oil delivered to third party refineries for processing	3.76	2.7%	3.32	2.2%	85.02	15.8%	18.08	14.1%	23.58	16.5%
Crude oil delivered to mini-refinery	0.82	0.6%	0.85	0.6%	0.91	0.2%	0.24	0.2%	0.23	0.2%
Other sales of crude oil (including sales of crude oil in Russia)	8.23	5.9%	5.25	3.5%	28.72	5.3%	15.68	12.3%	2.24	1.6%
Miscellaneous, including losses, internal use, pipeline priming, change in inventories	4.29	3.1%	5.98	4.0%	16.09	3.0%	4.45	3.5%	2.52	1.8%

Exports of Crude Oil outside the CIS

The following table sets forth certain data concerning Rosneft's export of crude oil outside the CIS:

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(million barrels, except %)				
Exports of crude oil outside the CIS	**57.95**	**65.99**	**283.23**	**57.93**	**83.47**
% of sales of crude oil	41.9%	44.4%	52.6%	45.3%	58.4%
Transneft pipeline	1.00	0.00	46.99	12.97	10.81
Transneft ports	41.18	44.07	124.36	27.19	34.38
Rosneft ports	9.79	10.97	31.90	4.82	7.78
Rail and other ports	5.98	10.95	79.97	12.94	30.50
Transneft Druzba pipeline					
Germany	0.00	0.00	11.70	5.85	0.00
Poland	1.00	0.00	25.89	6.14	7.24
Czech Republic and Slovakia	0.00	0.00	5.74	0.15	1.46
Mazeykiu Refinery	0.00	0.00	3.66	0.84	2.10
Transneft export terminals					
Novorossiysk	38.77	31.75	59.86	12.86	13.94
Primorsk	2.42	12.32	64.50	14.33	20.45
Rosneft export terminals					
Belokamenka	0.00	0.00	20.59	3.01	3.89
De-Kastri	9.79	10.97	11.31	1.81	3.89
Rail and other export terminals					
Arkhangelsk	0.34	2.77	2.87	0.80	0.00
Vetlosyan (Komi Republic)	0.07	0.00	0.00	0.00	0.00
Butinge	5.57	6.58	17.46	2.19	4.39
CPC	0.00	0.80	20.69	5.31	12.48
Pivdeny, Odessa, Feodosiya	0.00	0.80	6.65	1.53	1.30
China	0.00	0.00	32.30	3.10	12.33

Rosneft sells most of the crude oil that it exports to third party international oil traders. As of 31 December 2003, 2004 and 2005, 76.1%, 18.7% and 85.5%, respectively, of Rosneft's borrowings were secured by crude oil export contracts. Rosneft denominates its export sales outside the CIS in U.S. dollars.

Rosneft generally contracts to supply crude oil for delivery to a specific port, in the case of shipment by tanker, or for delivery to the Russian border, in the case of delivery by pipeline, and usually receives payment for exports to non-CIS countries within one month of delivery. See "—Transportation and Logistics—Transportation of Crude Oil and Petroleum Products—Transneft and Transnefteprodukt."

Sales of Crude Oil in the CIS (other than Russia)

In 2005, Rosneft sold approximately 48.33 million barrels (6.61 million tonnes) of crude oil in the CIS (other than Russia), of which 18.2% were sold in Ukraine. Sales of crude oil to countries in the Customs Union, all of which are also members of the CIS, are not subject to export tax. However, export sales to Ukraine, which is a member of the CIS but not of the Customs Union, are subject to export duty. See "Regulation of the Russian Oil and Gas Industry—Current System of Oil and Gas Related Taxes and Payments—Oil-Related Export Duties." In 2005, sales to Ukraine represented 18.2% of total sales to CIS countries.

The following table sets forth certain data concerning Rosneft's sales of crude oil in the CIS (other than Russia):

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(million barrels, except %)				
Sales of crude oil in the CIS (other than Russia)	**12.41**	**17.76**	**48.33**	**12.58**	**11.52**
% of sales of crude oil	9.0%	12.0%	9.0%	9.8%	8.1%
Transneft pipeline	12.41	14.53	41.40	12.39	9.30
Transneft ports	0.00	0.00	0.00	0.00	0.00
Rosneft ports	0.00	0.00	0.00	0.00	0.00
Rail and other ports	0.00	3.23	6.93	0.19	2.22

Sales of Crude Oil in Russia

Rosneft aims to minimize domestic sales of crude oil because domestic crude oil netbacks are lower than those on exports. In 2005, Rosneft sold 28.72 million barrels (3.93 million tonnes) of crude oil, or 5.3% of crude oil for distribution, to domestic customers.

Sales of Gas

The following table breaks down Rosneft's sales of gas for the years ended 31 December 2003, 2004 and 2005 and for the three months ended 31 March 2005 and 2006. The table reflects data from the Company's fully consolidated subsidiaries only:

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
			(bcm)		
Associated and non-associated gas produced	7.00	9.35	13.01	3.06	3.52
Rosneft internal consumption	(0.73)	(0.74)	(0.99)	(0.27)	(0.26)
Technological losses	(0.26)	(1.31)	(2.72)	(0.49)	(0.87)
Associated and non-associated gas for sale	6.01	7.30	9.30	2.30	2.39
Gas sold via the UGSS	3.43	5.04	7.22	1.59	1.83
of which gas sold to Sibur	2.24	2.49	3.13	0.84	0.75
Gas sold via other channels	2.58	2.26	2.08	0.71	0.56

Because Gazprom has a monopoly on gas exports, Rosneft does not export gas.

With the exception of sales by Sakhalinmorneftegaz, Rosneft sells its gas either directly to Gazprom, to independent regional gas traders or to independent industrial consumers, in each case through the Gazprom-controlled UGSS pipeline system. In each such case, the gas is delivered via the Gazprom-controlled UGSS trunk pipeline system. The deliveries of associated gas to Sibur gas processing facilities are done via Rosneft's field flow lines. Sibur is a petrochemicals company and a subsidiary of Gazprom. Sakhalinmorneftegaz is the Company's only subsidiary that sells 100% of its gas to customers through pipelines not controlled by Gazprom, in particular, the Daltransgaz pipeline system, in which the Company holds a minority interest.

In 2005, Rosneft sold approximately 50% of its gas directly to Gazprom, excluding volumes sold by Sakhalinmorneftegaz. This gas was primarily produced at the Company's Western Siberian subsidiaries, at the nearest UGSS junction point. Of the remaining 50%, Rosneft sold approximately equal amounts to independent gas traders and independent industrial consumers, in both cases through the UGSS. Approximately half of the gas that Rosneft produces in Southern Russia is sold to independent industrial consumers. In terms of gas produced in 2005, Krasnodarneftegaz, located in Southern Russia, was Rosneft's third largest gas producing subsidiary, accounting for 17.1% of Rosneft's gas production in that year.

Rosneft sells its natural gas to Gazprom and its associated gas to Sibur at predetermined prices set by the FTS, which are substantially lower than prices paid by independent industrial consumers. In 2005, the average price for gas sold by Rosneft in Western Siberia was RUB 290 per thousand cubic meters. In regions where Rosneft can sell gas directly to end users, it can sell the gas at significantly higher prices. For example, in 2005, the average price for gas sold by Rosneft to end users in Southern Russia was RUB 825 per thousand cubic meters, and the average price for gas sold by Rosneft to end users in the Russian Far East was RUB 680 per thousand cubic meters.

Refining Facilities

Rosneft operates two principal crude oil refineries — Tuapsinskiy in Southern Russia and Komsomolskiy in the Russian Far East — as well as a mini-refinery at Purneftegaz and a specialized lubricant plant, MZ-Nefteprodukt, in Moscow.

In 2005, Rosneft delivered 77.46 million barrels (10.59 million tonnes) of crude oil, or 14.4% of crude oil for distribution, to its owned-and-operated refineries, which includes amounts delivered to the mini-refinery at Purneftegaz. Rosneft also delivered 85.02 million barrels (11.62 million tonnes) of crude oil, or approximately 15.8% of such crude oil sales, to third party domestic refineries for refining under tolling arrangements.

The following table presents certain data concerning Rosneft's refining throughput at Rosneft's refineries and at third party refineries that process Rosneft's crude oil:

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(million tonnes)				
Throughput by Rosneft refineries					
Tuapsinskiy Refinery	1.57	1.64	4.05	0.99	1.00
Komsomolskiy Refinery	5.38	5.13	6.31	1.51	1.71
Total	6.96	6.77	10.36	2.50	2.70
Throughput by mini-refinery	0.14	0.12	0.13	0.03	0.03
Throughput by third party refineries					
KrasnodarEcoNeft	0.47	0.47	0.82	0.18	0.01
Kuybishev Refinery	0.00	0.00	4.09	0.87	1.09
Novokuybishev Refinery	0.00	0.00	3.81	0.91	0.72
Syzran Refinery	0.00	0.00	0.00	0.00	0.24
Achinsk Refinery	0.00	0.00	1.72	0.50	0.45
Angarsk Refinery	0.00	0.00	1.19	0.00	0.74
Total	0.47	0.47	11.63	2.46	3.25
Total Rosneft throughput	**7.56**	**7.36**	**22.13**	**4.99**	**5.98**

Rosneft plans to upgrade its existing refineries to increase capacity and the depth of refining (*i.e.*, to produce a greater proportion of lighter and higher-value products). Rosneft believes that this strategy will enable it to capture higher margins on sales of petroleum products and to sustain its position in international markets by complying with the more stringent quality standards applicable in foreign jurisdictions.

In an effort to reduce pollution caused by automobiles, Russian governmental agencies have issued regulations governing the chemical content of gasoline to promote the use of cleaner-burning fuels. Rosneft has begun to upgrade its facilities to produce cleaner burning fuels that comply with the new regulations.

Rosneft is also considering the possibility of constructing a new refinery in the Russian Far East to take advantage of the pipeline that Transneft plans to construct from Eastern Siberia to the Pacific Coast, which will facilitate deliveries of crude oil to fast-growing Asian markets such as China, Japan and Korea.

The following table presents certain data concerning the capacities of certain refining units at Rosneft's refineries in 2005:

	Tuapsinskiy Refinery	Komsomolskiy Refinery
(million tonnes)	2005	2005
Distillation capacity	4.08	6.44
Isomerization	—	0.10
Catalytic reforming	0.32	0.50

The following table presents Rosneft's petroleum product output by type of product for the years ended 31 December 2003, 2004 and 2005 and the three months ended 31 March 2005 and 2006:

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(million tonnes)				
Tuapsinskiy Refinery					
Gasoline (incl. naphtha)	0.29	0.31	0.82	0.20	0.20
Diesel fuel (gas oil)	0.52	0.54	1.35	0.32	0.34
Jet fuel (kerosene)	0.00	0.00	0.00	0.00	0.00
Fuel oil (mazut)	0.70	0.72	1.77	0.43	0.43
Other products	0.00	0.01	0.02	0.01	0.01
Total petroleum products produced	**1.52**	**1.58**	**3.96**	**0.96**	**0.97**
Komsomolskiy Refinery					
Gasoline (incl. naphtha)	1.04	0.95	1.20	0.27	0.31
Diesel fuel (gas oil)	1.30	1.29	1.55	0.41	0.49
Jet fuel (kerosene)	0.23	0.23	0.26	0.05	0.06
Fuel oil (mazut)	2.06	2.00	2.45	0.59	0.62
Other petroleum products	0.50	0.42	0.61	0.13	0.15
Total petroleum products produced	**5.13**	**4.89**	**6.07**	**1.46**	**1.63**
Total (including third party processing)					
Gasoline (incl. naphtha)	1.43	1.37	4.22	0.93	1.13
Diesel fuel (gas oil)	2.03	2.06	6.84	1.60	2.01
Jet fuel (kerosene)	0.23	0.23	0.26	0.05	0.06
Fuel oil (mazut)	2.97	2.92	8.42	1.91	2.10
Other petroleum products	0.59	0.50	1.52	0.25	0.43
Total petroleum products produced	**7.26**	**7.08**	**21.26**	**4.74**	**5.74**

Komsomolskiy Refinery

As of 31 December 2005, Komsomolskiy Refinery had a primary distillation capacity of 128.98 thousand barrels of crude oil per day (6.44 million tonnes per year). Located in Komsomolsk-on-Amur in Khabarovskiy Kray in the Russian Far East, Komsomolskiy Refinery has access to crude oil sources from Western Siberia and Sakhalin Island. The Sakhalinmorneftegaz pipeline connects Komsomolskiy Refinery to the Sakhalin fields. The Western Siberian oil produced by Yuganskneftegaz and Purneftegaz is supplied to the refinery by Transneft pipeline and then by rail after reloading at the Zuy rail junction near Angarsk and, since March 2006, at the Uyar rail junction near Krasnoyarsk. The petroleum products produced by the refinery are distributed in the Russian Far East region by rail and tank cars; petroleum products are also transported by rail to marine terminals, including Rosneft's Nakhodka marine export terminal, for export. Komsomolskiy is a key refinery for Rosneft's supply of petroleum products to wholesalers in the Russian Far East, as well as to the regional network of proprietary filling stations, primarily via Vostoknefteprodukt, and to export markets via the proprietary Nakhodka marine export terminal and the third-party Vanino marine export terminal.

The following table presents key information regarding Komsomolskiy Refinery for the years ended 31 December 2003, 2004 and 2005 and the three months ended 31 March 2005 and 2006:

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(million tonnes, except %)				
Effective capacity	5.81	5.81	6.44	1.56	1.71
Crude oil input	5.52	5.26	6.47	1.56	1.68
of that Rosneft	96.7%	97.5%	98.1%	97.1%	99.7%
Total refinery throughput	5.50	5.24	6.44	1.56	1.71
Conversion ratio	59.5%	59.6%	60.1%	60.1%	62.2%
Light product output	55.8%	55.6%	56.7%	57.4%	58.2%
Utilization	94.7%	90.2%	100.0%	100.0%	100.0%

Since 1999, Komsomolskiy Refinery has been undergoing an upgrade, as a result of which the following facilities are now available:

- Two crude oil distillation units with a total capacity of 6.4 million tonnes per year;
- An isomerization unit with a total capacity of 100 thousand tonnes per year;
- A catalytic reforming unit with a total capacity of 560 thousand tonnes per year; and
- A hydrotreating unit with a total capacity of 800 thousand tonnes of diesel fuel per year, which was put onstream at the end of the first quarter of 2006.

Further modernization of the refinery is planned for 2006-10. Rosneft believes that this modernization will increase refining depth to over 90% and maximize the production of middle distillates, mainly diesel and jet fuel, which ultimately are expected to account for approximately two-thirds of the refinery's total production of petroleum products. This further modernization program is targeting:

- Increased capacity of crude oil distillation units, to 7 million tonnes per year;
- Increased capacity of the existing hydrotreating unit, to 850 thousand tonnes per year;
- A delayed coking unit, with a total capacity of 1 million tonnes per year; and
- A hydrocracking unit, with a total capacity of 1.7 million tonnes per year.

Tuapsinskiy Refinery

As of 31 December 2005, the crude oil distillation capacity of Tuapsinskiy Refinery was 4.08 million tonnes per year. Tuapsinskiy Refinery is the only Russian refinery on the Black Sea coast and is located in Tuapse, Krasnodarskiy Kray. The refinery has access to crude oil produced by Rosneft's subsidiaries in Western Siberia, which is delivered via the Transneft pipeline system, and to crude oil produced by Rosneft's subsidiaries in Southern Russia, such as Krasnodarneftegaz, Stavropolneftegaz and Grozneftegaz, which is delivered via the Transneft pipeline system and by rail. It is one of the most important oil processing centers in Southern Russia. Rosneft's local marketing subsidiaries, primarily Kubannefteprodukt, distribute petroleum products from the refinery on the domestic market. The refinery's position adjacent to Rosneft's marine export terminal, also in Tuapse, helps reduce costs, as does the use of pipelines to supply crude oil. Rosneft exports approximately 89% of the products produced at Tuapsinskiy Refinery.

The following table presents key information regarding Tuapsinskiy Refinery for the years ended 31 December 2003, 2004 and 2005 and the three months ended 31 March 2005 and 2006.

	For the year ended 31 December			For the three months ended 31 March	
	2003	**2004**	**2005**	**2005**	**2006**
	(million tonnes, except %)				
Effective capacity	4.08	4.08	4.08	1.02	1.02
Crude oil input	4.04	4.08	4.05	0.99	1.00
of that Rosneft	39.0%	40.4%	100.0%	100.0%	100.0%
Total refinery throughput	4.04	4.08	4.06	0.99	1.00
Conversion ratio	54.9%	55.4%	55.8%	55.9%	56.5%
Light product output	52.0%	52.4%	52.9%	53.5%	53.8%
Utilization	98.9%	100.0%	99.4%	96.7%	97.6%

Tuapsinskiy Refinery currently has the following processing facilities:

- Three crude oil distillation units with a total capacity of 4.08 million tonnes per year;
- A catalytic reforming unit and a hydrotreating unit for naphta with a combined capacity of 320 thousand tonnes per year. The hydrotreating unit forms an integrated chain with the catalytic reforming unit for the hydrotreatment of naphta and the production of high-quality gasoline.

Rosneft has recently decided to begin a major upgrade of Tuapsinskiy Refinery based on netback analyses generated by Rosneft's "spider" application. The upgrade will enable Rosneft to increase significantly its capacity to produce higher-value petroleum products. For example, the process design is being developed in order to optimize production of diesel and gasoline, which Rosneft expects will meet Euro-4 and Euro-5 standards. The process design phase of upgrades to Tuapsinskiy Refinery is currently ongoing. Rosneft believes that in 2010, the capacity of Tuapsinskiy Refinery will be approximately 12 million tonnes per year and that refining depths will exceed 90%. The upgrade is expected to continue through 2012, by which time the refinery is expected to begin producing low-sulfur diesel fuel (less than 0.001% sulfur).

Since 2005, Rosneft has been upgrading its adjacent marine export terminal, railway reloading facility and storage facilities at Tuapsenefteprodukt. In 2005, the adjacent Tuapsenefteprodukt marine export terminal exported approximately 9.9 million tonnes of petroleum products, of which 5.2 million tonnes were Rosneft's petroleum products. Rosneft's petroleum products came primarily from Tuapsinskiy Refinery (3.5 million tonnes), which is linked with Tuapsenefteprodukt's marine export terminal by a petroleum product pipeline. The remainder came from third party refineries at Samara, Achinsk and KrasnodarEcoNeft, which refine Rosneft's crude oil under tolling arrangements. Petroleum products produced by third party refineries are primarily shipped to Tuapse by rail, although diesel fuel from the Yukos-controlled refineries in Samara Oblast is shipped first by Transnefteprodukt pipeline and subsequently reloaded into rail cars for onward shipment to Tuapse. Rosneft expects that the upgrade will increase the terminal's capacity to 17 million tonnes of petroleum products per year by 2010.

The Tuapsenefteprodukt modernization program also calls for increasing berthing capacity to export larger volumes of petroleum products produced by Tuapsinskiy Refinery after completion of the latter's upgrade program. Tuapsenefteprodukt's modernization process has already commenced. After the railway loading facilities are upgraded, Rosneft expects to export fuel oil produced at the Samara refineries via the Tuapsenefteprodukt facilities, which it believes will significantly boost netbacks due to higher fuel export prices and lower transportation costs.

Use of Third Party Refineries

In 2005, after its acquisition of Yuganskneftegaz, Rosneft began to process a portion of its crude oil at Yukos-controlled refineries—the Achinskiy and Angarskiy refineries and the Kuybishevskiy, Novokuybishevskiy and Syzranskiy refineries in Samara Oblast—with which Rosneft has entered into long-term tolling agreements. Rosneft started to use the Syzranskiy refinery only in 2006. Such tolling arrangements set forth the priority in which Rosneft's crude oil will be refined at the refineries' facilities. Under these tolling agreements, Rosneft retains ownership of the crude oil delivered to the refinery and the petroleum products subsequently produced, paying a processing fee that also includes an amount designated for use on potential upgrades of the refineries.

In addition to these Yukos-controlled refineries, Rosneft has historically refined its oil at KrasnodarEcoNeft, an independent refinery in Krasnodarskiy Kray.

The following table sets forth certain data concerning Rosneft's principal tolling arrangements with Yukos-controlled third party refineries:

	Achinskiy Refinery	Angarskiy Refinery	Kuybishevskiy Refinery	Novokuybishevskiy Refinery	Syzranskiy Refinery
			(million tonnes, except %)		
Capacity	6.50	16.40	7.00	9.56	10.67
Total throughput	5.15	8.27	5.83	7.37	5.59
of that Rosneft	1.72	1.19	4.09	3.81	0.00
% of Rosneft	33.3%	14.4%	70.2%	51.6%	0.0%

These refineries form an integral part of Rosneft's value chains. The refineries in Samara Oblast (Kuybishevskiy Refinery, Novokuybishevskiy Refinery and the Syzranskiy Refinery) strengthen the "southbound" value chain and the Achinskskiy and Angarskskiy refineries strengthen the "eastbound" value chain. See "—Competitive Strengths and Strategies—Tailoring Rosneft's value chains to maximize netbacks."

Sales of Petroleum Products

Rosneft operates an extensive sales, distribution and export infrastructure for petroleum products. Rosneft's distribution network is principally located in Siberia, the Urals, the Far East, Southern Russia and the north of European Russia.

In 2005, Rosneft sold 8.04 million tonnes of petroleum products in Russia, 13.01 million tonnes outside the CIS and 0.30 million tonnes in the CIS. These products include:

- Products produced at Rosneft's refineries;

- Products produced by unaffiliated refineries to whom Rosneft pays processing fees for processing its crude oil; and
- Petroleum products purchased by Rosneft marketing subsidiaries from unaffiliated companies, which Rosneft resells domestically.

The following table sets forth certain data concerning Rosneft's reloading and marketing subsidiaries, including data concerning Rosneft's ownership of such subsidiaries as of 31 March 2006 and concerning quantities of petroleum products sold via their proprietary and rented filling stations in 2005 and the number of such filling stations as of 31 December 2005.

		Rosneft share of preferred and common shares	Rosneft share of common shares	Geographic location	Total wholesale and retail sales (mtpa)	No. of filling stations
Reloading subsidiaries						
1	Arkhangelsknefteprodukt	75.42%	84.65%	Timano-Pechora	0.362	50
2	Nakhodkanefteprodukt	40.62%	51.53%	Far East	0.368	0
3	Tuapsenefteprodukt	68.24%	89.93%	Southern Russia	0.146	11
Marketing subsidiaries(1)						
4	Rosneft-ARTAG	38.00%	50.67%	Southern Russia	0.072	13
5	Altaynefteprodukt	64.18%	78.59%	Southern Russia	0.297	89
6	KabBalk Toplivnaya Company	88.66%	92.91%	Southern Russia	0.062	66
7	Kubannefteprodukt	89.50%	96.61%	Southern Russia	1.058	160
8	Karachaevo-Cherkessk Nefteprodukt	85.99%	87.46%	Southern Russia	0.133	31
9	Kurgannefteprodukt	83.32%	90.33%	Central Russia	0.108	47
10	Murmansknefteprodukt	45.38%	60.51%	Northern Russia	0.211	33
11	Smolensknefteprodukt	66.67%	86.97%	Central Russia	0.358	90
12	Yamalnefteprodukt	49.52%	66.03%	Western Siberia	0.038	6
13	Rosneft-Stavropolye	99.08%	99.08%	Southern Russia	0.394	16
14	RN Vostoknefteprodukt	100.00%	100.00%	Far East	1.589	55

(1) In addition, Yuganskneftegaz, Purneftegaz, Sakhalimorneftegaz and Grozneftegaz had 17 proprietary filling stations.

Sales of Petroleum Products in Russia

Rosneft's marketing subsidiaries sell its petroleum products in Russia to both wholesale and retail customers. For retail sales Rosneft uses a network of proprietary, rented and franchised filling stations.

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(million tonnes)				
Own products for sale on the domestic market	2.64	2.39	7.61	1.79	2.25
Products purchased from the third parties to be sold via Rosneft network	1.72	1.86	0.80	0.18	0.26
Less inter-company turnover	0.26	0.24	0.37	0.08	0.09
Total petroleum products sold on the domestic market	4.10	4.01	8.04	1.89	2.43
including:					
Sold through marketing subsidiaries	2.76	3.68	5.20	1.21	1.52
of that:					
Sold through proprietary and rented filling stations	0.71	0.83	0.97	0.21	0.25
of that sold via filling stations:					
Gasoline	0.42	0.49	0.60	0.14	0.16
Diesel	0.15	0.18	0.25	0.07	0.08

Wholesale Distribution

Rosneft's wholesale customers include large end users and independent distributors, as well as certain customers financed by local or federal government budgets, such as the Ministry of Defense, local utilities and agricultural enterprises. Fuel oil, diesel fuel and jet fuel are the principal products sold to wholesale customers.

All petroleum products sold by Rosneft are produced in Russia. As of 31 December 2005, Rosneft had 111 petroleum products storage depots with a total capacity of 2.0 mcm, of which 1.6 mcm is for light petroleum products, including gasoline and diesel fuel, and the balance is for fuel oil, lubricants and other petroleum products. Petroleum products are delivered to the petroleum storage depots mainly by rail or by tank cars.

Retail Distribution

As of 31 March 2006, Rosneft's retail distribution network consisted of 683 proprietary and rented filling stations and 100 franchised filling stations operated under the Rosneft brand. Petroleum products are transported by rail, through Transnefteprodukt pipeline or by tank cars from refineries to petroleum storage depots at Rosneft's marketing subsidiaries, from where they are transported by tank cars to the filling stations. The filling stations are generally located in the same region as the petroleum storage depots.

Rosneft intends to offer value-added services at its new and existing service stations, such as fast food outlets, convenience stores, kiosks and car washes. As of 31 December 2005, the proprietary and rented filling stations had 48 car washes, 71 shops (including those selling packaged lubricants) and 48 cafés. Of the proprietary and rented filling stations, 61 had car repair and maintenance facilities.

Rosneft is planning to continue to develop its service station network in the regions surrounding its refineries and petroleum storage depots. These include the Russian Far East, including Khabarovskiy Kray, Primorskiy Kray and Sakhalin Island, and the South, including Krasnodarskiy Kray and Stavropolskiy Kray. Rosneft also plans to enter fast-growing domestic markets such as Moscow and Saint Petersburg. Rosneft intends to increase the number of proprietary and rented filling stations to approximately 1,000 by 2010.

The following table sets out information concerning the number of Rosneft filling stations in 2003, 2004, 2005 and the first quarter of 2006:

	As of 31 December			As of 31 March
	2003	**2004**	**2005**	**2006**
Proprietary and rented	679	670	684	683
Franchised	28	48	71	100
Total filling stations	**707**	**718**	**755**	**783**

Export of Petroleum Products outside the CIS

Rosneft exports a wide range of petroleum products. These products primarily include diesel, gasoline and fuel oil. In 2005, Rosneft exported approximately 13.01 million tonnes of petroleum products, which represented 61.2% of its total petroleum products produced. Rosneft sells to various non-Russian offtakers, including Merrington Trading Ltd., Rinex Energy S.A. and Daxin Petroleum PTE Ltd. The use of Tuapsenefteprodukt's and Nakhodkanefteprodukt's proprietary marine export terminals facilitates the export of petroleum products outside the CIS.

The following tables set forth certain data concerning Rosneft's export of petroleum products:

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(million tonnes, except %)				
Petroleum products exported outside the CIS	**4.73**	**4.59**	**13.01**	**2.59**	**3.26**
% of total products produced	65.2%	64.8%	61.2%	54.9%	56.9%
Gasoline (including naphtha and auto)	0.87	0.78	1.74	0.39	0.44
Diesel fuel (gas oil)	1.38	1.21	4.45	1.03	1.25
Jet fuel (kerosene)	0.00	0.00	0.01	0.00	0.01
Fuel oil (mazut)	2.48	2.60	6.81	1.17	1.55
Other products	0.00	0.00	0.01	0.00	0.01
Transnefteprodukt	0.00	0.00	1.54	0.35	0.35
Rosneft marine export terminals	4.73	4.59	8.28	1.99	2.10
Rail and other ports	0.00	0.00	3.20	0.26	0.82

Sales of Petroleum Products in the CIS (other than Russia)

Rosneft started selling petroleum products in the CIS (other than Russia) in 2005. These petroleum products consisted of diesel fuel, which is transported via Transnefteprodukt pipeline, and fuel oil, which is transported by rail.

The following table sets forth certain data concerning petroleum product sales within the CIS (other than Russia):

	For the year ended 31 December			For the three months ended 31 March	
	2003	2004	2005	2005	2006
	(million tonnes, except %)				
Petroleum product sales within the CIS (other than Russia)	**0.00**	**0.00**	**0.30**	**0.08**	**0.13**
% of total products produced	0.0%	0.0%	1.4%	1.7%	2.2%
Rail and other ports	0.00	0.00	0.19	0.08	0.08
Transnefteprodukt pipeline	0.00	0.00	0.11	0.00	0.05

Competition

The oil and gas industry is intensely competitive. Rosneft competes principally with other leading Russian oil and gas companies, such as LUKOIL, Surgutneftegaz, TNK-BP and Gazprom.

The key activities in which Rosneft faces competition are:

- Acquisition of exploration and production licenses at auctions or sales run by Russian governmental authorities;
- Acquisition of other Russian companies that may already own licenses or existing hydrocarbon producing assets;
- Engagement of leading third party service providers whose capacity to provide key services may be limited;
- Purchase of capital equipment that may be scarce;
- Employment of the best qualified and experienced staff;
- Acquisition of existing retail outlets or of sites for new retail outlets; and
- Acquisition of or access to refining capacity.

Rosneft believes it is well positioned to compete with Russian oil and gas companies in all such activities. See "—Competitive Strengths and Strategy."

Rosneft does not compete directly with international oil and gas majors because such companies generally do not compete for licenses within Russia. However, to the extent that international oil and gas majors support the activities of Rosneft's Russian competitors, they may indirectly compete with Rosneft. In addition, international oil and gas majors may directly compete with Rosneft for licenses in countries other than Russia in which Rosneft may be interested.

Technology, Research and Development

Rosneft's employs the most appropriate technology to implement its exploration and production strategy. Depending on geological conditions and Rosneft's production strategy at given fields, these technologies may include horizontal drilling, waterflooding, hydrofracturing, logging, and geological modeling and interpretation.

Where appropriate, Rosneft leverages the technological expertise of leading international service providers. For example, Schlumberger, Halliburton, Baker Hughes, BJ Services Company and similar companies perform hydrofracturing operations at Rosneft's key producing subsidiaries, such as Yuganskneftegaz, Purneftegaz, Stavropolneftegaz and Krasnodarneftegaz, pursuant to contracts awarded by competitive tender. Schlumberger and Halliburton also provide drilling services, including horizontal drilling, on Rosneft fields, as well as data logging and well testing. In field development planning at Vankorskoye field, the wells completion was designed jointly between Rosneft and Schlumberger, whereas the surface facilities were designed in conjunction with SNC Lavalin.

Rosneft has standardized the software architecture for its field development planning and control, which includes the following licensed applications:

- *Geological simulations*. Petrel and Gocad;
- *Seismic data interpretation*. Kingdom Seismic;
- *Hydrodynamic modeling*. Eclipse and More Tempest;
- *Viscous oils production and gaslift technology*. Star+ (by Computer Modeling Group, Canada);
- *Optimization of well operation mode*. SubPump, Perform and FracCade;
- *Well tests*. Saphir;
- *Surface facilities design*. Pipesim; and
- *Project economics*. Merak Peep.

In 2005, Rosneft developed its "Total Production Management System," which consists of an interactive web-based database, as well as a suite of software developed by the Company and designed to improve the efficiency of upstream operations. Rosneft believes that the introduction of the Total Production Management System resulted in considerable growth of crude oil production in the second half of 2005.

Rosneft has consolidated its research and development work into a Corporate Research and Technology Center, which coordinates the activities of three main research institutes: Rosneft-NTC (Krasnodar), SakhalinmorNIPImorneft (Yuzhno-Sakhalinsk) and Yung-NTC Ufa (Ufa). These institutes conduct applied research on questions such as project development, field development, the application of new technologies.

Rosneft spent approximately RUB 384 million (USD 12.5 million) on research and development in 2003, approximately RUB 403 million (USD 14.0 million) in 2004 and approximately RUB 966 million (USD 35.9 million) in 2005.

Patents and Trademarks

Rosneft has registered a black-and-white version of its logo as a trademark in Russia. Rosneft is currently in the process of registering the colored version of its logo, and the word ROSNEFT in both the Latin and Cyrillic alphabets, as a trademark in Russia.

Rosneft has more than 50 patents relating to geology and the development and production of crude oil. In addition, Rosneft plans to file two patent applications relating to the design of horizontal wells in its Total Production Management System.

Rosneft has 25 certificates of registration for software programs, including software relating to geology and production and hydrodynamic simulations.

Health, Safety and Environment

Rosneft's operations are subject to various environmental laws and regulations in Russia. These laws govern emissions, wastewater discharges, the reclamation of contaminated soil, the use, handling and disposal of hazardous substances and wastes, and employee health and safety. In addition, Rosneft has long-term obligations concerning the decommissioning of operational facilities and the remediation of soil or groundwater at certain of its facilities and liability for waste disposal.

Rosneft's total expenses for environmental protection were RUB 781.3 million (USD 25.5 million) in 2003, RUB 667.2 million (USD 23.2 million) in 2004 and RUB 1,386.6 million (USD 49.0 million) in 2005.

In carrying out its environmental policies, Rosneft generally seeks to adhere to international standards for environmental protection and monitors its compliance with these principles. The Company also works with its operating subsidiaries to implement government regulations and meet safety standards. In order to continuously improve Rosneft's environmental performance, Rosneft conducts systematic in-house environmental audits covering all aspects of Rosneft's environmental activities.

In 1998, Rosneft started implementing an Environmental Management System for a Vertically Integrated Company based on the ISO 14000 international standard. In 2001, Rosneft adopted a Comprehensive Environmental and Production Safety Program, including an Environmental Monitoring Plan and Environmental Management System, so as to ensure ongoing adherence to environmental standards, and to more closely control the impact of Rosneft's activities on the environment.

Every year all of Rosneft's subsidiaries also adopt Emergency Control Plans, which are approved by the Federal Service for Ecological, Technological and Atomic Supervision, the competent state agency. These plans include a set of measures aimed at preventing and controlling emergency spillages of oil and petroleum products. In addition, Rosneft's main production and development subsidiaries and its three refineries have each adopted Plans to Prevent and Control Emergency Oil Spills ("**PCEOS**"), which are also approved by relevant local authorities.

Rosneft has specific radiation safety issues at its Stavropolneftegaz subsidiary. These issues arise due to the accumulation of radioactive salts on the inner surface of production pipes. As a result, production pipes are regularly replaced with new ones. The replaced pipes are transported to, and stored in, a specially-designed warehouse until they are decontaminated in a special facility. The resulting radioactive waste is then removed for processing by two specialized Russian factories, Radon Company in the City of Rostov and Hydrometallurgical Plant in the City of Lermontovo. Thereafter, decontaminated pipes may be re-used. Stavropolneftegaz has a license permitting it to handle such radioactive substances in the transport and storage phase issued by the Federal Supervisory Agency for Nuclear and Radiation Safety. The license was renewed in 2004 and is valid until 31 December 2008. Stavropolneftegaz regularly monitors radiation and salinity levels in its vaporization areas, conducts personal isometric control of its staff, and radiation monitoring of populated areas.

In January 2006, the Ministry of Natural Resources notified Purneftegaz that its subsoil licenses for the Barsukovskoye, Gubkinskoye, Komsomolskoye, Tarasovskoye (including Yuzhno-Tarasovskoye), Zapadno-Purpeyskoye fields may be withdrawn if it fails to remedy violations of the environmental terms of such licenses within a six month period. Rosneft has presented new project documentation for these five fields, and in April 2006, the documentation for Barsukovskoye, Komsomolskoye and Tarasovskoye (including the Yuzhno-Tarasovskoye field) received approval. Rosneft expects to have the projects for the other two fields approved in due course.

In 2004-05, in order to minimize pollution of the Black Sea, Rosneft began construction of an anti-filtration curtain and reinforced the banks of the Tuapse River. During the same period, Grozneftegaz undertook certain measures to remove oil spills and to extinguish burning wells in Chechnya.

In accordance with international best practices, in 1999, Rosneft adopted a "Declaration on Policy for Health and Labor Safety, Prevention of Accidents and Environmental Protection" under which every Rosneft employee is required to observe the requirements of Russian law in relation to industrial safety. Each of Rosneft's subsidiaries carries out its operations with regard to the provisions of federal and international regulations on health protection, accident prevention and environmental protection.

Rosneft has adopted an integrated program on Environment and Industrial Safety for the period 2005–09. At the subsidiary level, each subsidiary draws up an annual plan to implement industrial labor and safety plans, and labor safety collective bargaining agreements.

Typically, labor protection and safety measures include certification of work places, training and certification of personnel, acquisition of clothes and other articles of individual and collective protection, installation and repairs of sanitary facilities, and review of labor protection internal regulations in accordance with new federal legislation.

Employees

The following table shows the approximate number of employees of Rosneft as of 31 December 2003, 2004 and 2005 and 31 March 2005 and 2006:

	As of 31 December			As of 31 March
	2003	2004	2005	2006
Oil production	38,938	42,922	39,316	39,436
Refining	2,450	2,276	2,400	2,396
Distribution and sales	9,615	9,988	10,007	10,035
Other (subsidiaries)	13,100	13,917	17,230	17,801
Head office	578	606	981	1,028
Total	**64,681**	**69,709**	**69,934**	**70,696**

The number of employees of Rosneft has not materially changed since 31 March 2006.

Rosneft offers a wide range of in-house training programs to its employees. In 2005, 17,132 Rosneft employees participated in such programs. In 2006, Rosneft plans to offer training to 19,746 employees.

No material wage arrears are currently known to exist, and Rosneft has experienced no material labor disputes or strikes at its oil production, refining or distribution subsidiaries. The Board considers employee relations to be good.

Insurance

LLC SK Neftepolis ("**Neftepolis**") provides insurance services to Rosneft. Neftepolis specializes in energy risks insurance, as well as complex insurance of oil and gas industry ventures. As of 31 March 2006, the Company held a 15% interest in Neftepolis. As of the same date, Neftepolis' total assets were approximately RUB 3,375.56 million (USD 121.6 million), reserves were approximately RUB 2,422.04 million (USD 87.2 million), and its shareholders' equity was approximately RUB 686.44 million (USD 24.7 million), in each case calculated in accordance with RAS.

Pursuant to agreements with the Company and its principal subsidiaries, Neftepolis insures Rosneft assets in an aggregate amount exceeding RUB 49,900 million (USD 1,797 million). This amount includes RUB 29,120 million (USD 1,049 million) in respect of property belonging to producing and development subsidiaries and RUB 15,100 million (USD 543,96 million) in respect of property belonging to refineries. In addition, Neftepolis insures Rosneft in an aggregate amount of RUB 1,882 million (USD 67.8 million) in respect of facilities at which hazardous operations take place.

Neftepolis-insured risks are reinsured through facultative and treaty reinsurance arrangements with leading reinsurance companies, such as Lloyd's syndicates, Munich Re, Hannover Re, Converium and Swiss Re. When risks are placed for reinsurance, Neftepolis uses international reinsurance brokers such as Willis, JLT Risk Solutions, Marsh and AON. Facultative reinsurance is the reinsurance of individual risk exposures that were insured by Neftepolis. Treaty reinsurance is the reinsurance of specified classes of insured risk exposures that are automatically "ceded" and accepted within the terms of the reinsurance contract, called a "treaty," without evaluation of each individual exposure.

Rosneft's directors and officers are covered by a liability insurance policy that insures up to a maximum liability of USD 150 million, and they are covered by a public offering of securities insurance policy that insures up to a maximum liability of USD 200 million.

Litigation and Arbitration

Rosneft is currently the defendant in several material arbitral or judicial proceedings. Other than as set forth in "—Claims Relating to Yukos," "—Tax Disputes" and "—Total Litigation," Rosneft is not, and has not been, involved in any governmental, legal or arbitration proceedings, including any such proceedings pending or threatened of which the Company is aware, during the last 12 months preceding the date of this

Prospectus that may have, or have had, during the last 12 months preceding the date of this Prospectus a significant effect on the financial position or profitability of the Company or its subsidiaries as a whole.

Claims Relating to Yukos

Yuganskneftegaz Auction Litigation

Yukos has brought a claim in the Moscow Arbitration Court against the Company and other persons to invalidate the auction at which Baikalfinancegroup won 76.79% of the shares (100% of the common shares) of Yuganskneftegaz. In the claim, Yukos seeks to recover the auctioned shares, as well as damages in the amount of approximately RUB 388 billion (USD 14 billion). Among other things, Yukos alleges the following:

- The court decisions on recovering Yukos' tax indebtedness that served as the basis for the subsequent levy and auction of Yuganskneftegaz shares were illegal, and thus the auction itself was illegal, since it was aimed at satisfying claims confirmed by such illegal court decisions;
- The Yuganskneftegaz shares were core assets of Yukos, and under Russian law, core assets should be foreclosed upon only after non-core assets;
- Under Russian law, in order to hold an auction, at least two participants must take part, and one of them, LLC Gazpromneft ("**Gazpromneft**"), was, at the time, subject to an injunction issued by a U.S. bankruptcy court, rendering its participation invalid;
- Even if it was permitted to participate in the auction, Gazpromneft's involvement was a sham, as evidenced by its not having submitted a bid, and part of a conspiracy between Baikalfinancegroup, Gazpromneft and Rosneft for Rosneft ultimately to acquire the Yuganskneftegaz shares;
- The acquisition of Yuganskneftegaz shares by Baikalfinancegroup was a sham transaction aimed at their ultimate acquisition by Rosneft;
- The auction was carried out with a purpose contrary to legal order and morality because it was aimed at depriving Yukos of its property and that, under Russian law, transactions with such a purpose are null and void;
- The value of the Yuganskneftegaz shares was underestimated; and
- Under Russian law, the Russian Federal Property Fund had no authority to sell the Yuganskneftegaz shares.

In addition, there are allegations of procedural irregularities relating to the period of time between the announcement and the auction, as well as relating to the amount of the excess of the initial bid in the auction over the initial price.

In January 2006, a lower court ruled on procedural matters against Yukos, which was seeking injunctions in support of its claims. Yukos filed an appeal of that procedural decision, which was denied in March 2006. Yukos then filed a second appeal of that procedural decision, which was denied on 5 June 2006. A hearing on the merits had been postponed pending resolution of these procedural matters. The first hearing on the merits was held on 13 July 2006. The next hearing is now scheduled for 4 September 2006 to allow more time for the production by the Federal Property Fund of certain additional documentary evidence. Rosneft believes that it has strong defenses to both the substantive and the procedural allegations and intends to contest these claims vigorously.

Similar allegations have been made by Yukos against the Russian Federation before the European Court of Human Rights in which Yukos seeks "reparation, restitution, and damages." If admitted and if successful, Yukos may apply to Russian courts based on Russian statutory law to reopen any adverse Russian court decision with respect to the above matters or assert in ongoing Russian court proceedings that any judgment of the European Court of Human Rights as to such matter is binding on the Russian courts.

Allen Litigation

The case of *Allen v. Russian Federation, et al.*, No: 1:05-CV-02077-CKK, is pending in the United States District Court for the District of Columbia and was brought by certain holders of American depositary receipts of Yukos against the Company and certain of its senior officers and directors, as well as Rosneftegaz, the Russian Federation, Gazprom, Gazpromneft and various other entities and individuals.

The ADR holders allege among other things that the defendants engaged in a conspiracy to renationalize the assets of Yukos by:

- Levying unfair taxes on Yukos;
- Enforcing tax liens by foreclosing on and selling Yukos' shares in Yuganskneftegaz in an auction to pay its tax obligations;
- Arranging the eventual sale of Yuganskneftegaz to Rosneft; and
- Improperly charging and convicting Yukos' former chief executive officer and other high-level officers with crimes under Russian law.

The plaintiffs allege that they purchased a total of approximately USD 3 million in ADRs and seek compensatory damages, punitive damages, treble damages for certain claims, attorney's fees, costs and interest. The plaintiffs are expected to file a response to the defendant's motion to dismiss on or about 31 July 2006. Additional plaintiffs could join the lawsuit, increasing the amount at risk. Rosneft and its officers believe that they have strong defenses to this claim. They have filed motions to dismiss the action raising several case-dispositive defenses and intend to continue to contest these claims vigorously.

Moravel Arbitration

Moravel Investments Ltd., a wholly owned subsidiary of Group Menatep, the indirect controlling shareholder of Yukos, filed an arbitral claim against Yuganskneftegaz in the London Court of International Arbitration ("**LCIA**") in April 2005. In this claim, Moravel demanded over USD 662 million pursuant to a guarantee agreement, allegedly binding on Yuganskneftegaz, of a loan made to Yukos (the "**Yuganskneftegaz Guarantee**"). Yuganskneftegaz filed its opening memorial on 31 March 2006. A second round of memorials was exchanged on 2 June 2006. The first part of the hearing in the arbitration is taking place between 3 July 2006 and 14 July 2006, and the second part of the hearing is scheduled for 24 July 2006 to 28 July 2006. Yuganskneftegaz is contesting Moravel's claim vigorously.

Meanwhile, in November 2005, Rosneft filed an action in the Moscow Arbitration Court against Moravel, Yuganskneftegaz, Yukos, LLC Yukos-Moscow and Yukos Exploration & Production, demanding a determination that the Yuganskneftegaz Guarantee is void. Moravel, Yuganskneftegaz, Yukos, LLC Yukos-Moscow and Yukos Exploration & Production all appeared in the hearings before the Moscow Arbitration Court. In this hearing, Moravel, Yukos and Yukos Exploration & Production each sought to defend the validity of the Yuganskneftegaz Guarantee under Russian law. In March 2006, the Moscow Arbitration Court voided the guarantee in accordance with Article 168 of the Russian Civil Code. The first appeals court upheld this decision on 15 May 2006. Yukos and its affiliates have until 16 July 2006 to file an appeal of that decision. Rosneft believes that this decision will have an impact on the London arbitration, although no assurances can be given on the outcome.

Yukos Capital S.a.r.l. Arbitration

Yukos Capital S.a.r.l., a subsidiary of Yukos, has filed four arbitral claims against Yuganskneftegaz in the International Court of Commercial Arbitration at the Russian Federation Chamber of Commerce and Industry. These arbitral claims allege that Yuganskneftegaz defaulted on four ruble-denominated long-term loans in an aggregate principal amount of approximately RUB 11,233 million (USD 405 million) from Yukos Capital S.a.r.l. The loans bear interest at 9% *per annum* and mature in 2007. The claims initially sought to recover from Yuganskneftegaz interest and penalties of approximately RUB 1,814 million (USD 65 million), and subsequently Yukos Capital S.a.r.l. demanded early repayment of these loans. The arbitration hearings ended in June 2006, and a decision is anticipated in August-September 2006. The Financial Statements classify these loans as current because Yukos Capital S.a.r.l. demanded their early repayment. See Note 18 to the Annual Financial Statements.

Tax Disputes

In five separate proceedings currently before the Moscow Arbitration Court, the Federal Tax Service alleges that Yuganskneftegaz—in violation of Article 40 of the Tax Code of the Russian Federation, which governs transfer pricing—underpriced oil sold by it to Yukos from 1999–2003. The tax authorities initially claimed an aggregate amount of approximately RUB 140.4 billion (USD 4.8 billion) in back taxes, penalties and interest. Based on an expert report that it commissioned, the Moscow Arbitration Court subsequently reduced the total amount of the back tax claims, penalties and interest to approximately RUB 21.9 billion

(USD 760 million). The Company has provided fully for this amount in the Annual Financial Statements through an adjustment to the fair value of the liabilities assumed as a result of the Yuganskneftegaz acquisition. See Notes 4, 26 and 29 to the Annual Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Other Income/(Expenses)—Income Tax Expenses." The Federal Tax Service did not object to the expert report in the court proceedings, and following the court decision classifies the debt of Yuganskneftegaz at the reduced level. The Federal Tax Service has a right to appeal these decisions from 21 July 2006 to 26 July 2006.

Total Litigation

In April 2003, the Company acquired Anglo-Siberian Oil Company (and its subsidiaries) ("**Anglo-Siberian**"), which then held a 54% interest in Eniseyneft and a 100% interest in Taymirneft. The Company subsequently increased its interest in Eniseyneft to 99% and decreased its interest in Taymirneft to 60% by selling a 40% interest to Stimul Trading.

Eniseyneft and Taymirneft held licenses to different portions of the Vankorskoye field, which covers approximately 264 sq. km. in Eastern Siberia. Eniseyneft held the license to the southern portion of the field, while Taymirneft held the license to the northern portion. The license held by Eniseyneft was transferred to Vankorneft, a 100% subsidiary of the Company, in August 2004. The majority of the reserves are in the southern portion of the field licensed to Vankorneft.

In May 2002, Total E&P Vankor ("**Total**") had entered into a purchase agreement with Anglo-Siberian to acquire a 52% interest in Eniseyneft, and in September 2002, Total had entered into an option agreement with Anglo-Siberian that gave Total the option to acquire a 60% interest in Taymirneft.

Rosneft believes that the purchase agreement between Total and Anglo-Siberian with respect to the 52% interest in Eniseyneft has terminated on the grounds that certain conditions precedent were not met as of a specified date and the agreement provided for termination in such event. Specifically, courts granted to an existing shareholder who had declined to waive its pre-emptive rights, interim measures preventing the purchase, and the purchase agreement required, as a condition precedent to the purchase, certain representations by Total to be true and correct, including the absence of any court orders preventing its completion. If the conditions precedent were not met, the agreement was to terminate as of a specified date.

After that specified date, in 2004, Rosneft purchased the existing shareholder's interest in Eniseyneft for approximately USD 69 million and paid approximately USD 10 million to settle its outstanding claims against Anglo-Siberian.

Total argues, however, that the conditions precedent to the purchase were met. Alternatively, it claims that Anglo-Siberian failed to use best efforts to complete the purchase, as the purchase agreement required, by not purchasing the existing shareholder's interest and settling its claims prior to the date for termination specified in the purchase agreement and/or colluding with existing shareholders to prevent the conditions precedent to the purchase being fulfilled.

In 2004, Total filed an ad hoc UNCITRAL arbitration claim in Brussels against Anglo-Siberian for a share in the license to the southern portion of the Vankorskoye field or, alternatively, approximately USD 640 million in damages. Rosneft opposed Total's argument, stating that:

- The conditions precedent were not fulfilled as of a specified date as a matter of fact;
- The consummation of the transaction between Total and Anglo-Siberian was prohibited by the injunctions obtained by the existing shareholder which bound both parties;
- The settlement with the existing shareholder for a substantial payment fell outside the Anglo-Siberian obligation to use best efforts; and
- The assertion of some sort of collusion between Anglo-Siberian and the existing shareholder was based on speculation.

The arbitration proceedings ended in late 2005, and a decision is expected in July 2006.

With respect to the option to acquire 60% of Taymirneft from Anglo-Siberian, Total believes it has been validly exercised, whereas Rosneft believes it is not exercisable, principally because certain conditions to the commencement of the period within which the option can be exercised have not been met, including the completion of Total's purchase of 52% of Eniseyneft and the attainment of certain exploration drilling milestones by Total. Total also argues that the sale of the 40% interest to Stimul Trading was inconsistent with its alleged pre-emptive rights. In 2005, Total filed an ad hoc UNCITRAL arbitration claim in Brussels against Anglo-Siberian for specific performance or, alternatively, approximately USD 424 million in damages. Total also claims specific performance of pre-emptive rights with respect to the 40% interest in Taymirneft sold to Stimul Trading, which it claims it received through exercise of the option and/or as part of an earlier agreement between the parties or, as an alternative to specific performance, approximately USD 285 million in damages. The arbitration hearing was held in April 2006, the parties filed post-hearing briefs in June 2006 and final briefs were exchanged on 11 July 2006. Total has also obtained injunctions in various jurisdictions to prevent Rosneft from trading in Taymirneft's shares as part of the proceedings that it initiated independently against Stimul Trading.

Other

From time to time, Rosneft is involved in litigation in the ordinary course of its business activities. Rosneft believes that such ordinary course litigation is immaterial and is unlikely to affect Rosneft's operating results or financial position significantly. Currently, Rosneft is involved in several lawsuits, none of which is material in the context of the Global Offering, including several with railways in respect of transportation of crude oil. In addition, the Company understands that the Highest Arbitration Court of the Russian Federation reopened the lawsuit originally brought by the Nenets Autonomous Area Administration that was seeking to recover the outstanding amount of contribution to the social and economic development of the Nenets Autonomous Area provided for in the license agreement with Severnaya Neft and related penalties in the amount of USD 25 million (including interest and penalties) and that Severnaya Neft has been requested to provide an explanation of its position to the Highest Arbitration Court of the Russian Federation by 10 August 2006. See Note 26 to the Annual Financial Statements.

MANAGEMENT

Governance Bodies

Rosneft's management structure consists of its General Shareholders' Meeting, its Board of Directors (the "**Board**") and the Management Board and its President, the last two of which are responsible for the day-to-day management of Rosneft.

General Shareholders' Meeting

The powers of the General Shareholders' Meeting are set forth in the Joint Stock Companies Law and in the Company's charter. See "Description of Capital Stock and Certain Requirements of Russian Law—Governance—Governance Bodies—General Shareholders' Meeting."

Board of Directors

The Company's shareholders and the Board have approved internal regulations regarding corporate governance (collectively, the "**Corporate Governance Regulations**") which incorporate certain provisions of the FSFM's corporate governance code for listed companies, including:

- Membership on the Board at all times of at least three directors who are independent (as defined in the FSFM's corporate governance code);
- Establishment of Board committees, two of which (the Audit Committee and the Personnel Remuneration and Benefits Committee) must be chaired by independent non-executive directors;
- Adoption of a bylaw against insider trading; and
- Establishment of internal control procedures managed by a new internal control department, which will handle internal audit functions.

The General Shareholders' Meeting elects directors until the next Annual General Shareholders' Meeting, and directors can be re-elected for an unlimited number of terms. All directors can be removed by a vote of the General Shareholders' Meeting. The Board currently consists of nine members, each of whom was elected at a meeting on 7 June 2006. The Company considers three of the nine directors, Messrs. Rudloff, Nekipelov and Kostin, to be independent within the meaning of the FSFM corporate governance code.

The Board directs Rosneft's strategy and policy between shareholders' meetings and has authority to make decisions on all aspects of Rosneft's activities, except those matters explicitly reserved for shareholders in the Company's charter. See "Description of Capital Stock and Certain Requirements of Russian Law—Governance Bodies—Board."

Board Committees

The Corporate Governance Regulations established the following Board committees:

- *Audit Committee.* The Audit Committee currently consists of three members, Messrs. Androsov, Kostin and Rudloff, who were elected on 7 June 2006. The Committee is chaired by Hans-Joerg Rudloff and assists the Board with oversight of the quality and integrity of the Financial Statements, legal and regulatory compliance, the auditor's qualifications and independence, internal audits and other matters. In addition to the Audit Committee, the Company maintains an Audit Commission in accordance with the requirements of the Joint Stock Companies Law. See "Description of Capital Stock and Certain Requirements of Russian Law."
- *Strategic Planning Committee.* The Strategic Planning Committee currently consists of three members, Messrs. Nekipelov, Nikitin and Reus, who were elected on 7 June 2006. The Committee is chaired by Alexander Nekipelov and assists the Board with development of the Company's investment, marketing, financial and dividend policies, as well as with the Company's overall business strategy.
- *Personnel, Remuneration and Benefits Committee.* The Personnel, Remuneration and Benefits Committee currently consists of three members, Messrs. Kostin, Naryshkin and Rudloff, who were elected on 7 June 2006. The Committee is chaired by Andrey Kostin and assists the Board with development of remuneration and benefits policies, including bonuses and fringe benefits for the President, members of the Management Board and Audit Commission and other employees, and other labor matters. It also recommends the independent registrar of the Company.

Under Russian listing requirements and the Corporate Governance Regulations, the majority of each of the Board committees' members must be non-executive directors, and at least one independent director within the meaning of the FSFM corporate governance code must serve on each committee. In addition, under the Corporate Governance Regulations, the Personnel, Remuneration and Benefits Committee must consist of non-executive or independent directors only.

Board Membership

As of the date of this Prospectus, members of the Company's Board are as follows:

- *Igor Sechin.* Mr. Sechin was born in 1960 and graduated from the Leningrad State University in 1984 with a degree in philology. From 1988-91, he served as the leading instructor with the Department of Foreign Economy Relations of the Executive Committee of Leningrad Council. From 1991-96, he worked as the Chief Specialist and the Head of the Administrative Office of the First Deputy Mayor of Saint Petersburg for Foreign Relations. From 1997-98, Mr. Sechin worked as the Chief of the Division at the General Control Department of the President of the Russian Federation. From 1998-99, he served in the administration of the Federal Security Service of the Russian Federation. In 1999, Mr. Sechin was appointed the Head of the Administrative Office of the First Deputy Chairman of the Government of the Russian Federation and, since 2000, Mr. Sechin has served as the Deputy Head of the Administration and Assistant to the President of the Russian Federation.
- *Kirill Androsov.* Mr. Androsov was born in 1972 and graduated from Saint Petersburg State Marine Technical University in 1994 with a degree in the economy and organization of the machinery industry. In 2004, he graduated from the Chicago Graduate School of Business under the EMBA program. From 1997-99, Mr. Androsov worked as the Director of the Economy Department of the Saint Petersburg Committee for Property Management. From 1999-2004, he served as the First Deputy General Director of OJSC Lenenergo. From 2001-04, Mr. Androsov served as Chairman of the Board of Directors of OJSC Petroelektrostal and OJSC Petroenergobank, and from 2001-04, he served as Chairman of the Board of Directors of OJSC LEYVO and Deputy and First Deputy General Director of OJSC Lenenergo. Currently, Mr. Androsov also serves on the Boards of Directors of OJSC Zarubezhneft and NP ATC. Since 2004, Mr. Androsov has served as the Head of the Department for State Regulation of Tariffs and Infrastructural Reforms of the Ministry of Economic Development and Trade. Since 2004, Mr. Androsov has served as Deputy Minister of Economic Development and Trade.
- *Sergey Bogdanchikov.* Mr. Bogdanchikov was born in 1957 and graduated from the Ufa Petroleum Institute in 1981 with first-class honors in technology and complex mechanization of oil and gas field development and a professional qualification in mining engineering. Mr. Bogdanchikov started his working career as an oil well maintenance engineer and from 1981-93 he served at various working and managerial positions at Sakhalin oil production units Severneftegaz, Okhaneftegazdobychya and Sakhalinmorneftegaz. In 1993, Mr. Bogdanchikov was appointed General Director of Rosneft-Sakhalinmorneftegaz. In 1997, Mr. Bogdanchikov was appointed Vice President of the Company in charge of coordinating Rosneft's activities at the Sakhalin Oblast and the Khabarovskiy Kray. In 1998, pursuant to a resolution of the Russian government, Mr. Bogdanchikov was appointed President of the Company. In 1995, Mr. Bogdanchikov was awarded the Order of Honor for his efforts in rescue operation, following an earthquake in Neftegorsk. Mr. Bogdanchikov has also been awarded the titles of Honored Oil Worker and Honored Oil and Gas Industry Worker of the Russian Federation and the National Merit Order.
- *Andrey Kostin.* Mr. Kostin was born in 1956 and graduated from Moscow Lomonosov State University in 1979 with a degree in international economics. He also has a doctorate in economics. From 1979-92, he served in various positions in the Ministry of Foreign Affairs. In 1992, he co-founded the Russian Investment and Finance Company. From 1993-95, he was Deputy Director of the Foreign Investment Department of Imperial Bank. In 1995, Mr. Kostin was elected First Deputy Chairman of the National Reserve Bank. From 1996-2002, he was Chairman of Vnesheconombank. In 2002, Mr. Kostin was appointed President and Chairman of Vneshtorgbank.
- *Sergey Naryshkin.* Mr. Naryshkin was born in 1954 and graduated from the Leningrad Mechanical Institute in 1978 with a degree in radio engineering. From 1997-98, he served as the Head of the Investments Department of the Government of Saint Petersburg. From 1998-2004, Mr. Naryshkin served as the Head of the Committee for Foreign Relations of Saint Petersburg. In 2004, Mr. Naryshkin was appointed Deputy Head of the Economy Department of the President of the

Russian Federation, and since September 2004, he has served as the Head of Administrative Office of the Government of the Russian Federation and Minister of the Russian Federation.

- *Alexander Nekipelov.* Mr. Nekipelov was born in 1951 and graduated from Moscow Lomonosov State University in 1973 with degree in economics. He also has a doctorate in economics. Since 1973, Mr. Nekipelov has served in various positions at the Institute of International Economic and Political Studies (formerly the Institute of Economics of the World Socialist System) of the Russian Academy of Sciences. Since 1997, he has been an active member of the Russian Academy of Sciences. Since 1998, Mr. Nekipelov has served as the director of the Institute of International Economic and Political Studies. In 2001, he was appointed Vice President of the Russian Academy of Sciences.

- *Gleb Nikitin.* Mr. Nikitin was born in 1977 and graduated from Saint Petersburg Economics and Finance University in 1999 with a degree in finance and credit. He also graduated from St. Petersburg State University in 2004 with a degree in law. In 1999, Mr. Nikitin was appointed Chief Specialist of the economic assessment subdivision of the Department of Economy of Municipal Property of St. Petersburg. In 2000, he was appointed head of the department of the Division of State Property Management of the Saint Petersburg Property Committee. In 2002, he was appointed head of the Department of State Property Management. Since 2004, he has been the head of the property management department within the commercial section of the Federal Agency for the Management of Federal Property. Currently, Mr. Nikitin also serves on the Boards of Directors of OJSC Kamchatgazprom, ALROSA Company Limited, OJSC Kamaz, OJSC Rossiyskaya Elektroenergetika, OJSC Irkutskenergo, OJSC RKK Energiya, OJSC GOZ Obukhovskiy Plant, OJSC V.V. Tikhomirov NIIP, OJSC Aviaagregat, OJSC Airspace Equipment Corporation, OJSC OPK Oboronprom, OJSC Yu. A. Gagarin Komsomolsk-on-Amur Aviation Production Association, OJSC Rossiyskaya Elektronika, OJSC Navigator Plant, OJSC GC-Trans, OJSC Kransnoyarsk Airlines, OJSC Novorossiyskiy Bread Combine, OJSC Russian Fuel Company-Rostopprom, Kristall Production Association, OJSC TVEL, OJSC Techsnabexport and OJSC N.A. Semashko Moskhimfarmpreparaty.

- *Andrey Reus.* Mr. Reus was born in 1960 and graduated from Moscow State University in 1983 with a degree in economics. In 1998, Mr. Reus was appointed Advisor to the Deputy Chairman of the Government of the Russian Federation. From 1998-99, he has served as the Deputy Head of the Department of Internal Budget Relations of the Ministry of Finance. From 1999-2004, Mr. Reus served as the Head of the Administrative Office of the Deputy Chairman of the Government of the Russian Federation. Since 2004, Mr. Reus has served as the Deputy Minister of Industry and Energy.

- *Hans-Joerg Rudloff.* Mr. Rudloff was born in 1940 and graduated from Bern University in 1965 with a degree in economics. In 1989, he was appointed Chairman of the Board of Directors and of the Management Board of Credit Suisse First Boston. Since 1998, he has served as Chairman of the Executive Committee of Barclays Capital. Mr. Rudloff is also Deputy Chairman of the Board of Directors of Novartis A.G. and a member of the Board of Directors of the Thyssen-Bornemisza Group. He has served in a consulting capacity with multilateral financial institutions such as the European Bank for Reconstruction and Development, the World Bank, and the Interamerican Development Bank.

Management Board

The Company's Management Board currently consists of eight members. The Board appoints members of the Management Board for a term of three years upon a nomination by the President of the Company. The members of the Management Board were elected on 17 April 2006. The Board at any time may terminate the authority of any Management Board (other than the President) members.

As of the date of this Prospectus, the members of the Company's Management Board are as follows:

- *Sergey Bogdanchikov.* See "—Board of Directors."

- *Nikolay Borisenko.* Mr. Borisenko was born in 1956 and graduated from the Siberian Metallurgical Institute in 1980 with a degree in ferrous metallurgy. From 1981-91, Mr. Borisenko worked first as a specialist and subsequently as the head of a field crew at the Sakhalin geophysical expedition. From 1991-94, he was Deputy General Director of NPO Novintekh. In 1994, Mr. Borisenko was appointed Deputy General Director of Sakhalinmorneftegaz. In 1998, Mr. Borisenko was appointed First Vice President of the Company.

- *Sergey Kudryashov.* Mr. Kudryashov was born in 1967 and graduated from the Kuibyshev Polytechnic Institute in 1991 with a degree in the development of oil and gas fields. From 1991-2000, Mr. Kudryashov held various positions at Nizhnevartovskneft, most recently that of Deputy General Director and Head of the Integrated Oil Development Department. From 2000-03, Mr. Kudryashov worked at OJSC VNK Tomskneft, first as Chief Engineer and subsequently as head of the Strezhevoyneft production unit. From 2003-05, he was chief executive officer of Yuganskneftegaz and Vice President of Yukos E&P. In 2005, Mr. Kudryashov was appointed First Vice President of the Company.
- *Anatoly Baranovskiy.* Mr. Baranovskiy was born in 1942, graduating from the Moscow Bauman Technological Institute in 1967 with a degree in machine-design engineering. He received a PhD in economics from the G. Plekhanov Institute of the People's Economy in Moscow in 1981 and became a professor there in 1992. From 1990-93, he was Deputy Minister of Fuel and Energy of the Russian Federation. From 1993-95, he was Vice President of RAO UES. From 1995-96, he was Chairman of the Board of the Joint Stock Commercial Bank for Oil and Gas Construction. In 1996, Mr. Baranovskiy was appointed Vice President of the Company.
- *Stepan Zemlyuk.* Mr. Zemlyuk was born in 1959, graduating from the Lvov Polytechnic Institute in 1984 with a degree in industrial and civil construction. From 1984-94, Mr. Zemlyuk worked at Sakhalinmorneftegaz in positions including foreman, mobile mechanical unit supervisor and chief engineer. From 1994-98, Mr. Zemlyuk was the Deputy General Director for Construction Works at Sakhalinmorneftegaz, becoming General Director of Sakhalinmorneftemontazh in 1998. From 1999-2003, Mr. Zemlyuk was both General Director of Sakhalinmorneftemontazh and Vice President of the Company. From 2003-04, he was General Director of Purneftegaz and Vice President of the Company. Since 2004, Mr. Zemlyuk has held the position of Vice President of the Company.
- *Sun Ne Kim.* Ms. Kim was born in 1951, graduating from the Irkutsk People's Economic Institute in 1972 with a degree in industrial accounting. In 1972, she joined Sakhalinmorneftegazprom, first as an economist and subsequently as senior accountant. From 1979-86, she was Deputy Chief Accountant and later Chief Accountant of the Okhaneftegazdobychya Association. From 1986-98, worked at Sakhalinmorneftegaz, first as Deputy Chief Accountant and later as Chief Accountant. Since 1998, she has served as Chief Accountant of the Company. In 2005, Ms. Kim was named as an Honored Economist of the Russian Federation.
- *Peter O'Brien.* Peter O'Brien was born in 1969, graduating from Duke University with an A.B. in Russian studies and political science in 1991 and from Columbia Business School with an M.B.A. with distinction in 2000. Mr. O'Brien has 11 years of experience in the financial services sector, including six years at Morgan Stanley, where he was Co-Head of Investment Banking in Russia, working primarily with oil and gas companies in Europe and the former Soviet Union. In April 2006, Mr. O'Brien was appointed Vice President of the Company and Head of the Financial Advisors Group to the Company's president. He is responsible for strategic investment projects, raising capital in the debt and equity markets and business planning and monitoring.
- *Riso Tursunov.* Mr. Tursunov was born in 1947 and graduated from the Moscow Electrotechnical Communications Institute in 1970 with a degree in radio technology. From 1970-71, he was Senior Engineer and Shift Master at the Office for Radio Communications and Broadcasting of the Tajikistan in Dushanbe. From 1971-99, Mr. Tursunov served in the Soviet and Russian Army; upon discharge from service, he joined the Company. From 1999-2000, he was an advisor to the Company's president. In 2000, he was appointed Vice President of the Company.

The President

The President is the Company's chief executive officer. See "Description of Capital Stock and Certain Requirements of Russian Law—Governance—Governance Bodies—President." Pursuant to Direction of the Government of the Russian Fedration No. 1479-r, the current President, Sergey Bogdanchikov, was appointed on an interim basis in October 1998 until the 2000 Annual General Shareholders' meeting, where he was elected to a term ending in June 2005. In June 2005, he was appointed to a term ending in June 2010 pursuant to a decision of the Company's sole shareholder.

Audit Commission

The Company's Audit Commission, which differs from the Audit Committee of the Board, oversees and coordinates audits of its financial and economic activity. The Company's Audit Commission currently consists of the following three members:

Name	Year of Birth
Mikhail Bondarenko	1957
Artur Latsis	1977
Elena Solovyova	1951

Compensation

The Company's shareholders determine the compensation for directors at the General Shareholders' Meeting. Russian law does not permit Board members to approve remuneration, including pensions or other benefits, for themselves or other Board members. In 2005, the Company paid no remuneration to Board members in their capacity as such.

In 2005, Rosneft paid remuneration to the Company's senior executive officers (15 people) of RUB 358 million in salary, bonuses and other benefits.

Employment Contracts with Senior Executive Officers

In general, the Company enters into five-year employment contracts with its senior executive officers. Under these contracts, which expire between 2008 and 2011, the senior executive officers of the Company are entitled, in addition to their regular salary, to semi-annual bonuses. The amounts of these semi-annual bonuses depend on the results of Rosneft's operations and may be as high as 140% of such officers' regular salary during the preceding six months.

Under the employment contracts, upon termination of a senior executive officer's employment, the Company must pay compensation in the range of 90%-200% of such senior executive officer's average annual compensation. This requirement does not apply if the employment is terminated due to such senior executive officer's negligence.

In addition, the Company's senior executive officers can participate in a life insurance program established by Neftepolis. Under this program, once senior executive officers have completed five years of uninterrupted service at the Company, they are entitled to certain payments. These payments may amount to as much as three years' salary, depending on the seniority of the senior executive officer.

Until September 2005, and in exceptional circumstances, the Management Board had authority to provide immaterial amounts of financial aid to certain executive officers for the improvement of their living conditions. In September 2005, the Company discontinued this practice.

Litigation Statement about Directors and Officers

At the date of this Prospectus, for at least the previous five years, none of the directors or members of the Management Board:

- Has had any convictions in relation to fraudulent offenses;
- Has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies, of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- Has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Except as set forth in this section, there are no potential conflicts of interest between any duties owed to the issuer by the members of the Board and the Management Board and their private interests and/or other duties.

Intention to Acquire Ordinary Shares

Certain of the Company's directors, executive officers and other employees plan to purchase Ordinary Shares in the Share Offering, at the Offer Price, or acquire Ordinary Shares thereafter. In addition, the Board may decide at some point in the future to adopt a share option or share purchase program to incentivize the Company's directors, executive officers and other employees.

RELATED PARTY TRANSACTIONS

The Russian Federation indirectly owns 100% of the Company's shares. The government's nominees currently hold six of the nine of the seats on the Company's Board. Five of these six government nominees also hold positions within the Russian government or presidential administration. For example, Igor Sechin, the Chairman of the Company's Board, is the Deputy Head of the Presidential Administration of the Russian Federation. See "Management."

In the ordinary course of its business, the Company regularly enters into transactions with other entities directly or indirectly controlled by the Russian government. Such entities include RAO UES, Gazprom, OJSC Russian Railways, Sberbank, OJSC Vnesheconombank, OJSC Gazprombank, Transneft and various federal agencies, including the tax authorities. Rosneft believes that these transactions will continue in the foreseeable future. See "Risk Factors—Risks Relating to Rosneft—The Russian government, whose interests may not coincide with those of other shareholders, controls Rosneft and may cause Rosneft to engage in business practices that do not maximize shareholder value." See Note 25 to the Annual Financial Statements.

The Company also enters into transactions with related parties not directly or indirectly controlled by the Russian government. Most of these related party transactions are between Rosneft and companies in which Rosneft has an equity interest. A few of them, however, are between Rosneft and companies in which Rosneft does not have an equity interest, but which are related parties by virtue of their having a director who was either a senior manager of the Company or a director of one or more of the Company's subsidiaries. These latter transactions, the most significant of which were with a leasing company, RN-Leasing, are immaterial in relation to Rosneft as a whole, and were entered into by Rosneft in the ordinary course of its business and on market terms. As of 31 March 2006, RN-Leasing is no longer a related party. See Note 25 to the Annual Financial Statements.

For a discussion of material weaknesses in Rosneft's internal controls that could affect the reporting of related party transactions in accordance with U.S. GAAP, see "Risk Factors—Risks Relating to Rosneft—Rosneft's accounting systems may not be as sophisticated or robust as those of companies organized in jurisdictions with a longer history of compliance with U.S. GAAP and Rosneft's independent auditor has identified certain material weaknesses in Rosneft's internal controls."

THE RUSSIAN OIL AND GAS INDUSTRY

The information set forth in this section is based on publicly available information. The Company accepts responsibility for accurately reproducing such information and as far as the Company is aware no facts have been omitted which would render such information misleading, but the Company accepts no further responsibility in respect of such information. Such information may be approximations or use rounded numbers.

Introduction

Russia has substantial proved hydrocarbon reserves. The following table sets forth estimates of total proved crude oil reserves in each of the ten countries holding the most such reserves:

Country	Amount of proved crude oil reserves as of 31 December 2005
	(billion barrels)
Saudi Arabia	264.2
Iran	137.5
Iraq	115.0
Kuwait	101.5
United Arab Emirates	97.8
Venezuela	79.7
Russia	74.7
Kazakhstan	39.6
Libya	39.1
Nigeria	35.9

Source: BP Statistical Review of World Energy June 2006. In compiling this data, BP relies on third party sources, such as government data and data from the OPEC Secretariat, World Oil, and the *Oil & Gas Journal*. BP also makes independent estimates of Russian reserves based on publicly available information.

The following table sets forth estimates of crude oil production in each of the ten countries with the highest such production:

Country	Crude oil production in 2005
	(thousand barrels per day)
Saudi Arabia	11,035
Russia	9,551
USA	6,830
Iran	4,049
Mexico	3,759
China	3,627
Canada	3,047
Venezuela	3,007
Norway	2,969
United Arab Emirates	2,751

Source: BP Statistical Review of World Energy June 2006. In compiling this data, BP relies on third party sources, such as government data and data from the OPEC Secretariat, World Oil, and the *Oil & Gas Journal*.

The following table sets forth estimates of total proved gas reserves in each of the ten countries holding the most such reserves:

Country	Amount of proved gas reserves as of 31 December 2005
	(tcm)
Russia	47.82
Iran	26.74
Qatar	25.78
Saudi Arabia	6.90
United Arab Emirates	6.04
USA	5.45
Nigeria	5.23
Algeria	4.58
Venezuela	4.32
Iraq	3.17

Source: BP Statistical Review of World Energy June 2006. In compiling this data, BP relies on third party sources, such as government data and data from the OPEC Secretariat, World Oil, and the *Oil & Gas Journal*. BP also makes independent estimates of Russian reserves based on publicly available information.

The following table sets forth estimates of gas production in each of the ten countries with the highest such production:

Country	Gas production in 2005
	(bcm)
Russia	598.0
USA	525.7
Canada	185.5
United Kingdom	88.0
Algeria	87.8
Iran	87.0
Norway	85.0
Indonesia	76.0
Saudi Arabia	69.5
Netherlands	62.9

Source: BP Statistical Review of World Energy June 2006. In compiling this data, BP relies on third party sources, such as government data and data from the OPEC Secretariat, World Oil, and the *Oil & Gas Journal*.

The following table sets forth estimates of crude oil production of each of the ten Russian companies with the highest such production:

Company	Crude oil production, 2005
	(thousand barrels per day)
LUKOIL	1,748.90
TNK-BP	1,500.13
Rosneft	1,481.65
Surgutneftegaz	1,271.41
Sibneft	657.06
Tatneft	504.35
Yukos	488.10
Slavneft	481.08
Gazprom	256.32
Russneft	242.34
Bashneft	237.60

Source: Interfax-CNA, *Russia's Oil Sector in 2005.*

The following table sets forth estimates of gas production of each of the ten Russian companies with the highest such production:

Company	Gas production, 2005 (bcm)
Gazprom	547.90
Novatek	25.22
Surgutneftegaz	14.36
Rosneft	13.05
TNK-BP	8.72
LUKOIL	5.68
Sibneft	1.99
Yukos	1.97
Russneft	1.04
Slavneft	1.00

Source: Interfax-CNA, *Russia's Oil Sector in 2005.* Data for Gazprom and Novatek were taken from publicly available information.

Crude Oil

Since the dissolution of the Soviet Union, the oil industry in Russia has undergone a major restructuring. Under the Soviet regime, the state maintained prices for crude oil, gas and petroleum products at artificially low levels, and the maximization of economic value played little or no part in the production decisions. As a result, producers had little incentive to produce crude oil from which a relatively high percentage of premium products could be refined, and over-production of oil and under-maintenance of equipment were widely prevalent in the system.

The privatization of the Russian oil industry was launched by Presidential Decree No. 1403, issued on 17 November 1992, which established the federal framework for privatizing Russian oil companies and the basis for the transformation of state-owned exploration, production, refining and distribution enterprises into several major vertically integrated companies. Initially the major Russian oil companies essentially functioned as holding companies with shares in separate production, refining and distribution subsidiaries. The process of vertical integration of such companies was facilitated by another presidential decree, No. 327, issued on 1 April 1995, allowing the integration of subsidiaries into vertically integrated companies through share exchanges. The principal vertically integrated oil companies that were privatized in this manner were LUKOIL, Surgutneftegaz and Yukos.

The Russian government's shares in several vertically-integrated oil companies were placed under trust management with banks and other institutions in the "loan-for-shares" program held in late 1995 under which the institutions extended loans to the government in return for the right to manage the shares. When these loans were not repaid at maturity, the lending institutions generally acquired the right to sell the stakes they had managed to settle the loans, which has resulted in the sale of the managed shares of Sibneft, Sidanco, TNK and Yukos.

The Russian government continued to privatize Russian oil companies that remained under its control. Privatization of an 85% government stake in Onako was completed in 2000. In May 2002, the government sold 36.82% of Eastern Oil Company through an auction to YUKOS and sold approximately 6% in LUKOIL in December 2002. In November 2002, the government of Belarus sold its 10.83% stake in Slavneft to a consortium of shareholders of TNK and Sibneft. The Russian government sold its 74.95% in Slavneft at an auction held in December 2002 to the same consortium. The Russian government sold its remaining 7.6% stake in LUKOIL in a privatization auction to ConocoPhillips in September 2004.

The Russian oil industry has also recently undergone significant consolidation. In February 2003, Alfa Group and Access-Renova (together, TNK's, Onako's and Sidanko's majority shareholders) and BP announced plans to combine their oil and gas operations in Russia and Ukraine, and this transaction was completed in August 2003. The new holding company, TNK-BP, created on the basis of the combined assets of TNK, ONAKO, Sidanco and BP's Russian assets (excluding BP's assets on Sakhalin Island), is owned 50% each by BP and the combined Alfa-Access-Renova and is the third-largest oil company in Russia by reserves and production. Alfa-Access-Renova and BP subsequently reached an agreement to contribute TNK's 50% stake in Slavneft to TNK-BP, and announced the completion of this transaction in January 2004. In April 2003, YUKOS and Sibneft announced that their respective shareholders had reached an agreement in principle on effecting a merger and this transaction was completed with effect in October 2003. However, following claims for back taxes against YUKOS by the Russian government, the merger was reversed. In December 2004, the Russian government auctioned 76.79% of the shares (100% of the common shares) of Yuganskneftegaz, YUKOS' largest production subsidiary, in partial settlement of back tax claims against YUKOS. Baikalfinancegroup was declared the winner of the auction, and the Company purchased Baikalfinancegroup later that month and has since integrated Yuganskneftegaz into its structure.

Gazprom acquired a 72.66% interest in Sibneft in October 2005, bringing Gazprom's aggregate interest in Sibneft to 75.68%.

Oil production in Russia declined by approximately 37.2% from 1990-99. This decline was due to many factors, including overproduction of wells during the Soviet period, lack of funds for capital expenditures to maintain operations, inefficient field development and secondary recovery methods and reduced demand attributable to the Russian economic recession. Since 1999, oil production has risen due to several factors, including stabilization of world and domestic oil prices, a decrease in costs due to ruble devaluation, increased rehabilitation of non-operational wells, increased export opportunities, improved management and access to capital and new technologies.

In general, reforms in regulation prompted the Russian oil industry to adopt commercially oriented production practices. These reforms included the liberalization of crude oil and petroleum product prices and the elimination of export quotas and licensing requirements in early 1995. Domestic pricing remains, however, significantly below world levels, hampering the ability of companies to reinvest or modernize production practices, equipment and facilities.

Crude Oil Exports

Since 1991, Russian oil companies have significantly increased their crude oil exports due to falling domestic demand, a substantial gap between domestic and foreign prices and the elimination of export quotas and licensing requirements. Russia's exports of crude oil increased from approximately 1,516 million barrels (207.30 million tonnes) in 2003 to approximately 1,741 million barrels (238.07 million tonnes) in 2004, or by 14.8%, and decreased to approximately 1,694 million barrels (233.15 million tonnes) in 2005, or by 2.7%. Rosneft's exports of crude oil increased from approximately 57.95 million barrels (7.92 million tonnes) in 2003 to approximately 65.99 million barrels (9.02 million tonnes) in 2004, or by 13.9%, and to approximately 283.23 million barrels (38.72 million tonnes) in 2005, or by a further 329.2%.

Limitations on access to the Transneft pipeline network traditionally constrained the ability of producers to export crude oil. The Ministry of Industry and Energy establishes export quotas for the Transneft system. See "Regulation of the Russian Oil and Gas Industry—Transportation of Crude Oil and Petroleum Products." In recent years, earlier constraints on access to the export pipelines and the ability of producers to export crude oil have subsided. Recent upgrades of non-Transneft ports, an increase in the railways' capacity to transport crude oil and the opening of new capacity via the Baltic pipeline to the Transneft-controlled port of Primorsk have all enabled oil companies to market crude oil with greater flexibility and steady export share. For these reasons, capacity constraints have declined since 2005.

Limited Domestic Crude Oil Market

The domestic crude oil market in Russia is limited, because most domestic sales and transfers of crude oil take place within vertically integrated oil companies.

Petroleum Product Markets

Currently, overcapacity characterizes the refining market in Russia. Since 1995, refinery utilization has remained at approximately 60%. Russian refineries refined approximately 1,389 million barrels (190.0 million tonnes) of crude oil in 2003, 1,426 million barrels (195.0 million tonnes) in 2004 and 1,507 million barrels (207.4 million tonnes) in 2005. This increase primarily reflects the growth in exports of petroleum products, since domestic consumption remained relatively stable.

Oil companies both export petroleum products and sell them on the domestic market. According to Interfax, in 2005, Russian oil companies collectively exported approximately 674.4 million barrels of gasoline, diesel fuel and heating oil and delivered approximately 1,180.1 million barrels of these petroleum products domestically.

Gas

The Russian gas industry developed during the Soviet era and expanded rapidly after the discovery in the 1960s of significant reserves in the exceptionally large gas fields of Western Siberia. During the transition period following the dissolution of the Soviet Union, the Russian gas industry was one of the most stable and effective segments of the Russian energy complex, accounting for over 20% of foreign exchange revenues and approximately 25% of tax revenue contributions to the federal budget and providing approximately 50% of the fuel used in generating electricity in Russia.

Gazprom currently accounts for the vast majority of gas production in Russia, or approximately 88% in 2005. Independent oil and gas companies account for the remaining 12%, although it is expected that production by these independent companies as a share of total gas production in Russia will increase. In 2005, Rosneft produced 13.1 bcm of gas, accounting for approximately 3.9% of total gas production in Russia.

A lack of competition and developed infrastructure and a significant level of government regulation also currently characterize the Russian gas market.

The FTS regulates the price of gas sold by Gazprom and its subsidiaries and the tariff charged to independent gas producers to transport their gas through the UGSS. The principles of pricing are, among others, the recovery of economically reasonable expenses by suppliers and transportation companies, maintenance of reasonable operating margins, and satisfaction of demand for gas. Wholesale price regulation applies to gas produced by Gazprom, but does not apply to gas produced by entities unaffiliated with Gazprom. The wholesale price of gas produced by independent gas suppliers is not regulated. Additionally, certain retail customers, such as residential consumers, are entitled to fixed retail gas prices. See "Regulation of the Russian Oil and Gas Industry—Gas Prices and Tariffs."

The UGSS, which transports substantially all gas supplies in Russia, consists of an extensive network of pipelines and compressor installations that have been built over the past 40 years. Most of the UGSS pipelines are over ten years old, and certain sections are over 30 years old. Many of the pipelines are protected by chemical coatings with a limited useful life, and large segments of the network are located in regions with harsh climates where construction maintenance and refurbishment are difficult and costly.

Under existing regulations, Gazprom must provide access to the UGSS to all domestic independent suppliers on a non-discriminatory basis so long as Gazprom is not using the UGSS' entire capacity. In practice, Gazprom exercises considerable discretion in determining third party access to the UGSS through its priority right to use UGSS capacity. However, Gazprom has cooperated with other oil and gas companies in the past in this and other areas. For example, according to Gazprom, in November 2002, LUKOIL entered into a strategic partnership arrangement with Gazprom for the years 2002-05, which in March 2005 it updated for the years 2005-14. Also according to Gazprom, in furtherance of this arrangement, in October 2003, LUKOIL entered into a framework agreement with Gazprom pursuant to which Gazprom purchases gas produced at LUKOIL's Nakhodkinskoye field; in May 2005, the parties amended this agreement to provide that Gazprom must purchase from LUKOIL up to 900 mmcm of such gas in 2005 and up to 8 bcm of such gas in 2006. Also according to Gazprom, LUKOIL has formed a joint venture with Gazprom, TsentrCaspNeftegaz, to develop the Central geological structure in the Caspian Sea together with KazMunayGaz acting on behalf of Kazakhstan. Similarly, according to OJSC Novatek ("**Novatek**"), in July 2005, Novatek entered into a framework cooperation agreement with Gazprom that allows Novatek to participate in the expansion of the UGSS on terms to be further agreed with Gazprom. Rosneft is also in the process of negotiating an agreement with Gazprom.

REGULATION OF THE RUSSIAN OIL AND GAS INDUSTRY

The Russian legal system's rapid evolution during the last ten years is particularly evident in the context of oil and gas industry regulation. Below is a brief overview of some key aspects of the current regulatory regime for the natural gas and oil industries.

The regulation of legal and economic relations in the Russian oil and natural gas industry is based on the Constitution of the Russian Federation, the Civil Code, the Subsoil Law, the Federal Law No. 147-FZ of 17 August 1995 on Natural Monopolies (as amended) (the "**Natural Monopoly Law**"), Federal Law No. 69-FZ, dated 31 March 1999, "On Gas Supply in the Russian Federation" (the "**Gas Supply Law**") and Federal Law No. 187-FZ, dated 30 November 1995, "On the Continental Shelf of the Russian Federation" (the "**Continental Shelf Law**").

Prior to 12 March 2004, the Ministry of Energy was responsible for the practical implementation of government fuel and energy industry policy and the coordination of the activities of the federal executive bodies. The Ministry of Energy was abolished from 12 March 2004, the effective date of Decree of the President of the Russian Federation No. 314 of 9 March 2004 ("**Decree No. 314**"). The rule-making authority of the former Ministry of Energy was transferred to the newly established Ministry of Industry and Energy, while the law enforcement authority and the functions of providing state services and property management were transferred to the newly established Federal Energy Agency.

Prior to the effective date of Decree No. 314, the Ministry of Natural Resources of the Russian Federation was responsible for regulating the exploration, use and protection of natural resources and for licensing the exploration and production of subsoil resources. Since the effective date of Decree No. 314, the control and surveillance functions of the Ministry of Natural Resources have been transferred to the newly established Federal Service for Surveillance in the Sphere of Ecology and Environmental Use, and the law enforcement functions of the Ministry, as well as its functions of providing state services and of property management related to subsoil use, have been transferred to the newly established Federal Agency for Subsoil Use. According to Decree of the President of the Russian Federation No. 649 of 20 May 2004, starting from 22 May 2004 the Federal Service for Surveillance in the Sphere of Ecology and Environmental Use was reorganized into the Federal Service for Surveillance in the Sphere of Environmental Use, and its ecology surveillance functions were transferred to the newly created Federal Service for Ecological, Technological and Nuclear Supervision.

The Constitution of the Russian Federation stipulates that the use of subsoil is under the joint jurisdiction of the federal and regional authorities.

In May 2005, President Putin ordered Prime Minister Mikhail Fradkov to submit to the Russian parliament by 1 November 2005 draft laws limiting foreign ownership of those industry sectors that "ensure government security," which may include defense, oil and metals. The Ministry of Industry and Energy prepared draft amendments to the legislation, which are currently being discussed within the government and have not yet been submitted to the State Duma. The Ministry of Natural Resources has prepared a new version of the Subsoil Law that includes new rules restricting foreign participation in the development of mineral deposits of strategic importance. This draft law was submitted to the State Duma, but subsequently returned to the Ministry of Natural Resources for further revision. The nature and scope of the contemplated limitations on foreign participation are currently uncertain.

Subsoil Licensing

There are several types of licenses applicable to the study, exploration and production of natural resources, including:

- Licenses for geological exploration and assessment of the subsoil plot;
- Licenses for the production of natural resources; and
- Combined licenses for exploration, assessment and production of natural resources.

The licensing regime for use of subsoil for geological research, exploration and production of mineral resources is established primarily by the Subsoil Law. Until January 2000, when important amendments to the Subsoil Law were introduced, exploration licenses were typically granted for up to five years, while production licenses were granted for up to 20 years and licenses for combined activities were granted for up to 25 years. Under the Subsoil Law, as currently in effect, the maximum term of an exploration license remains five years and a production license may be issued for the useful life of the mineral reserves field, calculated on the basis of a feasibility study for exploration and production that ensures rational use and protection of the subsoil. A license recipient is also usually granted rights to use the land surrounding the license area.

Important amendments to the Subsoil Law, passed in August 2004, significantly changed the procedure for awarding exploration and production licenses, in particular abolishing the joint grant of licenses by federal and regional authorities. Under the 2004 amendments, production licenses and combined exploration and production licenses are awarded by tender or auction conducted by the Federal Agency for Subsoil Use. While the auction or tender commission includes a representative of the relevant region, the separate approval of regional authorities is no longer required in order to issue subsoil licenses. The winning bidder in a tender is expected to submit the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. Licenses for geological exploration and production may also be issued without the holding of an auction or tender by the decision of the federal authorities to holders of exploration licenses that discover mineral resource deposits through exploration work conducted at their own expense.

Licenses may be transferred only under certain limited circumstances that are identified in the Subsoil Law, including the reorganization or merger of the license holder or in the event that an initial license holder transfers its license to a legal entity in which it has at least a 50% ownership interest, provided that the transferee possesses the equipment and authorizations necessary to conduct the exploration or production activity that is covered by the transferred license.

A license holder has the right to develop and sell oil and natural gas extracted from the license area. The Russian Federation, however, retains ownership of all subsoil resources at all times, and the license holder only has rights to the crude oil and natural gas when extracted.

Licenses generally require the license holder to make various commitments, including:

- Extracting annually an agreed target amount of reserves;
- Conducting agreed drilling and other exploratory and development activities;
- Protecting the ecology in the fields from damage;
- Providing geological information and data to the relevant authorities;
- Submitting on a regular basis formal progress reports to regional authorities; and
- Paying the mineral resources extraction tax when due.

Article 10 of the Subsoil Law also provides that a license to use a field must be extended by the relevant authorities at the initiative of the license holder if the extension is necessary to finish production in the field, provided that the licensee has not violated the terms of the license. Rosneft believes that its existing production licenses will be extended at or prior to their scheduled expiration. However, if the Russian government determines that Rosneft has not complied with the terms of one of its licenses, it may not extend that license upon the expiration of its current period. See "Risk Factors—Risks Relating to Rosneft—Rosneft's exploration and production licenses may be suspended, amended or terminated prior to the end of their terms, and Rosneft may be unable to obtain or maintain various permits and authorizations."

The Subsoil Agency, or its regional division, oversees compliance with the terms of licenses. A licensee can be fined for failing to comply with a subsoil production license and a subsoil production license can be revoked, suspended or limited in certain circumstances, including:

- Breach or violation by the licensee of material terms and conditions of the license;
- Repeated violation by the licensee of the subsoil regulations;
- Failure by the licensee to commence operations within a required period of time or to produce required volumes, both as specified in the license;
- The occurrence of an emergency situation;
- The emergence of a direct threat to the life or health of people working or residing in the area affected by the operations under the license;
- Liquidation of the licensee; and
- Failure to submit reporting data in accordance with applicable law.

In the case of expiration of the term of a license or early termination of subsoil use, all oil and natural gas facilities in the relevant licensing area, including underground facilities, must be removed or properly abandoned. In accordance with removal and abandonment regulations, all mining facilities, including oil and natural gas wells, must be maintained at a level that is safe for the population, the environment, buildings and other facilities. Abandonment procedures must also secure the conservation of the relevant oil and natural gas fields, mining facilities and wells.

So far, major Russian oil companies have not experienced any problems with the prolongation of the expired production licenses. In the recent years, the Company duly extended the life of several of its subsidiaries' licenses.

Land Use Permits and Ground Allotments

In addition to a subsoil production license, permission to use surface land within the specified licensed area is necessary. A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities, which, through public auctions or tenders or through private negotiations, can sell, lease or grant other use rights to the land to third parties.

Land use permits are typically issued with respect to specified areas, upon the submission of standardized reports, technical studies, pre-feasibility studies, budgets and impact statements. A land use permit generally requires that the holder make lease payments and revert the land plot to a condition sufficient for future use, at the licensee's expense, upon the expiration of the permit.

System of Payments for the Use of Subsoil

Beginning 1 January 2002, the previously existing system of payments for the use of subsoil was modified by merging royalties, excise taxes and mineral restoration payments into a single tax called the mineral production tax. Furthermore, based on amendments to the Subsoil Law, the following types of payment obligations were established:

- One-time payments in cases specified in the license;
- Regular payments for subsoil use, such as rent payments for the right to conduct prospecting/appraising and exploration work;
- Payments to the state for geological subsoil information;
- Fees for the right to participate in tenders and auctions; and
- Fees for the issuance of licenses.

The rates at which payments are to be levied are usually established in a license by federal authorities within a range of minimum and maximum rates established by the Subsoil Law.

Production Sharing Agreements

PSAs are commercial arrangements between the Russian Federation and investors relating to the sharing of production of oil and other mineral resources. Under the Federal Law No. 225-FZ "On Production Sharing Agreements," dated 30 December 1995, as amended (the "**PSA Law**"), in exchange for relief from most types of taxes (except profits taxes), an investor agrees to give the Russian government a share of the oil that it produces, generally after the investor has recovered its development costs.

The PSA Law governs petroleum operations carried out pursuant to PSAs. It came into force in January 1996 and established the principal legal framework for state regulation of PSAs relating to oil and gas field development and production. Under the PSA Law, the Russian Federation is represented (in its relations with investors under PSAs) by the government or the state bodies authorized by it. The PSA Law contains stabilization rules purporting to protect investors against adverse changes in federal and regional laws and regulations, including certain uncertainties in tax laws and regulations.

The PSA Law provides that operations conducted under a PSA pursuant to the PSA Law will be governed by the PSA itself and will not be affected by contrary provisions of any other laws, including the Subsoil Law. Furthermore, PSAs entered into by the Russian Federation prior to the enactment of the PSA Law (including Sakhalin-1 and Sakhalin-2) are "grandfathered" so that their provisions will be effective even if they are inconsistent with the PSA Law and certain other Russian laws.

The Company currently participates in one PSA in Russia, which is the Sakhalin-1 project. See "Business—Upstream Operations—Production and Development Subsidiaries and Joint Ventures—Russian Far East—Sakhalin-1."

The Gas Supply Law

Under the Gas Supply Law, Russian federal authorities have jurisdiction over natural gas supplies, including, among other things, the development and implementation of government policy on natural gas supply; the regulation of strategic natural gas reserves; control over the industrial and environmental safety of the industrial sites of the natural gas supply systems; meteorological support; and standardization and certification.

The government:

- Sets the projected natural gas production levels and the sales balance in Russia;
- Determines the level of natural gas prices and natural gas transportation tariffs;
- Regulates natural gas deliveries;
- Sets procedures for providing independent organizations with access to the natural gas transportation and distribution networks; and
- Defines the categories of customers to whom natural gas deliveries cannot be restricted or suspended.

Previously, in accordance with the Gas Supply Law, the joint jurisdiction of the federal and regional authorities covered the development and implementation of interregional gas programs, licensing, control over effective use of gas and supervision over the safety of the delivery and use of gas. The relationship between the relevant federal, regional and local authorities, as well as between any natural gas company and such authorities, had a significant impact on the conditions under which a natural gas company could operate in any particular region. The provision of the Gas Supply Law which envisaged the joint jurisdiction of the federal and regional authorities on the above mentioned matters ceased to be in force from 1 January 2005 when Federal Law No. 122-FZ, dated 22 August 2004, became effective.

The Unified Gas Supply System

The Gas Supply Law defines the UGSS as a centrally managed, technologically and economically regulated system of gas production, processing, transportation, storage and supply. Gazprom is currently the owner of the UGSS. To ensure reliable gas supply and compliance with international treaties of the Russian Federation and gas delivery contracts, the UGSS maintains and develops its network; monitors the function of its facilities; procures the use of equipment and processes for power-saving and environmental safety at its industrial sites; takes action to ensure industrial and ecological safety within the UGSS; and operates disaster management systems.

Gazprom, as the owner of the UGSS, is obligated to provide independent gas producers access to its natural gas transportation system in Russia subject to the availability of capacity on the UGSS, the compliance of the gas being transported with established quality and technical parameters, and the availability of connecting and branch pipelines to consumers. According to the Natural Monopoly Law, in determining whether to provide access to independent producers, Gazprom is required to take into account the protection of the rights and legitimate interests of citizens, the security of the State, and the protection of environmental and cultural heritage. The Decree of the President of the Russian Federation "On Transformation of the State Gas Concern Gazprom into the Russian Joint Stock Company Gazprom" No. 1333, dated 5 November 1992, as amended, makes Gazprom responsible for providing transportation access to gas producers in proportion to the volume of gas produced by them on the territory of Russia.

Similar access rights to regional gas supply systems are established pursuant to Resolution of the Government No. 1370, dated 24 November 1998. According to this Resolution, any legal entity within the territory of the Russian Federation has the right to access the regional gas supply systems to facilitate delivery.

Transportation of Crude Oil and Petroleum Products

Transneft and Transnefteprodukt control, respectively, the trunk pipelines for the transportation of crude oil and petroleum products in Russia. Both companies are state-controlled monopolies.

Pursuant to the Natural Monopolies Law, the Ministry of Industry and Energy, based on information provided by the Federal Energy Agency, allocates Transneft pipeline network and sea terminal capacity to oil producers for export deliveries on a quarterly basis, generally in proportion to:

- The volume of crude oil that such producers declare they will deliver in the upcoming quarter;
- The volume of crude oil that such producers delivered to the Transneft pipeline system in the previous quarter; and
- Transneft's overall capacity.

Once the access rights are allocated, oil producers generally cannot increase their allotted capacity in the export pipeline system, although they have limited flexibility in altering delivery routes. Oil producers are generally allowed to assign their access rights to others.

Deliveries through Transnefteprodukt are based on the applications of oil companies in proportion to the Transnefteprodukt pipeline capacity.

The FTS sets the tariffs for the use of Transneft and Transnefteprodukt pipelines.

The Ministry of Industry and Energy also establishes export quotas for the Transneft system. In doing so, it applies a principle of "equal access," whereby it calculates export quotas by dividing the total capacity of Transneft's system by the volume of crude oil delivered to Transneft by all oil companies using the Transneft system. As of 31 March 2006, the quota for exports outside the CIS was approximately 40% of total oil deliveries to the Transneft system, and the quota for sales to CIS states, including Ukraine and Belarus, was approximately 9%.

Transneft has very limited ability to transport individual batches of crude oil, which results in the blending of crude oil of differing qualities. Transneft does not currently operate a "quality bank" system. Under a quality bank system, oil companies that supply lower-quality (heavy and sour) crude oil to the system pay more for the use of pipelines than those who supply higher-quality crude oil. (Alternatively, suppliers of lower-quality crude oil might directly compensate suppliers of higher-quality crude oil for the deterioration in crude quality due to blending.) Although Transneft and the Russian government are currently discussing the introduction of a quality bank for the Transneft system, such proposals generally meet with aggressive resistance from producers with lower-quality reserves, as well as regional authorities where such reserves are located.

Transportation and Supply of Gas

The relationship between natural gas suppliers and off-takers is governed by the Regulation on Natural Gas Supplies in the Russian Federation approved by Government Resolution No. 162 dated 5 February 1998.

A right of priority to enter into natural gas supply agreements is given to off-takers that purchase natural gas for the government, utilities, consumers and households, and to certain off-takers wishing to extend their existing natural gas supply agreements.

Under Government Resolution No. 858, dated 14 July 1997, "On the Provision of Access of Independent Organizations to the Gas Transportation System of OJSC Gazprom," Gazprom must provide independent suppliers with non-discriminatory access to available UGSS transportation capacity in Russia. This requirement is subject to natural gas from independent suppliers being of sufficient quality and the availability of connecting and branch pipelines to consumers.

In accordance with the Gas Supply Law, consumers are obliged to pay for natural gas supplies and transportation services. If consumers fail to make such payments, suppliers have the right to limit or suspend natural gas supplies to such consumers in accordance with specific procedures provided for by several government resolutions. Government Resolution No. 364, dated 29 May 2002, provides for special terms and conditions of gas delivery to institutions responsible for national security. The supplier may not suspend or limit gas supplies below the limits provided by the customer for its affiliated institutions.

Gas Prices and Tariffs

Natural gas prices and transportation tariffs in Russia are regulated pursuant to the Natural Monopoly Law and the Gas Supply Law, as well as pursuant to several government resolutions. Government Resolution No. 1021 "On State Regulation of Gas Prices and Tariffs for Gas Transportation within the Territory of the Russian Federation," dated 29 December 2000, as amended, sets forth the main provisions for regulating the wholesale price of natural gas and transportation tariffs. Wholesale price regulation applies to gas produced by Gazprom, but does not apply to other gas produced by entities unaffiliated with Gazprom.

If a consumer fails to pay in a timely manner for gas, a supplier has the right to limit or suspend natural gas deliveries to the consumer in accordance with procedures established by the government. The government also establishes a list of end customers whose natural gas deliveries may not be suspended or terminated, such as military units, penitentiaries and fire fighting units.

The FTS regulates the price of gas sold by Gazprom and the tariff charged to independent gas producers to transport their gas through the UGSS. The principles of pricing are, among others, the recovery of economically reasonable expenses by suppliers and transportation companies, maintenance of reasonable operating margins, and satisfaction of demand for gas. Wholesale price regulation does not apply to entities unaffiliated with Gazprom, such as Yakutgazprom, Norilskgazprom and Kamchatgazprom, as well as the Company's producing subsidiary Sakhalinmorneftegaz. The wholesale price of natural gas produced by independent gas suppliers is not regulated. Additionally, certain retail customers, such as residential consumers, are entitled to fixed retail gas prices.

In a decree dated 30 August 2005, the FTS set the tariff for transportation via the UGSS of natural gas by independent Russian producers to end users, in each case as of 1 October 2005:

- Within Russia and the member states of the Customs Union, at RUB 23.84 per thousand cubic meters per 100 km, excluding VAT; and
- Outside Russia and member states of the Customs Union, at USD 0.97 per thousand cubic meters per 100 km, excluding VAT.

Environmental Requirements

Russian environmental law establishes a "pay-to-pollute" regime administered by the Federal Service for Ecological, Technological and Nuclear Supervision and local authorities. Starting from 12 March 2004, the Federal Service for Surveillance in the Sphere of Ecology and Environmental Use was created under the auspices of the Ministry of Natural Resources (as well as the Federal Agency for Subsoil Use), and the control and surveillance functions of the Ministry of Natural Resources were transferred to this service. According to Decree of the President of the Russian Federation No. 649 of 20 May 2004, starting from 22 May 2004 the Federal Service for Surveillance in the Sphere of Ecology and Environmental Use was reorganized into the Federal Service for Surveillance in the Sphere of Environmental Use, and its ecology surveillance functions were transferred to the newly created Federal Service for Ecological, Technological and Nuclear Supervision, which is the authority responsible for administering the "pay-to-pollute" regime. Fees are assessed for both pollution within the limits agreed on emissions and effluents and for pollution in excess of these limits. There are additional fines for certain other breaches of environmental regulations. The environmental protection law contains an obligation to make compensation payments to the budget for all environmental losses caused by pollution. In the event of a dispute concerning losses caused by breaches of environmental laws and regulations, the prosecutor's office or other authorized governmental bodies may bring suit, though there is no private right of action for monetary relief. Courts may impose clean-up obligations subject to the agreement of the parties in lieu of or in addition to imposing fines.

Exploration licenses and production licenses generally require certain environmental commitments. Although such commitments may be stringent in a particular license, the penalties for failing to comply with clean-up requirements are generally low.

Continental Shelf and the Exclusive Economic Zone

Offshore hydrocarbon operations in areas on the continental shelf (generally within a 200 nautical mile limit) are separately governed by the Continental Shelf Law. Activities that take place on the continental shelf, including the drilling and laying of pipelines and the operation of oil and gas extraction facilities, fall under the jurisdiction of not only the Subsoil Agency and other agencies operating within the auspices of the Ministry of Natural Resources, but also several other governmental entities, including the Federal Security Service, governmental technical oversight agency Federal Service for Ecological, Technological and Nuclear Supervision, and the Federal Fishery Agency. Rosneft's activities governed by the Continental Shelf Law include its exploration and development activities at its license areas located on the continental shelf, which are Sakhalin-1, Venineft (Sakhalin-3), West Schmidtneftegaz (Sakhalin-4), East Schmidtneftegaz and Kayganneftegaz (Sakhalin-5), Kamchatneftegaz (West Kamchatka), Tuapsinskiy Trough (Black Sea) and the Temryuksko-Akhtarskiy Block (Sea of Azov).

The "exclusive economic zone" of the Russian Federation is the marine area located from Russia's 12-mile territorial sea limit up to 200 nautical miles from the low water line (or as otherwise provided by international law or treaty), including all islands located within this area. Oil and gas exploration and extraction activities that are carried out within this area are governed by Federal Law No. 191-FZ "On the Exclusive Economic Zone of the Russian Federation," dated 17 December 1998, as amended (the "**EEZ Law**"), in addition to the Subsoil Law, the Continental Shelf Law, the PSA Law (if applicable) and any international treaties to which the Russian Federation is a party.

The EEZ Law focuses on protecting and monitoring the natural resources of the exclusive economic zone, including fish, sea mammals, mollusks and crustaceans, as well as minerals and tides. The EEZ Law establishes a framework of protective measures with respect to dumping, accidents at sea, and protection and conservation of ice-bound and other specially designated areas. Users of resources in the exclusive economic zone must pay fees to the federal budget for such use.

Energy Charter Treaty

The Energy Charter (the "**EC**") was conceived at a meeting of the European Council in June 1990 as a means to strengthen the relationship, which existed in the energy sector between the USSR, the countries of Central and Eastern Europe and the countries of Western Europe. The EC was officially adopted in December 1991. It is a political declaration on co-operation between Eastern and Western Europe in the energy sector and is not legally binding on any of its parties. At present, 54 countries have signed the EC, including member states of the E.U.

In December 1994, following three years of negotiations, the general intentions contained in the EC were put into a legally binding form, the Energy Charter Treaty (the "**ECT**"). As of January 2005, 51 countries have signed the ECT, including Russia and the member states of the E.U. The ECT has been ratified by 46 countries.

The main objectives of the ECT are to:

- Provide a stable energy supply;
- Provide effective production, processing, transportation, distribution and consumption of energy resources;
- Assist in the development of the European energy market and the improvement of the global energy market through implementing principles of non-discriminatory access and free market pricing; and
- Legally protect the interests of energy-related companies and entities on issues relating to investments, transit, trade and dispute resolution procedures.

Although Russia signed the ECT in December 1994, the State Duma has not yet ratified it, in part due to concerns regarding the impact of the ECT on pipeline access. Accordingly, the Company believes that the ECT does not bind Russia. However, although Russia has not ratified the ECT, it is a member of the Energy Charter Conference and participates in the Energy Charter Secretariat's day-to-day activities.

Current System of Oil and Gas Related Taxes and Payments

In general, the Russian oil and gas industry is subject to the same burdensome tax regime as other industries. In addition, the oil and gas companies are subject to industry-specific taxes. As noted above under "—Transportation of Crude Oil and Petroleum Products," the Russian government has imposed restrictions on the export of crude oil and petroleum products by companies that have arrears to tax authorities at any level of government.

The Mineral Production Tax

Federal Law No. 126-FZ of 8 August 2001, which became effective on 1 January 2002 (the "**Mineral Production Tax Law**"), amended the previous regime of mineral replacement taxes, royalties and excise taxes on the production of oil and gas condensate and replaced all such taxes with a single mineral production tax, a tax on the commercial extraction of minerals.

Mineral Production Tax Rates

Oil

For the year ended 31 December 2005, the base tax rate for the mineral production tax paid on a monthly basis was set at RUB 419 times R per tonne of oil produced during the previous month, where:

- R is $(P-9) \times (R_t / 261)$;
- P is the average price of Urals blend during the previous month; and
- R_t is the average U.S. dollar-ruble established by the CBR exchange rate during the previous month.

Thus, for oil, the mineral production tax is adjusted monthly depending on the market price of Urals blend and the ruble exchange rate. The tax becomes zero if the Urals blend price falls to or below USD 9.00 per barrel. According to current law, from 1 January 2007, the mineral production tax rate is planned to be set at 16.5% of the value of extracted oil, calculated either by reference to actual sale prices of natural resources or the deemed value of natural resources net of VAT less export duties, transportation expenses and certain other distribution expenses.

Condensate

For the year ended 31 December 2005, the base tax rate for the mineral production tax was set at 17.5% of the value of condensate produced.

Gas

For the year ended 31 December 2005, the base tax rate for the mineral production tax was set at RUB 135 per thousand cubic meters of natural gas produced, and RUB 147 per thousand cubic meters during the first quarter of 2006.

Proposed Changes in the Mineral Production Tax

On 2 May 2006, a bill was introduced to the State Duma proposing changes to the mineral production tax regime. Subject to approval by the Federal Assembly and the President, the new legislation is likely to take effect around 1 January 2007. The key provisions of the draft bill are:

- Certain mineral production tax-free periods for "greenfield" crude oil projects in Eastern Siberia for up to 10 years for new production licenses and 15 years for new combined exploration and production licenses. Qualifying producers could extract up to 25 million tonnes of crude oil per license without paying mineral production tax. These mineral production tax-free periods do not apply to the extraction of natural gas; and
- Lower mineral production tax rates for "brownfield" fields that are 80% or more depleted.

Rosneft has extensive "greenfield" interests in Eastern Siberia. See "Business—Upstream Operations—Exploration Projects—Eastern Siberia Resource Base." Accordingly, the proposed legislation may, if enacted in the form currently proposed, benefit Rosneft.

Oil-Related Export Duties

In early 1999, the government reintroduced export customs duties on crude oil and petroleum products exported outside Russia and members of the Customs Union. Following increases in world oil prices, the export customs duties have been steadily increasing. In August 2001, the Law on Customs Tariffs No. 5003-1, dated 21 May 1993 (the "**Law on Customs Tariffs**"), was amended to establish the rates of export customs duties for crude oil based on the average price of Urals blend for the two preceding months. The rates of customs duties established by the Russian government in accordance with the framework set forth in the amended Law on Customs Tariffs are as follows. The actual rates paid by oil companies come into effect on the first day of the second month following the end of the "period of monitoring," which is equal to two calendar months:

Average Price for Urals Crude Oil Blend[(1)]	Export customs duties
Below or equal to USD 109.50 per tonne (USD 15.00 per barrel)	0%.
Above USD 109.50 but less than or equal to USD 146.00 per tonne (USD 15.00 to USD 20.00 per barrel)	35% of the difference between the actual price per tonne and USD 109.50 (or between the actual price per barrel and USD 15.00).
Above USD 146.00 but less than or equal to USD 182.50 per tonne (USD 20.00 to USD 25.00 per barrel)	USD 12.78 plus 45% of the difference between the actual price per tonne and USD 146.00 (or between the actual price per barrel and USD 20.22).
Above USD 182.50 per tonne (USD 25.00 per barrel)	USD 29.2 plus 65% of the difference between the actual price per tonne and USD 182.50 (or between the actual price per barrel and USD 25.00).

(1) The Urals crude oil blend price is calculated as the price for Urals blend on world markets (Mediterranean and Rotterdam) for the two months immediately preceding the current two-month period. For purposes of calculating the export duty, the conversion ratio between tonnes and barrels is 7.3 barrels per tonne.

Oil and Gas Related Payments for the Right to Explore and Appraise Fields and Prospect for Natural Resources

Historically, Russian oil and gas companies made payments for the right to explore and appraise fields, as well as payments for the right to prospect for natural resources as a percentage of the value of exploration and appraisal works (1-2%) and the value of prospecting works (3-5%).

Starting from 2002, Federal Law No. 126-FZ of 8 August 2001 introduced a new approach to the calculation of these payments. This law linked the payments to the size of the license area provided to the user of the subsoil. The minimum and the maximum rates of quarterly payments are set by Federal Law No. 57-FZ of May 29, 2002. Payments related to use of subsoil include:

- One-time payments in cases specified in the license;
- Regular payments for subsoil use, including:
  - ➢ The rate for the right to explore and appraise oil fields is from RUB 120 (RUB 50 for offshore areas) per square kilometer to RUB 360 (RUB 150 for offshore areas) per square kilometer; and
  - ➢ The rate for the right to prospect for natural resources from RUB 5,000 (RUB 4,000 for offshore areas) per square kilometer to RUB 20,000 (RUB 16,000 for offshore areas) per square kilometer as set by the regional authorities;
  - ➢ Exact rates for specific areas are to be set by regional authorities for onshore areas and the Subsoil Agency for offshore areas. Where these specific rates have not been set, the above maximum rates apply.
- Payments for geological subsoil information;
- Fees for the right to participate in auctions/tenders; and
- Fees for the issuance of licenses.

The Russian government also establishes export duties for petroleum products, but the procedure for their determination is not set. Starting in 2005, export duties for light petroleum products were approximately 75% of those for crude oil, and those for heavy petroleum products were approximately 40% of those for crude oil, in the respective periods.

Excise Tax on Petroleum Products

Historically gasoline, diesel fuel and motor oils were subject to a Fuel Sales Tax at 25% of their value. Excise tax was payable only with respect to gasoline. Effective 1 January 2001, this Fuel Sales Tax was abolished, and excise tax became applicable to all of the above products. The current excise tax rates on petroleum products are as follows:

Oil Product	Rate per tonne (RUB)
Gasoline with octane numbers not exceeding "80"	2,657
Gasoline with octane numbers exceeding "80"	3,629
Diesel fuel	1,080
Motor oil	2,951
Naphta	2,657

DESCRIPTION OF CAPITAL STOCK AND CERTAIN REQUIREMENTS OF RUSSIAN LAW

The following text describes the Company's Ordinary Shares, the material provisions of its charter and certain requirements of Russian law.

Corporate Purpose

Article 3 of the Company's charter provides that the Company's primary purpose is to earn profit by conducting entrepreneurial activity.

Description of Capital Stock

General

Pursuant to its charter, the Company has the right to issue registered ordinary shares, preferred shares and other securities provided for by Russian securities law.

Under Russian law, charter capital is the aggregate nominal value of the issued and outstanding shares. The Company's capital stock consists of 9,092,174,000 issued, fully paid and outstanding Ordinary Shares, each with a nominal value of RUB 0.01, which totals RUB 90,921,740 of charter capital. In addition, the Company is authorized under its charter to issue an additional 7,838,514,449 Ordinary Shares.

On 7 June 2006, the General Shareholders' Meeting approved the issuance of 7,438,514,449 Ordinary Shares for the Share Swap and the issuance of up to 400,000,000 Ordinary Shares to be offered in the form of GDRs in the Global Offering. On 20 June 2006, the FSFM registered the issuance of the 400,000,000 Ordinary Shares.

As part of the Share Swap, the Company will issue new Ordinary Shares that it will exchange for the shares in the Merging Subsidiaries held by minority shareholders of the Merging Subsidiaries. Under Russian law, shares in the Merging Subsidiaries held by the Company and shares of the Merging Subsidiaries held by the Merging Subsidiaries themselves (together, the "**Non-Participating Shares**") cannot participate in the Share Swap. Nonetheless, the Company approved the issuance of a number of Ordinary Shares that would be exchangeable were the Non-Participating Shares eligible to participate in the Share Swap. This would be 7,438,514,449 Ordinary Shares, of which the Company expects to issue a maximum of 1,222,059,382 Ordinary Shares to minority shareholders in the Merging Subsidiaries. The Company approved the issuance of this number of Ordinary Shares to comply with stated FSFM policy which is designed to accommodate the possibility of a disposition of Non-Participating Shares to third parties between the initial approval and actual consummation of the Share Swap, which could take several months. The Company does not intend to dispose of any Non-Participating Shares to third parties. Any new Ordinary Shares that are not issued in the Share Swap cannot be issued for any other purpose without a further decision of the shareholders.

History of Share Issues

The following table sets forth, as of the date of this Prospectus, a history of the Company's share issuances that have occurred over the past three financial years:

Year	Event	Outstanding Shares	Nominal Value (RUB)
2003	Shares at the beginning of the year	88,733,312 Ordinary Shares	1.00
		1,446,047 Preferred Shares	1.00
	Issue of 742,382 Ordinary Shares paid for by property[(1)]	89,475,693 Ordinary Shares	1.00
		1,446,047 Preferred Shares	1.00
2004	Shares at the beginning of the year	89,475,693 Ordinary Shares	1.00
		1,446,047 Preferred Shares	1.00
	Exchange of existing preferred shares for preferred shares with a new scope of rights	89,475,693 Ordinary Shares	1.00
		1,446,047 Preferred Shares	1.00
	Issue of 1,446,047 Ordinary Shares for exchange of 1,446,047 preferred shares	90,921,740 Ordinary Shares	1.00
2005	Shares at the beginning of the year	90,921,740 Ordinary Shares	1.00
	Split of existing Ordinary Shares into Ordinary Shares with smaller face value	9,092,174,000 Ordinary Shares	0.01

Year	Event	Outstanding Shares	Nominal Value (RUB)
2006	Shares at the beginning of the year	9,092,174,000 Ordinary Shares	0.01
Q1 2006	Shares at the end of Q1 2006	9,092,174,000 Ordinary Shares	0.01
Subsequent	On 7 June 2006, the General Shareholders' Meeting approved the issuance of 7,438,514,449 Ordinary Shares for the Share Swap and the issuance of up to 400,000,000 Ordinary Shares to be offered in the form of GDRs in the Global Offering.		

(1) One share was cancelled as it was not placed.

Rights Attaching to Shares

Pursuant to its charter, the Company has the right to issue registered ordinary shares and other securities provided for by legal acts of the Russian Federation with respect to securities. The Company may issue preferred shares only after amending its charter with the consent of the General Shareholders' Meeting.

The Company has issued only Ordinary Shares, and the Company's shareholders have identical voting rights. Holders of the Company's Ordinary Shares have the right to vote at each General Shareholders' Meeting. In accordance with the Russian Federal Law "On Joint Stock Companies" No. 208-FZ dated 26 December 1995 (the "**Joint Stock Companies Law**") and the Company's charter, all of the Ordinary Shares have identical par value, and each holder of Ordinary Shares has identical rights. Each fully paid Ordinary Share, except for treasury shares, gives its holder the right to:

- Freely transfer the shares without the consent of other shareholders;
- Receive dividends;
- Participate in shareholders' meetings and vote on all matters within the competence of shareholders;
- Transfer voting rights to its representative pursuant to a power of attorney;
- Elect candidates to the Board of Directors and the Audit Commission;
- If holding, alone or with other holders, over 2% of the outstanding Ordinary Shares, within 30 days after the end of the Company's fiscal year, make proposals for the annual shareholders' meeting and nominate candidates for the Board of Directors and the Audit Commission;
- If holding, alone or with other holders, over 10% of the outstanding Ordinary Shares, demand from the Board of Directors the calling of an extraordinary shareholders' meeting or an unscheduled audit by the Audit Commission or an independent auditor;
- Demand, under the circumstances enumerated below, that the Company repurchase some or all of their Ordinary Shares if the shareholder votes against, or does not participate in voting on, a decision approving any:
  - ➢ Reorganization;
  - ➢ Major transaction, as defined in Russian law (see "—Certain Requirements of Russian Law—Major Transactions"); or
  - ➢ Amendment of the Company's charter restricting shareholders' rights.
- Upon liquidation of the Company, receive a *pro rata* amount of the Company's property after its obligations are discharged;
- Have free access to certain company documents and receive copies for a reasonable fee and, if holding alone or with other shareholders 25% or more of the outstanding Ordinary Shares, have free access to accounting documents; and
- Exercise the other rights of a shareholder under the Company's charter and Russian law and established on the basis of decisions taken at a duly called shareholders' meeting.

Preemptive Rights

The Joint Stock Companies Law and the Company's charter grants a preemptive right to its existing shareholders to purchase shares or securities convertible into shares in an open subscription in an amount proportionate to their existing shareholding. In addition, the Joint Stock Companies Law provides shareholders with a preemptive right to purchase shares or securities convertible into shares in a closed subscription if the shareholders voted against, or did not participate in voting on, the decision approving such subscription. The preemptive right does not apply to a closed subscription to existing shareholders, so long as each such shareholder may acquire a whole number of shares or convertible securities being placed in an amount proportionate to their existing holdings of such securities.

Share Acquisition above Certain Thresholds and Anti-Takeover Protection

As of 1 July 2006, the effective date of amendments to the Joint Stock Companies Law, the new rules apply to the acquisition of shares in open joint stock companies. A person intending to purchase more than 30% of the voting shares (taking into account those it already holds together with its affiliates) will have the right to make a public offer to all the shareholders of the company (voluntary offer). Within 35 days after acquisition by any means of more than 30%, 50% or 75% of such shares, the acquirer must make a public offer to purchase the remaining shares from the shareholders (compulsory offer). The acquirer's payment obligations arising from both voluntary and compulsory offers shall be secured in each case by an irrevocable bank guarantee effective within at least six months after the expiration date of the relevant acceptance period.

At any time after the company receives a voluntary or a compulsory offer and until 25 days prior to the expiration of the relevant acceptance period, any person will have the right to make a competing offer (that satisfies the requirements for voluntary or compulsory offers respectively) to purchase the number of shares and at the price that are greater than or equal to those offered in the respective voluntary or compulsory offer. Any shareholder may revoke its previous acceptance of the respective offer and accept the competing offer. A copy of the competing offer shall be sent to the person who made the respective voluntary or compulsory offer so that such person could amend its offer by increasing the purchase price and/or shortening the settlement period.

If as a result of either the voluntary or the compulsory offer the acquirer purchases more than 95% of the voting shares, it will have an obligation to:

- Notify all the other shareholders (within 35 days after acquisition of shares above such threshold) of their right to sell their shares and other securities convertible into such shares; and
- Purchase their shares upon request of each minority shareholder.

Instead of giving such notice, the acquirer will have the right to deliver a buy-out demand, binding on the minority shareholders, that they sell their shares.

As a general rule, such new buy-out mechanisms became effective as of 1 July 2006 and will be available to the persons that will have acquired such shares pursuant to a voluntary or a compulsory offer after such date. In addition, during one year after the effective date of a federal law on appraiser's liability insurance (which is not adopted yet) such mechanisms will be available to the majority shareholders that own as of 1 July 2006 more than 95% of the voting shares or, alternatively, 85% of such shares but will acquire more than 95% of the same through a voluntary offer made after such date. However, in each such case, the determination of the purchase price will require both a report of an independent appraiser and an expert opinion of a self-regulatory organization of appraisers.

Dividends

The Joint Stock Companies Law and the Company's charter set forth the procedure for determining the dividends that the Company may distribute to its shareholders. Under its charter, the Company may distribute dividends based on its first quarter, six months, nine months or annual results according to Russian accounting standards. A majority of the Board of Directors recommends the amount of dividends to the shareholders' meeting, which then approves such amount by majority vote. The dividend approved at the shareholders' meeting may not exceed the amount recommended by the Board of Directors. A decision on quarterly, six month and nine month dividends must be taken within three months of the end of the respective period; a decision on annual dividends must be taken at the Annual General Shareholders' Meeting. The Company only pays dividends to shareholders of record as of the record date for the shareholders' meeting that approved such dividends. See "—Governance—Governance Bodies—General Shareholders' Meeting—Notice and Participation." Under its charter, the Company may pay dividends in cash or property. The Company does not pay dividends on treasury shares.

The Joint Stock Companies Law allows dividends to be paid out only of net profits calculated under RAS and as long as the following conditions have been met:

- The charter capital of the company has been paid in full;
- The value of the company's net assets is not less (and would not become less as a result of the proposed dividend payment) than the sum of the company's charter capital, the company's reserve fund and the difference between the liquidation value and the par value of the issued and outstanding preferred shares of the company;
- The company has repurchased all shares from shareholders having the right to demand repurchase; and
- The company is not, and would not become as a result of the payment of dividends, insolvent.

Distributions on Liquidation to Shareholders

Under Russian law, the liquidation of a company results in its termination without the transfer of rights and obligations to other persons as legal successors. The Company's charter allows its liquidation:

- By a three-quarters supermajority of the General Shareholders' Meeting; or
- By a court order.

Following a decision to liquidate, the right to manage the Company's affairs would pass to a liquidation commission appointed by the shareholders' meeting in the case of a voluntary liquidation or by the court in the case of an involuntary liquidation. Creditors may file claims within a period determined by the liquidation commission but that must be at least two months from the date on which the liquidation commission publishes notice of the liquidation.

The Civil Code gives creditors the following order of priority in liquidation:

- Individuals owed compensation for injuries or deaths or moral damages;
- Employees' and copyright claims;
- Secured creditors have priority in claiming the proceeds of pledged assets, subject to certain superpriority claims by individuals;
- Federal and local governmental entities claiming taxes and similar payments to the budgets and non-budgetary funds; and
- Other creditors in accordance with Russian law.

The Federal Law on Insolvency (Bankruptcy) prescribes a somewhat different order of priority with respect to creditors' claims in the event of a liquidation due to insolvency.

The assets of a company remaining upon liquidation are distributed among shareholders in the following order of priority:

- Payments to repurchase shares from shareholders having the right to demand repurchase;
- Payments of declared but unpaid dividends on preferred shares and the liquidation value of the preferred shares, if any; and
- Payments to holders of common and preferred shares on a *pro rata* basis.

Shareholder Liability

Under the Civil Code, the Joint Stock Companies Law and the LLC Law, shareholders in a Russian joint stock company or members of a Russian limited liability company generally are not liable for the company's obligations and bear only the risk of the loss of their investment. Shareholder liability may obtain, if one person (the "**Effective Parent**") can give binding instructions to another person (the "**Effective Subsidiary**") such as the company. This doctrine applies regardless of the source of the Effective Parent's ability to give binding instructions to the Effective Subsidiary. For example, this liability could arise through ownership of voting securities or by contract.

Shareholder liability obtains if:

- The Effective Parent actually gives binding instructions to the Effective Subsidiary; and
- The Effective Subsidiary's liability arises from actions that it takes pursuant to the binding instructions.

Thus, a shareholder of an Effective Parent is not liable for the obligations of the Effective Parent's Effective Subsidiary, unless that shareholder is itself an Effective Parent of the Effective Parent. Accordingly, GDR holders will not be personally liable for the Company's obligations, or those of its Effective Subsidiaries, unless they control its business.

In addition, an Effective Parent bears secondary liability for the obligations of an Effective Subsidiary that becomes insolvent or bankrupt due to the Effective Parent's actions or inactions. In both these circumstances, the Effective Subsidiary's minority shareholders can claim compensation from the Effective Parent for the Effective Subsidiary's losses. According, the Company could be liable, in some cases, for the debts of subsidiaries of whose charter capital it owns more than 50%, or which it otherwise controls, which could adversely affect its operating results and financial condition.

Share Capital Increase

The Company may increase its charter capital by:

- Issuing new shares, or
- Increasing the nominal value of previously issued shares using its net income.

Generally, a decision to increase the charter capital by either method requires a majority vote of a shareholders' meeting. In addition, the issuance of shares above the number set forth in the Company's charter necessitates a charter amendment, which requires a three-quarters majority vote at a shareholders' meeting.

The Joint Stock Companies Law requires that newly issued shares be sold at market value, except in limited circumstances where fees up to 10% are paid to intermediaries, in which case the fees paid may be deducted from the price. The price may not be set at less than the nominal value of the shares. The Board of Directors and an independent appraiser value any in-kind payments for the new shares.

Russian securities regulations prescribe specific procedures for the registration and issuance of shares of a joint stock company. These procedures generally require:

- Prior registration of a share issuance with the FSFM;
- Public disclosure of information relating to the share issuance; and
- Following the placement of the shares, registration and public disclosure of the results of the placement.

Capital Decrease; Share Repurchases

The Federal Law on Joint Stock Companies does not allow a company to reduce its charter capital below the minimum charter capital required by law, which constitutes 100,000 rubles for an open joint stock company. The Company's charter requires that any decision to reduce its charter capital, whether through the repurchase and cancellation of shares or a reduction in the nominal value of the shares, be by a majority vote of the General Shareholders' Meeting. Additionally, within 30 days of a decision to reduce its charter capital, the Company must issue a written notice to its creditors and publish this decision. The creditors would then have the right to demand, within 30 days of publication or receipt of such notice, repayment of all amounts due to them, as well as compensation for damages.

The Joint Stock Companies Law allows the shareholders or the Board to authorize the repurchase of up to 10% of the Company's shares in exchange for cash. The repurchased shares either must be resold within one year of their repurchase or the shareholders must decide to cancel such shares and then either decrease the charter capital or increase the nominal value of the remaining shares to preserve the total amount of the charter capital.

The Joint Stock Companies Law allows the Company to repurchase its shares only if, at the time of repurchase:

- The Company's charter capital has been paid in full;
- The Company is not and would not become, as a result of the repurchase, insolvent;
- The value of the Company's net assets is not less (and would not become less, as a result of the proposed repurchase) than the sum of its charter capital, the reserve fund and the difference between the liquidation value and the par value of its issued and outstanding preferred shares; and
- The Company has repurchased all shares from shareholders having the right to demand a repurchase of their shares under laws protecting minority shareholder rights, as described below.

The Joint Stock Companies Law and the Company's charter provide that its shareholders may demand repurchase of all or some of their shares, so long as the shareholder demanding the repurchase voted against or did not participate in the voting on the decision approving any of the following actions:

- A reorganization;
- Conclusion of a major transaction, as defined under Russian law (see "—Certain Requirements of Russian Law—Major Transactions"); or
- Amendment of the Company's charter in a manner that results in restrictions on the shareholders' rights.

The Company may spend up to 10% of its net assets, as calculated under RAS, for a share redemption demanded by the shareholders. If the value of shares in respect of which shareholders have exercised their right to demand a repurchase exceeds 10% of the Company's net assets, the Company will repurchase shares from each such shareholder on a *pro rata* basis.

Registration and Transfer of Shares

Russian law requires that a joint stock company maintain a register of its shareholders. Only the entries in this register suffice to evidence the ownership interests of the Company's registered shareholders. Any shareholder may obtain an extract from the Company's register certifying the number of shares that such shareholder holds. Since 2002, LLC Registrator-RN has maintained the Company's shareholder register.

The purchase, sale or other transfer of shares is consummated by registering the transfer in the shareholder register, or, if a depositary holds the shares, registering the transfer with the depositary. The registrar or depositary may not require any documents beyond those required under Russian law to transfer the shares in the register. Refusal to register the shares in the name of the transferee or, upon request of the beneficial holder, in the name of a nominee holder, is void.

Governance

The Company complies fully with the FSFM corporate governance code for listed companies. The Company's Ordinary Shares have been listed on the RTS and MICEX since 16 June 2006, and as a result, the Company must comply with several corporate governance requirements. Such requirements include, among others, the:

- Membership of at least one independent director on the Board at all times;
- Establishment of an Audit Committee of the Board chaired by an independent non-executive director;
- Adoption of a bylaw on insider trading;
- Establishment of internal control procedures;
- Provision in the Company's charter for 30 days' prior notice of a General Shareholders' Meeting; and
- Provision in the Company's bylaws obligating the Company's President, members of its Management Board and its Board to disclose information concerning their ownership, sale and purchase of Ordinary Shares.

Governance Bodies

General Shareholders' Meeting

Procedure

The Joint Stock Companies Law and the Company's charter set forth the powers of the General Shareholders' Meeting. A General Shareholders' Meeting may not decide issues that are not included in the list of its competence by the Joint Stock Companies Law and a company's charter. Among the issues with respect to which the shareholders have exclusive power to make decisions are:

- Charter amendments;
- Initiation of reorganization or liquidation;
- Election and early termination of the Board;
- Election and early termination of the President;
- Determination of the number, nominal value, type of authorized shares and rights granted by such shares;
- Changes in the Company's charter capital;
- Appointment of an independent auditor for statutory accounts;
- Election and early termination of the members of the Company's Audit Commission;
- Approval of certain interested party transactions and major transactions;
- Approval of yearly reports and distribution of profits; and
- Redemption by the company of issued shares in cases provided under the Joint Stock Companies Law.

Voting at a shareholders' meeting is generally executed according to the principle of one vote per common share, with the exception of the election of the Board of Directors, which is done through cumulative voting. Decisions are generally passed by an affirmative vote of a majority of the voting shares present at a shareholders' meeting. However, Russian law requires a three-quarters affirmative vote of the voting shares present at a shareholders' meeting to approve the following:

- Charter amendments;
- Reorganization or liquidation;
- Major transactions involving assets in excess of 50% of the balance sheet value of the assets of the Company;
- Determination of the number, nominal value, and type of authorized shares and the rights granted by such shares;
- Redemption by the Company of issued shares;
- Any issuance of shares or securities convertible into shares by closed subscription; or
- Issuance by open subscription of shares or securities convertible into Ordinary Shares constituting more than 25% of the number of issued Ordinary Shares.

The quorum requirement for the Company's shareholders' meetings obtains when more than 50% of the issued voting shares are present. Absent a quorum, another shareholders' meeting with the same agenda may (or, in the case of an annual meeting, must) be scheduled, and a quorum at the rescheduled meeting obtains if at least 30% of the issued voting shares are present at that meeting.

The Board must convene the Annual General Shareholders' Meeting between 1 March and 30 June of each year, and the agenda must include the following items:

- Determination of the number and election of members of the Board;
- Approval of the annual report, balance sheet and profit and loss statement;
- Approval of any distribution of profits, including approval of annual dividends, if any;
- Approval of an independent auditor for statutory accounts;
- Election of the Board; and

• Election of an Audit Commission.

The General Shareholders' Meeting also approves compensation for directors. A shareholder or a group of shareholders owning in the aggregate at least 2% of the issued voting shares may introduce proposals for the agenda of the Annual Shareholders' Meeting and may nominate candidates for the Board and the Audit Commission. Any agenda proposals or nominations must be provided to the company no later than 30 days after the end of the financial year.

The Board may call an extraordinary shareholders' meeting on its own initiative or at the request of:

• The Audit Commission;

• The independent auditor of the statutory accounts; or

• A shareholder or group of shareholders owning, in the aggregate, at least 10% of the issued voting shares as of the date of the request.

A General Shareholders' Meeting may be held in the form of a meeting or by an absentee ballot. The form of a meeting contemplates the adoption of resolutions by the General Shareholders' Meeting through the joint personal attendance of the shareholders or their authorized representatives for the purpose of discussing and voting on the issues on the agenda, provided that if a ballot is mailed to shareholders for participation at a meeting convened in such form, the shareholders may consider the issues presented in the ballot and mail the ballot back to the company without personally attending the meeting. The absentee ballot contemplates the determination of the shareholders' opinions on the issues on the agenda by means of a written poll.

The following issues cannot be decided by a shareholders' meeting held by means of an absentee ballot:

• Election of directors;

• Election of an Audit Commission;

• Approval of a Company's independent auditor for statutory accounts; and

• Approval of the annual report, balance sheet, profit and loss statement under Russian law, and distributions of profits, including approval of annual dividends, if any.

Notice and Participation

Under the Company's charter, the Company must notify all shareholders entitled to participate in a given General Shareholders' Meeting of such meeting, whether held in a direct or remote format, no less than 30 days before the date of the meeting. However, in the case of an Extraordinary General Shareholders' Meeting to elect the Board by cumulative vote, the Company must notify its shareholders at least 50 days before the date of the meeting.

Only those items that are set forth in the agenda may be voted upon at a General Shareholders' Meeting.

The Company compiles the list of persons entitled to participate in a General Shareholders' Meeting from its shareholder register as of a record date determined by the Board. The record date may not be before the date of the resolution to hold a General Shareholders' Meeting nor more than 50 days before the date of the meeting or, in the case of a General Shareholders' Meeting to elect the Board by cumulative voting, more than 65 days before the date of the meeting.

Shareholders may exercise their right to participate in a General Shareholders' Meeting by:

• Personally participating in the discussion of the agenda items and voting thereon;

• Sending an authorized representative to participate in the discussion of the agenda items and to vote thereon;

• Absentee ballot; or

• Delegating the right to fill out an absentee ballot to an authorized representative.

Board

The Company's charter provides that its entire Board of Directors must be re-elected at each Annual General Shareholders' Meeting and that the Board be elected through cumulative voting. Under cumulative voting, each shareholder may cast an aggregate number of votes equal to the number of voting shares held by such shareholder multiplied by the number of persons to be elected to the Company's Board. Such shareholder may cast all such votes for one candidate or disperse them among multiple candidates. A majority vote of a General Shareholders' meeting may remove directors, as a group, at any time without cause before the expiration of their terms.

The Joint Stock Companies Law requires at least a five-member board of directors for an open joint stock company with less than 1,000 holders of Ordinary Shares, a seven-member board of directors for an open joint stock company with more than 1,000 holders of Ordinary Shares and at least a nine-member board of directors for an open joint stock company with more than 10,000 holders of Ordinary Shares. Only natural persons may serve on the Board. Directors need not be shareholders of a company. A company's charter or a decision of the General Shareholders' Meeting determines the actual number of directors. The Company's charter provides that its Board must consist of nine members.

The Joint Stock Companies Law prohibits a board of directors from acting on issues that fall within the exclusive competence of the General Shareholders' Meeting. In addition to taking general management decisions, the Company's Board, has the exclusive power to decide the following issues:

- Determination of the Company's business priorities;
- Convening of General Shareholders' Meetings, including setting a date and time, approving the agenda, and determining the record date for establishing the shareholders entitled to participate, except in certain circumstances specified under the Joint Stock Companies Law;
- Placement of securities, except in certain circumstances specified under the Joint Stock Companies Law and the Company's charter;
- Appraisal of the Company's property and of securities to be placed or repurchased, as provided for by the Joint Stock Companies Law;
- Repurchase of the Company's securities in certain cases provided for by the Joint Stock Companies Law;
- Election and early termination of powers of the Company's Management Board (other than the President) and establishment of compensation for its President and other members of the Management Board;
- Recommendations on the amount of and procedures for paying dividends;
- The use of the Company's reserve fund and other funds;
- The creation of branches and representative offices;
- Approval of internal documents, except for those documents whose approval falls within the competence of the Company's General Shareholders' Meeting, the President or the Management Board;
- Approval of major and interested party transactions in certain cases as provided for by the Joint Stock Companies Law;
- Approval of decisions regarding securities issuances and prospectuses relating to such securities;
- Approval of the Company's share registrar; and
- Other issues provided for by the Joint Stock Company Law and the Company's charter.

For approval of an item before the Board, the Company's charter generally requires a majority vote of directors present, with the exception of approvals for which Russian law requires a three-quarters supermajority or unanimous vote, such as for major or interested party transactions. A Board meeting is considered duly assembled and legally competent to act when a majority of Board members are present.

The Board meets at least once every three months.

Management Board

Members of the Management Board are responsible for the day-to-day management of Rosneft. The duties of the Management Board include:

- Developing business plans and programs for approval by the Board, and organizing the implementation of such plans and programs;

- Making preliminary determinations of the Company's corporate priorities;
- Optimizing Rosneft's corporate structure and business operations; and
- Approving the Company's internal documents, with the exception of internal documents that are within the competence of the General Shareholders' Meeting, the Board and the President.

President

The President is the Company's chief executive officer. The General Shareholders' Meeting elects the President to a five-year term. The President performs his duties until the election of a new president. The General Shareholders' Meeting can remove the President at any time.

The President exercises day-to-day control over the Company's activities and is accountable to the Board and the shareholders. The President is authorized, without a power of attorney, to take actions in the name of the company. Under the Company's charter, the powers of the President include the following:

- Managing Rosneft's assets in the manner prescribed by its charter and the law;
- Nominating candidates to the Management Board;
- Organizing the work of the Management Board's meetings;
- Making employment decisions, including concluding collective bargaining agreements and appointing and dismissing heads of departments and representative offices; and
- Approving internal documents, with the exception of internal documents that are within the competence of the General Shareholders' Meeting, the Board or the Management Board.

The President also chairs the meetings of the Management Board.

The Company's charter authorizes the President to enter into transactions worth not more than 5% of the Company's total assets, as measured in accordance with its latest RAS accounts. Transactions worth:

- 5-10% of the Company's total assets, as measured in accordance with its latest RAS accounts, require the approval of a majority of the Management Board;
- 10-25% of the Company's assets, as measured in accordance with its latest RAS accounts, require the approval of a majority of the Board;
- 25-50% of the Company's assets, as measured in accordance with its latest RAS accounts, require unanimous Board approval; and
- More than 50% of the Company's assets, as measured in accordance with its latest RAS accounts, require the approval of a three-quarters supermajority of the General Shareholders' Meeting.

Audit Commission

The Company's Audit Commission, whose activities are governed by the Company's charter and Provisions on the Audit Commission, oversees and coordinates audits of its financial and economic activity. The principal duties of the Audit Commission are ensuring that the Company's:

- Operations comply with applicable laws and do not infringe shareholders' rights; and
- Accounting and reporting do not contain any material misstatements.

The General Shareholders' Meeting elects the Audit Commission members to one-year terms. Members of the Management Board, including the President, may not serve on the Audit Commission.

Certain Requirements of Russian Law

Interested Party Transactions

The Joint Stock Companies law requires a joint stock company that enters into "**interested party transactions**" with of its affiliates to obtain special corporate approvals. Transactions between or among members of a consolidated corporate group are usually interested party transactions.

An "**interested party**" means:

- A member of the board of directors or any executive body of the company;

- The chief executive officer of the company, including a managing organization or manager;
- Any person that owns, together with that person's affiliates, at least 20% of the company's issued voting shares; or
- Any person who on legal grounds has the right to give mandatory instructions to the company,

if any of the above listed persons, or their spouse, parents, adoptive parents, children, siblings or affiliates, is:

- A party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- The owner of at least 20% of the issued voting shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction; or
- A member of the board of directors or any management body of a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction or an officer of the managing organization of such company.

An interested party transaction by a company with more than 1,000 shareholders requires approval by a majority of the company's independent and disinterested directors. For purposes of this rule, an "independent director" is a person who is not, and within the year preceding the decision was not, the general director, a member of any executive body or an affiliate of the company. Additionally, such person's spouse, parents, children, adoptive parents or children or siblings must not occupy positions in the executive bodies of the company. An interested party transaction by a company with 1,000 or fewer shareholders requires approval by a majority of disinterested directors if the number of these directors is sufficient to constitute a quorum.

Approval by a majority of disinterested shareholders is required if:

- The value of the interested party transaction, or of several interrelated interested party transactions, is 2% or more of the company's balance assets, as determined under RAS; or
- All the directors are interested parties or none is an independent director;
- The number of disinterested directors in the transaction is insufficient to constitute a quorum; or
- The value of an interested party transaction, or several interrelated interested party transactions, involving the issuance, by subscription, of voting shares or securities convertible into voting shares, or a sale of such securities on the secondary market, exceeds 2% of the company's issued voting shares.

The Joint Stock Company Law may not require approval by a majority of disinterested shareholders if an interested party transaction is substantially similar to transactions that the company and the interested party concluded in the ordinary course of business before the interested party became an interested party with respect to such transactions.

The Joint Stock Companies Law does not require special approvals of an interested party transaction in the following instances:

- The company has only one shareholder that simultaneously performs the functions of the executive body of the company;
- All shareholders of the company are deemed interested in the interested party transaction;
- The interested party transaction arises from the shareholders exercising their preemptive rights to purchase newly issued shares of the company;
- The interested party transactions arise from the repurchase, whether mandatory or not, by the company of its issued shares;
- The company is merging with another company, and the latter owns more than three-quarters of the voting shares of the company; or
- The transactions are mandatory for a company pursuant to Russian law and must be concluded on the basis of fixed prices and tariffs adopted by a competent state body.

Upon a claim by a company or any of its shareholders, a court can invalidate the transaction for which the company has not obtained the requisite corporate approvals and could hold the interested party in question liable for damages.

Major Transactions

The Joint Stock Companies Law defines a "major transaction" as a transaction (including a loan, pledge or guarantee) or a series of interrelated transactions not in the ordinary course of business and not in connection with the placement of ordinary shares or securities convertible into ordinary shares, involving the acquisition or disposal of assets, the value of which constitutes 25% or more of the balance sheet value of the assets of a company calculated in accordance with RAS as of the most recent reporting date. Major transactions involving assets ranging from 25% to 50% of the balance sheet value of the assets of a company require the unanimous approval of all members of the board or, in the absence of such approval, the affirmative vote of shareholders holding a majority of the voting shares present at a shareholders' meeting. Major transactions involving assets in excess of 50% of the balance sheet value of the assets of the Company require a three-quarters affirmative vote of shareholders present at a shareholders' meeting. In addition, the Company's charter provides for certain other transactions that require prior approval of its Board.

Reserve Fund

Russian law requires that each joint stock company establish a reserve fund to be used only to cover the company's losses, redeem the company's bonds and redeem the company's shares in cases where other funds are not available. The Company's charter provides for a reserve fund of 5% of its charter capital, funded through mandatory annual transfers of at least 5% of its net profits until the reserve fund has reached the 5% requirement.

Approval of the Federal Antimonopoly Service of the Russian Federation

Pursuant to Russian antimonopoly law, transactions involving companies with a combined value of assets that exceeds a certain threshold or companies registered as having more than a 35% share of the particular market, and which would result in a shareholder (or a group of affiliated shareholders) holding more than 20% of the voting capital stock of the company must be approved in advance by the Federal Antimonopoly Service of the Russian Federation.

Because Russian law may not recognize the rights of beneficial owners of the GDRs, there is a remote risk that the Depositary may need to obtain approval for the deposits of the Company's shares that would exceed 20% of its voting capital stock, as well as for any subsequent deposits.

Disclosure of Ownership

At present under Russian law, a holder of Ordinary Shares must disclose information concerning its holdings in the following cases:

- The holder acquires 20% or more of the Ordinary Shares;
- The holder increases its percentage holding of the Ordinary Shares by 5% (or an integral multiple thereof) in excess of 20% thereof; and
- The holder decreases its percentage holdings of the Ordinary shares to a level in excess of 5% (or an integral multiple thereof) in excess of (but not lower than) 20% thereof.

Since 1 July 2006, a holder of Ordinary Shares has been required to publicly disclose an acquisition of 5% or more of the outstanding Ordinary Shares of the Company, as well any change in the amount of Ordinary Shares held by such holder, if as a result of such change the percentage of Ordinary Shares held by the holder becomes greater or less than 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the outstanding Ordinary Shares of the Company.

Exchange Controls

Federal Law No. 173-FZ, "On Currency Regulation and Currency Control" (the "**Currency Law**"), which entered into force on 18 June 2004, empowers the Russian government and the CBR to regulate and restrict certain foreign currency operations, including certain types of payments in foreign currency, operations involving foreign securities, including GDRs, and domestic securities, including the Ordinary Shares, as well as certain types of settlements between residents and non-residents of Russia.

Capital Import and Export Restrictions

Pursuant to the Currency Law, the Russian government and the CBR have, until 1 January 2007, the power to restrict, in particular, the following operations:

- Investments (not involving the acquisition of securities) by Russian residents into participatory interests in joint ventures with foreign investors or acquired from foreign investors;
- The acquisition of Russian securities by foreign investors and foreign securities by Russian investors;
- The grant or receipt of loans and credits between residents and non-residents of Russia; and
- Payments for export-import transactions with settlement over 180 days (and in limited cases, from three to five years) following completion.

Restrictions that can be introduced include:

- a requirement to perform the operations listed above through special bank accounts with authorized Russian banks, or the requirement to use a special account; and
- a requirement to deposit in a special non-interest bearing account with an authorized Russian bank, prior to the performance of the operations listed above, a monetary sum in rubles of up to:
  - ➢ 100% of the amount of the foreign currency operation in question for a period of time not exceeding 60 days;
  - ➢ 50% of the amount of the foreign currency operation in question for a period of time not exceeding two years; or
  - ➢ Up to 20% of the amount of the foreign currency operation in question for a period of time not exceeding one year.

As of the date hereof, the requirement to use a special account has been introduced in respect of acquisitions of Russian securities by foreign investors and foreign securities by Russian investors and in respect of the grant or receipt of loans and credits between residents and non-residents of Russia. In particular, the following operations are subject to the requirement to use special accounts:

- The receipt by residents of Russia of foreign currency loans and credits with maturities of not more than three years granted by non-residents of Russia;
- The acquisition of foreign securities (such as GDRs) by Russian investors from non-residents of Russia; and
- The acquisition of Russian securities, such as the Ordinary Shares, by foreign investors from residents of Russia.

From 1 July 2006, the CBR has lifted a requirement to use special accounts for such transactions between residents and non-residents of Russia.

As of the date hereof, the reserve deposit requirement has been introduced, in particular, in respect of:

- The receipt by residents of Russia of foreign currency loans and credits with maturities of not more than three years in the amount of 1% of the loan/credit for one year granted by non-residents of Russia; and
- The acquisition of foreign securities (such as GDRs) for foreign currency consideration by Russian investors from non-residents of Russia in the amount of 12.5% of the sum paid for the securities for 15 days.

The CBR has lifted these requirements from 1 July 2006.

While restrictions imposed on foreign currency operations are currently limited in scope, the statutory powers of the government and the CBR enable them to:

- Increase or decrease the amount and/or time period of the deposit requirements; and
- Extend the deposit requirements and other restrictions to other types of foreign currency operations specified by the Currency Law.

Additionally, Russian companies must repatriate 100% of their receivables from the export of goods and services (with a limited number of exceptions covering, in particular, certain types of secured financing).

Currently, certain types of cross-border operations must be performed only in rubles, including, for example, transactions with domestic securities, such as the Ordinary Shares, between residents and non-residents of Russia.

Provisions on the Remittance of Dividends, Interest or Other Payments to Non-Residents

In its Information Letter No. 31, dated March 31, 2005, the CBR declared that, for currency control purposes, Russian companies may pay dividends in foreign currency to their shareholders who are not Russian residents. The Company believes that this declaration has not yet been widely tested in practice and can give no assurance that it will not be reversed in the future. If Russian companies were again required to pay all dividends on Ordinary Shares in rubles, which requirement should not apply after 1 January 2007, current Russian law would permit such ruble funds to be converted into U.S. dollars by the Depositary without restriction. Until 1 January 2007, the CBR has the right to introduce a 100% reserve requirement for the acquisition of foreign currency by residents of Russia, such as the Company, for a period of up to 60 calendar days.

The ability to convert rubles into U.S. dollars is subject to the availability of U.S. dollars in Russia's currency markets. Although there is an existing, albeit limited, market within Russia for the conversion of rubles into U.S. dollars, including the inter-bank currency exchange and over-the-counter and currency futures markets, the further development of this market is uncertain. At present, there is no market for the conversion of rubles into foreign currencies outside of Russia and no viable market in which to hedge ruble and ruble-denominated investments.

Notification of Foreign Ownership

Foreign persons and foreign companies that acquire shares in a Russian joint stock company, regardless of whether they are registered with the Russian tax authorities, may need to notify the Russian tax authorities within one month following such acquisition. The procedure for notifying the Russian tax authorities by foreign persons that are not registered with the Russian tax authorities at the time of their share acquisitions is unclear. Other than this notification requirement, there are no requirements or restrictions with respect to the foreign ownership of the Ordinary Shares or GDRs.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt Certificate.

The Global Depositary Receipts ("**GDRs**") represented by this certificate are issued in respect of equity Shares of nominal value 0.01 Ruble each (the "**Shares**") in OJSC "Neftyanaya Companiya "Rosneft" (the "**Company**"), with one GDR issued in respect of one Share, pursuant to and subject to an agreement dated 14 June 2006, and made between the Company and J.P. Morgan Europe Limited as depositary (the "**Depositary**") for the "Regulation S Facility" and the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "**Deposit Agreement**"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed OAO Sberbank (Savings bank of the Russian Federation) as Custodian (as defined below) to receive and hold on its behalf the Share certificates in respect of certain Shares (the "**Deposited Shares**") and all rights, securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "**Deposited Property**"). The Depositary shall hold Deposited Shares for the benefit of the Holders (as defined below) in an omnibus account held for each Holder in proportion to the number of Shares in respect of which the GDRs held by such Holder are issued. The Depositary is authorised and regulated by the Financial Services Authority (the "**FSA**"). In these terms and conditions (the "**Conditions**"), references to the "**Depositary**" are to J.P. Morgan Europe Limited and/or any other Depositary which may from time to time be appointed under the Deposit Agreement, references to the "**Custodian**" are to OAO Sberbank (Savings bank of the Russian Federation) or any other Custodian from time to time appointed under the Deposit Agreement and references to the "**Office**" mean, in relation to the Custodian, its office at 19 Vavilova Street, 117997, Moscow, Russia (or such other office as from time to time may be designated by the Custodian with the approval of the Depositary). Deposited Shares are subject to the law or market practice of a jurisdiction outside the United Kingdom therefore may be registered or recorded in the name of the Depositary or the Custodian where the Depositary takes reasonable steps to determine that it is in the best interests of the Holders to register or record the Deposited Shares in this way, or it is not feasible to do otherwise, because of the nature of the applicable law or market practice. Each Holder is hereby notified that any registration of Deposited Shares in the name of the Depositary may mean that the Deposited Shares are not segregated from the assets of the Depositary and in the event of the insolvency of the Depositary, the Holder's Deposited Shares may not be as well protected from claims made on behalf of the general creditors of the Depositary.

References in these Conditions to the "Holder" of any GDR shall mean the person registered as Holder on the books of the Depositary maintained for such purpose (the "**Register**"). These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificate in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Office of the Custodian. Holders are deemed to have notice of and be bound by all of the provisions of the Deposit Agreement, and shall become bound by these Conditions and the Deposit Agreement upon becoming a Holder of GDRs. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, the Company or the Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate.

1. Deposit of Shares and Other Securities

(A) After the initial deposit of Shares in connection with the Initial Offering, unless otherwise agreed by the Depositary and the Company and permitted by applicable law, only the following may be deposited under the Deposit Agreement in respect of such GDR:

(i) Shares issued as a dividend or free distribution on Deposited Shares pursuant to Condition 5;

(ii) Shares subscribed or acquired by Holders from the Company through the exercise of rights distributed by the Company to such persons in respect of Deposited Shares pursuant to Condition 7;

(iii) securities issued by the Company to the Holders in respect of Deposited Shares as a result of any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or otherwise pursuant to Condition 10. References in these Conditions to "Deposited Shares" or "Shares" shall include any such securities, where the context permits; and

(iv) (to the extent permitted by applicable law and regulation) any other Shares in issue from time to time.

(B) The Depositary will issue GDRs in respect of Shares accepted for deposit under this Condition. Under the Deposit Agreement, the Company must inform the Depositary if any Shares issued by it which may be deposited under this Condition do not, by reason of the date of issue or otherwise, rank *pari passu* in all respects with the other Deposited Shares. Subject to the provisions of Conditions 5, 7 and 10, if the Depositary accepts such Shares for deposit it will arrange for the issue of temporary GDRs in respect of such Shares which will form a different class of GDRs from the other GDRs until such time as the Shares which they represent become fully fungible with the other Deposited Shares.

(C) The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by the Company that the Company has restricted the transfer of such Shares to comply with ownership restrictions under applicable Russian law or that such deposit would result in any violation of any applicable Russian laws or governmental or stock exchange regulations. The Company may, following receipt from the relevant Russian authority or regulator of formal approval given in anticipation of a further issue of Shares and GDRs to increase the number of Shares that may be deposited in the Regulation S Facility or the Rule 144A Facility, as applicable, instruct the Depositary to refuse to accept for deposit any Shares that would not have been permitted to be so deposited had such formal approval not been obtained, for a period ending no later than the relevant issue date of such further Shares and GDRs and the Depositary will refuse to accept such Shares. The Depositary may also refuse to accept Shares for deposit in certain other circumstances as set out in the Deposit Agreement.

In its capacity as Depositary, the Depositary shall not lend Shares or other Deposited Property held hereunder or GDRs, provided that:

1. the Depositary shall, if so required by the Joint Global Co-ordinators pursuant to the Pre-Release Agreement in connection with the Initial Offering, execute and deliver Regulation S GDRs or issue interests in the Regulation S Master GDR (and any temporary master Regulation S GDR in respect thereof which may represent Regulation S GDRs issued pursuant to Condition 1(B)) (a "First Pre-Release GDR") prior to the receipt of Shares (the "**First Pre-Released Shares**") by the Custodian or the Depositary, as the case may be, during the period set out in the Pre-Release Agreement (the "**First Pre-Release Period**") Any pre-release pursuant to this Condition 1(C)1 (a "**First Pre-Release**") shall not be collateralised but will be preceded or accompanied by a written representation or agreement from the counterparty or counterparties to the Pre-Release Agreement that (i) at the time of the First Pre-Release they will have acquired, pursuant to and subject to the terms and conditions of an executed underwriting agreement, an irrevocable and unconditional call option (such option as contained in the underwriting agreement being hereafter referred to as the "**Option**") to acquire the First Pre-Released Shares; (ii) for as long as any First Pre-Release GDR is outstanding, they will not sell, lend or (other than in satisfaction of the Pre-Release) otherwise dispose of or grant a security interest or otherwise encumber the First Pre-Released Shares or otherwise act inconsistently with the Option; and (iii) they will deliver or procure delivery of a number of Shares and Regulation S GDRs that together equal the number of then-outstanding First Pre-Released GDRs promptly on the earlier of the receipt of the resulting Shares by the Joint Global Co-ordinators following exercise of the Option and 35 calendar days from the date of the First Pre-Release. The number of First Pre-Released Shares will not exceed 10 per cent. of the total number of Shares (whether in the form of Regulation S GDRs or otherwise) comprised in the Initial Offering, excluding the additional Shares contemplated by the Option. The Depositary may receive Regulation S GDRs in lieu of First Pre-Released Shares in satisfaction of the First Pre-Release; and

2. in addition to the First Pre-Release, unless requested in writing by the Company not to do so, the Depositary reserves the right subject to applicable law and without prejudice to its obligations under the Deposit Agreement, to (i) execute and deliver GDRs or issue interests in a Master GDR prior to the receipt of Shares by the Custodian or the Depositary, as the case may be, and (ii) deliver Deposited Property prior to the receipt and cancellation of GDRs in accordance with the Conditions, including GDRs which were issued under (i) above but for which Shares may not have been received (in each case a "Pre-Release"). The Depositary may receive GDRs in lieu of Shares in satisfaction of a pre-release.

Each pre-release shall be (a) preceded or accompanied by a written representation and agreement from the person to whom GDRs or Deposited Property are to be delivered (the "Pre-Releasee") that at the time of such transaction, such person, or its customer (i) beneficially owns the corresponding Shares or GDRs, as the case may be, to be delivered to the Depositary, (ii) assigns all beneficial right, title and interest in and to such Shares or GDRs, as the case may be, to the Depositary in its capacity as such for the benefit of the Holders and will hold such Shares or GDRs, as the case may be, in trust for the Depositary until those shares or GDRs are delivered to the Depositary or Custodian, (iii) will reflect the Depositary as the owner of such Shares or GDRs, as the case may be, on its records, (iv) will deliver such Shares or GDRs, as the case may be, to the Depositary or Custodian upon the Depositary's request and (v) will not take any action with respect to such Shares or GDRs, as the case may be, that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Shares or GDRs, as the case may be), other than to deliver such Shares or GDRs, as the case may be, to the Depositary in its capacity as such, (b) at all times fully collateralised marked to market daily with cash, U.S. government securities, or other collateral held by the Depositary for the benefit of the Holders as the Depositary reasonably determines will provide substantially similar security and liquidity, (c) terminable by the Depositary on not more than five business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares not deposited but represented by GDRs outstanding at any time as a result of pre-releases will not normally exceed thirty percent (30%) of the Shares deposited hereunder; provided, however, that the Depositary reserves the right to disregard such limit from time to time as it deems reasonably appropriate, and may with the prior written consent of the Company change such limit for purposes of general application. The Depositary may also set limits with respect to the number of Shares and GDRs involved in pre-releases to be effected hereunder with any one person on a case-by-case basis as it deems appropriate. The collateral referred to in Condition 1 (B) above shall be held by the Depositary for the benefit of the Holders as security for the performance of the obligations of the Pre-Releasees to deliver the relevant Shares or GDRs, as the case may be, set forth in Condition (B) above (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

All references in this Condition 1 (C) to 'Pre-Release' or 'Pre-Releases' shall not include a reference to a First Pre-Release.

Nothing in this Condition 1 (C) shall obligate the Company to issue any new Shares in respect of any pre-release by the Depositary. The person to whom any pre-release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1 (C) 2 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A. The person to whom any pre-release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this Condition 1 (C) 2 shall be requested to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3.

(D) The Depositary may retain for its own account any compensation received by it in connection with the foregoing, including without limitation earnings on any collateral. Save as set out in the Deposit Agreement where, in particular, the Company specifically confirms its agreement that the Depositary will be entitled to make the First Pre-Release and any other pre-release pursuant to Condition 1 (C)2, the Company will have no liability whatsoever to the Depositary or any Holder or to any person to whom the GDR or Deposited Property may be delivered by the Depositary or any other holder in due course of such GDRs or Deposited Property with respect to any representations, actions or omissions by the Depositary or any Holder pursuant to Condition 1 (C).

(E) In the event that a Placement Report is not registered with the FSFM, in respect of the New Shares (including those issued pursuant to the Option), within 75 calendar days of the first closing date of the Initial Offering or, in respect of any subsequent issue of new Shares, within 60 calendar days of the last closing date of the issue of such Shares, as the case may be, or such other time as may be agreed between the Company and the Joint Global Coordinators (in respect of the New Shares only) or the Depositary (in respect of any other new Shares) or any new Shares are to be cancelled, whether or not a Placement Report in respect of such Shares has been registered, the Company will notify the Depositary in writing of the number of (i) New Shares or new Shares, as the case may be, which have been or are to be cancelled, (ii) the number of Deposited Shares which have been or are to be cancelled and (iii) the number of GDRs to be cancelled. Upon receipt of this notice and on payment by or on behalf of the Company or other relevant persons (if applicable) to the Depositary or its nominee of the amount of the subscription monies paid in respect of the Deposited Shares which are to be cancelled, the Depositary will, as soon as practicable, give notice to the Holders in accordance with Condition 23 of the cancellation of such number of GDRs as notified to the

Depositary by the Company, and will cancel such number of GDRs on a *pro rata* basis or such other basis as the Depositary determines is practicable in its sole discretion. To the extent that the Depositary receives any such amount from or on behalf of the Company or other relevant persons (if applicable), the Depositary will promptly distribute such amount to the Holders of the GDRs cancelled pursuant to this Condition 1(E) *pro rata* to the number of GDRs cancelled in accordance with Condition 4.

2. Withdrawal of Deposited Property

(A) Deposited Property may not be withdrawn until the Depositary has received a written confirmation from the Company that the Shares are listed on the Russian Stock Exchange. The Depositary shall notify the Holders of such listings in accordance with Condition 23 as soon as is practically possible after receiving such written confirmation. Subject as set out in this Condition 2, any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence that such person is the Holder of, and entitled to, the relative GDR as the Depositary may reasonably require at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Office of the Custodian, or (at the request, risk and expense of the Holder and only if permitted by applicable law from time to time) at the specified office from time to time of the Depositary or any Agent to, or to the order in writing of, the person or persons designated in such order and a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement; and

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form to which the Deposited Property being withdrawn is attributable,

provided that during any period prior to the Depositary receiving the First Pre-Released Shares or such number of Regulation S GDRs as represent the aggregate of all First Pre-Released Shares or the Depositary being notified in writing by the Company that the Placement Report with respect to the New Shares has been registered with the FSFM or at any time between the deposit of any subsequent issue of new Shares and the Depositary being notified in writing by the Company that the Placement Report with respect to such new Shares has been registered with the FSFM, Holders shall not be entitled to request withdrawal of any Deposited Shares.

(B) Certificates for withdrawn Deposited Shares will contain such legends, including the legends described under "Transfer Restrictions", and withdrawals of Deposited Shares may be subject to such transfer restrictions or certifications, as the Company or the Depositary may from time to time determine to be necessary for compliance with applicable laws.

(C) Upon production of such documentation and the making of such payment as aforesaid in accordance with paragraph (A) of this Condition, the Depositary will direct the Custodian by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate for, or other appropriate instrument of title to, the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof as aforesaid;

provided that the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraph (C)(i) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its Agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied by such instruments of transfer in blank or to the person or persons specified in such order and such other documents, if any, as are required by law for the transfer thereto),

in each case to the specified office from time to time of the Depositary or, if any, any Agent as designated by the surrendering Holder in such accompanying order as aforesaid.

(D) Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

(E) Subject as set out above, upon request by any Holder in accordance with Condition 2 for withdrawal of Deposited Property and upon compliance therewith including provision to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4 Part B by or on behalf of each person who will be the beneficial owner of the Deposited Property to be delivered in respect of Rule 144A GDRs, or a duly executed and completed certificate substantially in the form set out in Schedule 3 Part B by or on behalf of each person who will be the beneficial owner of the Deposited Property to be delivered in respect of the Regulation S GDRs, as applicable (in each, Part B of Schedules 3 and 4 may be modified in a manner not inconsistent with the provisions of this Agreement as may be reasonably required by the Depositary in order for the Depositary to perform its duties under this Agreement, or to comply with any applicable law or with the rules and regulations of any securities exchange, market or automated quotation system upon which the GDRs issued hereunder may be listed or to conform with any usage with respect thereto or any book-entry system by which GDRs issued hereunder may be transferred, or to indicate any special limitations or restrictions to which any particular GDRs are subject by reason of the date of issuance of the underlying Deposited Property or otherwise) the Depositary shall make (and forthwith notify the Custodian and the Company of) such arrangements for delivery or collection thereof as soon as practicable to, or to the order in writing of, the person or persons specified in the order for withdrawal, provided that the Depositary shall not (except on the instruction of the Company) make arrangements for such delivery or collection (i) during any period when the transfer of Shares has been blocked on the account due to participation in any shareholders' meeting of the Company when notified by the Company in writing that such suspension is necessary, or (ii) the Depositary is notified by the Company in writing that delivery of Deposited Property will not comply generally, or in one or more localities, with any applicable law or governmental or stock exchange regulations, or (iii) the Depositary is notified by the Company in writing that delivery of Deposited Property will result in ownership of such Shares exceeding any limit under applicable Russian law or government resolution or the Charter, or for any other reason as agreed with the Depositary, as notified to the Depositary by the Company from time to time, or (iv) in the case of GDRs represented by the Regulation S Master GDR or the Rule 144A Master GDR, during any period prior to the Depositary being notified in writing by the Company that a Placement Report in respect of the Shares represented by those GDRs has been registered with the FSFM or (v) in the case where the Depositary has been informed by the Company that a Placement Report has been prepared in respect of any other new Shares represented by GDRs, then in relation to those GDRs, during any period from deposit of such new Shares prior to the Depositary being notified in writing that the Placement Report relating to those Shares has been registered with the FSFM. For the avoidance of doubt, in the absence of any such notification from the Company, the Depositary is not under any obligation to ascertain or determine whether or not any such delivery should be refused (including monitoring ownership levels amongst beneficial owners) and the Depositary shall not be liable for any loss, damage or other consequences arising from any such delivery. Also, for the avoidance of doubt, provided that it is complying with a written notification from the Company pursuant to this Condition 2(E), the Depositary shall not be liable for any loss, damage or other consequences arising from its refusal or delivery. The Depositary shall only be obliged to deliver Shares or other Deposited Property to the extent that Shares or such other Deposited Property are then held by the Custodian or the Depositary or by their respective agents pursuant to the provisions of this Agreement.

Neither the Depositary nor the Custodian shall deliver Shares, by physical delivery, book entry or otherwise (other than to the Company or its agent as contemplated by Condition 1), or otherwise permit Shares to be withdrawn from the Regulation S Facility or from the Rule 144A Facility, except upon the receipt and cancellation of Regulation S GDRs or Rule 144A GDRs, respectively or as set out in Clause 3.13 below. Notwithstanding the foregoing, each Holder and owner of Rule 144A GDRs acknowledges that at any time (a) the Company maintains an unrestricted depositary receipt facility with respect to the Shares in the United States (including, without limitation, the Regulation S Facility) and (b) any of the Rule 144A Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, and each of the

Depositary and the Custodian agrees that, neither the Custodian nor the Depositary will make any actual delivery of Rule 144A Shares to any Holder or beneficial owner at an address within the United States.

(F) The Depositary may refuse to deliver Deposited Property generally, or in one or more localities, if such refusal is deemed necessary or desirable by the Depositary, in good faith, at any time or from time to time because of any requirement of law or of any government or governmental authority, body or commission, or under any provision of this Agreement or for any other reason, and will ensure that the Deposited Property comprises at least one Share until such time as all the GDRs are cancelled.

3. Transfer and Ownership

The GDRs are in registered form, with one GDR issued in respect of one Share. Title to the GDRs passes by registration in the Register and, accordingly, transfer of title to a GDR is effective only upon such registration records of the Depositary. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in a violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its absolute owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of, any certificate issued in respect of it) and no person will be liable for so treating the Holder.

So long as Rule 144A GDRs are "restricted securities" within the meaning of Rule 144 under the Securities Act, interests in such Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is to be represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act. Issuance of Rule 144A GDRs, including in connection with the transfer of an interest in Regulation S GDRs to a person whose interest is to be represented by the Master Rule 144A GDR, shall be subject to the terms and conditions of the Deposit Agreement, including delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company and amounts received pursuant to Clause 3.18 of the Deposit Agreement) or otherwise in connection with the Deposited Property in a currency other than United States dollars, the Depositary, its Agent or Custodian shall as soon as practicable convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares represented by the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; provided that:

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16(A)(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend in, or free distribution or bonus issue of, Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, additional GDRs representing an aggregate number of Shares received pursuant to such dividend or distribution by an increase in the number of GDRs evidenced by the Master GDR or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall sell such Shares so received (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations) and distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions Other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares represented by the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; provided that, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof in such manner as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale of the securities or property so received, or any part thereof (either by public or private sale and otherwise at its discretion, subject to applicable laws and regulations), and shall (in the case of a sale) distribute the resulting net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders in accordance with Condition 23 of such offer or invitation specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specify details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:

(i) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and, to the extent that it is so satisfied, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in United States Dollars or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and in the case of Shares so subscribed or acquired to distribute them to the Holders entitled thereto by an increase in the numbers of GDRs evidenced by the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if, at its discretion, the Depositary shall be satisfied that it is lawful and reasonably practicable and to the extent that it is so satisfied, the Depositary shall distribute such securities or other assets by way of rights or the rights themselves to the Holders entitled thereto in proportion to the number of Deposited Shares represented by the GDRs held by them respectively in such manner as the Depositary may at its discretion determine; or

(iii) if and in so far as the Depositary is not satisfied that any such arrangement and distribution to all or any Holders is lawful and reasonably practicable (including, without limitation, owing to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or is so satisfied that it is unlawful, the Depositary will, provided that Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to applicable laws and regulations) and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto except to the extent prohibited by applicable law.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in (i), (ii) or (iii) above the Depositary shall permit the rights to lapse. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders or owners of GDRs in general or to any Holder or owner of GDRs in particular.

The Company has agreed in the Deposit Agreement that it will, unless prohibited by any applicable law or regulation, give its consent to, and, if requested, use its reasonable endeavours (subject to the next paragraph) to facilitate any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 5, 6, 7 or 10.

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Conditions 5, 6, 7 or 10 or the securities to which such rights relate, in order for the Depositary to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities represented by such rights, the Depositary will not offer such rights or distribute such securities or other property to Holders or sell such rights unless and until the Company procures at the Company's expense, the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that the necessary registration has been effected or that the offer and sale of such rights, securities or property to Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and neither the Depositary nor the Company shall be liable for any losses, damages or expenses resulting from any failure to do so.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or financial institution, by sale or in any other manner that it may determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary, with the reasonable assistance of the Company to the extent required, shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may consider desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency (without liability to any person for interest thereon) for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may in its absolute discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance on non-interest bearing accounts for the account of, the Holders entitled thereto and notify the Holders accordingly.

9. Distribution of any Payments

(A) Any distribution of cash under Conditions 5, 6, 7 or 10 will be made by the Depositary to those Holders who are Holders of record on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record date set by the Company or as near as practicable to any record date set by the Company) for that purpose and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDR, according to usual practice between the Depositary and Clearstream Banking, societe anonyme ("**Clearstream, Luxembourg**"), Euroclear Bank S.A./N.V. ("**Euroclear**") or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law in respect of such GDR or the relevant Deposited Property.

(B) Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the entitled Holder on the record date established by the Depositary for that purpose (which shall be the same date as the corresponding record dates set by the Company or as near as practicable thereto), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit and the Depositary shall have no obligation therefore or liability with respect thereto after such payment to the Company.

10. Capital Reorganisation

Upon any change in the nominal value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital or upon any takeover reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders in accordance with Condition 23 and, at its discretion, may treat such event as a distribution and comply with the relevant provisions of Conditions 5, 6 and 9 with respect thereto or may execute and deliver additional GDRs in respect of Shares or may call for the surrender of outstanding GDRs to be exchanged for new GDRs which reflect the effect of such change or to be stamped in the appropriate manner so as to indicate the new number of Shares and/or the new securities evidenced by such outstanding GDRs or may adopt more than one of these courses of action.

11. Taxation and Applicable Laws

(A) Payments to Holders of dividends or other distributions made to Holders on or in respect of the Deposited Shares will be subject to deduction of Russian and other withholding taxes, if any, at the applicable rates.

(B) If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Russia in order for the Depositary to receive from the Company Shares or other rights, securities, property and cash to be deposited under the Conditions or in order for Shares, other securities or other property and cash to be distributed or otherwise dealt with under Conditions 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company, to the extent permitted by applicable law, shall apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such law. In this connection, the Company has undertaken in the Deposit Agreement, to the extent reasonably practicable and that it does not involve unreasonable expense on behalf of the Company, to take such action as may be required in obtaining or filing the same. The Depositary shall not distribute GDRs, Shares, other securities or other property or cash to be deposited under the Conditions or make any offer of any such rights or sell any securities represented by any such rights with respect to which it has been informed in writing that such authorisation, consent or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably required by the Company, at the cost and expense of the Company make reasonable endeavours to assist the Company to obtain) any such authorisation, consent or permit or to file any such report except in circumstances where the same may only be obtained or filed by the Depositary without, in the opinion of the Depositary, unreasonable burden or expense.

12. Voting Rights

(A) As soon as practicable after receipt from the Company of notice of any meeting at which the holders of Shares are entitled to vote, or of solicitation of consents or proxies from holders of Shares or other Deposited Property, the Depositary shall fix the record date in respect of such meeting or solicitation of consent or proxy. The Depositary shall, if requested by the Company in writing in a timely manner (the Depositary having no obligation to take any further action if the request shall not have been timely received by the Depositary prior to the date of such vote or meeting) and at the Company's expense and provided no U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Russian legal prohibitions (including without limitation the rules of Russian Stock Exchange(s) on which the Shares are listed), exist, distribute to Holders as of the record date: (a) such notice of meeting or solicitation of consent or proxy, (b) a statement that the Holders at the close of business in New York City on the record date will be entitled, subject to any applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of or governing the Deposited Property (which provisions, if any, shall be summarised in pertinent part by the Company), to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the Shares or other Deposited Property represented by such Holder's GDRs, and (c) a brief statement as to the manner in which such voting instructions may be given. Voting instructions may be given only in respect of a number of GDRs representing an integral number of Shares or other Deposited Property. Upon the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions in the manner specified by the Depositary, the Depositary shall endeavour, insofar as practicable and permitted under applicable law, the provisions of the Deposit Agreement, the Charter and the provisions of the Deposited Property, to vote or cause the Custodian to vote the Shares and/or other Deposited Property (in person or by proxy) represented by such Holder's GDRs in accordance with such instructions.

(B) Neither the Depositary nor the Custodian shall, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian shall vote or attempt to exercise the right to vote the Shares or other Deposited Property represented by GDRs except pursuant to and in accordance with instructions from Holders. Notwithstanding the timely receipt from a Holder of GDRs as of the GDR record date of voting instructions, if such voting instructions fail to specify the manner in which the Depositary is to vote the Deposited Property represented by such Holder's GDRs, the Depositary will deem such Holder to have instructed the Depositary not to vote the Deposited Property with respect to the items for which the Holder has failed to specify the manner in which the Depositary is to vote. Deposited Property represented by GDRs for which no specific voting instructions are received by the Depositary from the Holder shall not be voted. The Company agrees to provide timely notice to the Depositary which will enable the timely notification of Holders as to any change in its Charter resulting in limitations on the ability of the Depositary to vote a particular GDR according to the voting instructions received in regard to such GDR.

(C) Notwithstanding anything else contained in the Deposit Agreement, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of Deposited Property if the taking of such action would violate U.S. legal prohibitions, English legal prohibitions (including, without limitation, the listing rules and prospectus rules of the UK Financial Services Authority and the admission and disclosure standards of the London Stock Exchange) or Russian legal prohibitions (including without limitation the rules of Russian Stock Exchange(s) on which the Shares are listed). In particular, prior to the Depositary being notified in writing by the Company that the Placement Report in respect of the New Shares has been registered with the FSFM, the Depositary shall have no obligation to take any such action. The Company agrees that it shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of Clause 7 of the Deposit Agreement.

13. Documents to be Furnished, Recovery of Taxes, Duties and Other Charges

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may, for the account of the Holder, discharge the same out of the proceeds of sale on any stock exchange on which the shares may from time to time be listed and subject to Russian law and regulations, of an appropriate number of Deposited Shares (being an integral multiple of the number of Shares in respect of which a single GDR is issued) or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 23.

14. Liability

(A) In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or the owners of GDRs except that any funds received by the Depositary for the payment of any amount due, in accordance with these Conditions, on the GDRs shall be held by it in trust for the relevant Holder until duly paid thereto.

(B) None of the Depositary, the Custodian, the Company, nor any of their agents, officers, directors or employees nor any Agent shall incur any liability to any other of them or to any Holder or owner of a GDR if, by reason of any provision of any present or future law or regulation of Russia or any other country or of any relevant governmental authority or by reason of the interpretation or application of any such present or future law or regulation or any change therein or by reason of any other circumstances beyond their control or, in the case of the Depositary, the Custodian, any of their agents, officers, directors or employees or any Agent, by reason of any provision, present or future, of the Charter of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor (save in the case of wilful default, negligence or bad faith) shall any of them incur any liability to any Holder, owner of a GDR or person with an interest in any GDR by reason of any non-performance or delay in performance of any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed, or by reason of any exercise of, or failure to exercise, caused as aforesaid, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

(C) None of the Depositary, the Custodian nor any Agent shall be liable (except by reason of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of a GDR, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs purporting to be such and subsequently found to be forged or not authentic.

(D) The Depositary and each of its Agents and their respective affiliates, may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates or in relation to the Deposited Property (including, without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commission and other charges for business transacted and acts done by it as a bank or in any other capacity, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or beneficial owners of GDRs, or any other person for any profit arising therefrom.

(E) The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures, but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be possible. In the absence of its own wilful default, negligence or bad faith the Depositary will not be responsible for any failure to determine that it may be lawful or practicable to make rights available to Holders in general or to any Holder in particular pursuant to Condition 7.

(F) The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

(G) The Depositary shall, subject to all applicable laws, have no responsibility whatsoever to the Company, any Holder or owner of GDRs as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

(H) In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or beneficial owners of GDRs or any other person.

(I) Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its reasonable opinion, necessary to comply with any such law, directive or regulation.

(J) The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise and shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfer thereof.

(K) The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by the Board of Directors or the Management Board of the Company or by a person duly authorised by the Board of Directors or the Management Board of the Company or such other certificate from persons specified in Condition 14(J) which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence of or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

(L) Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement, except to the extent that such loss or damage arises from its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees, or that of any nominee controlled by the Depositary or by an affiliate of the Depositary.

(M) No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured.

(N) The Depositary may, in the performance of its obligations hereunder instead of acting personally, employ and pay an agent, whether a lawyer or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

(O) The Depositary shall not be liable to any person if incorrect, false or misleading information derives from an inspection of the Register.

(P) Where Deposited Property is held in a jurisdiction outside the United Kingdom, there may be settlement, legal and regulatory requirements in such jurisdiction which are different from those applying in the United Kingdom, and there may be different practices for the separate identification of assets held by a custodian for its clients.

(Q) The Depositary shall under no circumstances have any liability arising from the Conditions or from any obligations which relate to the Conditions (including, but not limited to, obligations in tort), whether as a matter of contract, tort, negligence or otherwise, for any indirect, special, punitive or consequential loss or damage, loss of profit, reputation or goodwill, or trading loss incurred by any person or entity, whether or not foreseeable and regardless of the type of action in which such a claim may be brought.

(R) Nothing in the Conditions shall exclude any liability for loss or damage caused by fraud on the part of the Depositary, or for death or personal injury arising from any failure on the part of the Depositary to take reasonable care or exercise reasonable skill.

(S) For the purposes of Condition 14(Q):

(i) "consequential loss or damage" means loss or damage of a kind or extent which was not reasonably foreseeable at the time this Agreement was entered into as a serious possibility in the event of the breach of obligation in question.

(ii) "special loss or damage" means loss or damage of a kind or extent which arises from circumstances special to the person suffering the loss and not from the ordinary course of things, whether or not those circumstances were known to the Depositary either at the time this Agreement was entered into or later.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or in replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

(A) The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Initial Offering including, for the avoidance of doubt, the GDRs representing the First Pre-Released Shares) or for the cancellation of GDRs upon the withdrawal of Deposited Property USD 0.05 or less per GDR issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs (including, but not limited to, printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares, for operation and maintenance costs associated with the administration of the GDRs and in connection with inspections of the relevant share register maintained by the Russian registrar, if applicable: a combined fee of USD 0.04 or less per GDR per annum;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution (except where converted to cash): USD 0.05 or less per outstanding GDR for each such issue of rights, dividend or distribution; and

(vi) for the issue of GDRs pursuant to a change for any reason in the number of Shares represented by each GDR, regardless of whether or not there has been a deposit of Shares to the Custodian or the Depositary for such issuance: a fee of USD 0.05 or less per GDR (or portion thereof),

together with all expenses, transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian in connection with any of the above including, but not limited to charges imposed by a central depositary and such customary expenses as are incurred by the Depositary in the conversion of currencies other than U.S. dollars into U.S. dollars and fees imposed by any relevant regulatory authority.

(B) The Depositary is entitled to receive from the Company such fees, taxes, duties, charges, costs, expenses and other payments as agreed between them in the Deposit Agreement or as specified in a separate agreement between the Company and the Depositary concerning such fees, taxes, duties, charges, costs, expenses and other payments.

17. Agents

(A) The Depositary shall be entitled, with the approval of the Company, to appoint one or more agents (the "**Agents**") for the purpose, *inter alia,* of making distributions to the Holders.

(B) Notice of appointment or removal of any Agent providing services outside of the ordinary course of business or of any change in the specified office of the Depositary will be duly given by the Depositary to the Company.

18. Listing

The Company has undertaken in the Deposit Agreement that so long as any GDR is outstanding, and where the Company can no longer reasonably maintain a listing for the GDRs on the London Stock Exchange and a listing of the Shares on at least one Russian Stock Exchange or it becomes unreasonably burdensome or impracticable to do so, and such listings are suspended, use its reasonable efforts to obtain and maintain the quotation for, or listing of, the GDRs on such other EEA Regulated Market as it may decide.

19. The Custodian

The Depositary has, pursuant to the Deposit Agreement, agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property other than cash for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement, which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian. The Custodian shall be responsible solely to the Depositary; provided that, if at any time the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 calendar days' notice in writing upon the removal of, or upon receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor custodian (approved by (i) the Company, such approval not to be unreasonably withheld or delayed and (ii) the relevant authority in the Russian Federation, if required), which shall, upon acceptance of such appointment and the expiry of any applicable notice period, become the Custodian under the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Holders to do so, it may, after prior consultation with the Company, if practicable, terminate the appointment of the Custodian and, in the event of the termination of the appointment of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved by (i) the Company, such approval not to be unreasonably withheld or delayed and (ii) the relevant authority in the Russian Federation, if required), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change as soon as is practically possible following such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as herein specified; provided that, in the case of such temporary deposit in another place, the Company shall have consented to such deposit and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the Company if, and to the extent that, the obtaining of such insurance is reasonably practicable and the premiums payable are, in the opinion of the Depositary, of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

(A) Unless otherwise agreed to in writing between the Company and Depositary from time to time, the Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 90 calendar days' notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving 90 calendar days' notice in writing to the Company and the Custodian. In addition, the Depositary and the Company agree to consult and attempt to resolve in good faith any matters in relation to the services to be provided by the Depositary to the Company under the Deposit Agreement. Within 30 calendar days after the giving of such either notice, notice thereof shall be duly given by the Depositary to the Holders and to the UK Listing Authority and the London Stock Exchange. The Depositary may resign as

Depositary and appoint one of its affiliates as its successor Depositary hereunder by giving written notice to the Company and notice to the Holders in accordance with Condition 23.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in the relevant notice provided that no such termination of appointment or resignation shall take effect (a) other than in the case of an appointment by the Depositary of one of its affiliates as its successor depositary until the appointment by the Company of a successor depositary, (b) the grant of such approvals as may be necessary to comply with applicable laws and with the Charter for the transfer of the Deposited Property to such successor depositary, and (c) the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions by the successor depositary. The Company has undertaken in the Deposit Agreement to use its reasonable endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the successor depositary to the Holders in accordance with Condition 23 and to the UK Listing Authority and the London Stock Exchange.

(B) Upon the termination of appointment or resignation of the Depositary, the Depositary shall, against payment of all fees, expenses and charges owing to it by the Company under the Deposit Agreement, deliver to its successor depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all Deposited Property held by it under the Deposit Agreement. Upon the date when such termination of appointment or resignation takes effect, the Deposit Agreement provides that the Custodian shall be deemed to be the Custodian thereunder for such successor depositary and shall hold the Deposited Property for such successor depositary and the resigning Depositary shall thereafter have no obligation thereunder. For the avoidance of doubt, this Condition will be without prejudice to any liabilities of the Depositary which have accrued prior to the date of the denomination of appointment or resignation or any liabilities stipulated in relevant laws or regulations which accrued prior to such date.

21. Termination of Deposit Agreement

(A) Subject as set out below, either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 calendar days of the date on which the Depositary has given notice pursuant to Condition 20 that it wishes to resign, may terminate the Deposit Agreement by giving 90 calendar days' notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

If the Company terminates the Deposit Agreement, it will (unless the termination is due to the wilful default, negligence or fraud of the Depositary) be obligated, prior to such termination, to reimburse to the Depositary all amounts owed to the Depositary as, and only to the extent, set out in the Deposit Agreement and in any agreement between the Depositary and the Company.

(B) During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to the provisions of paragraph (D) of Condition 2 and upon compliance with Condition 2, and further upon payment by the Holder of any sums payable by the Depositary to the Custodian in connection therewith for such delivery and surrender but otherwise in accordance with the Deposit Agreement.

(C) If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they are Holders. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligations to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

(D) The Company has agreed not to appoint any other depositary for the issue of depositary receipts so long as J.P. Morgan Europe Limited is acting as Depositary under the Deposit Agreement.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22 and Clause 12 of the Deposit Agreement) may at any time and from time to time be amended by written agreement between the Company and the Depositary and if required, the permission of the FSFM in any respect which they may deem necessary or desirable. Unless impracticable in the circumstances to do so, at least ten business days' notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary and any amendment (except as aforesaid) which shall increase or impose fees or charges payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders of the outstanding GDRs until the expiry of 30 days after such notice shall have been given. During such period of 30 days, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 2, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, free of the charge specified in paragraph (A)(i) of Condition 16 for such delivery and surrender but otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when any such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 2, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders or beneficial owners if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares provided that temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

All notices to Holders shall be validly given if mailed to them at their respective addresses in the register of Holders maintained by the Depositary or furnished to them by electronic transmission as agreed between the Company and the Depositary and, so long as the GDRs are listed on the Official List of the UK Listing Authority and admitted to trading on the market for listed securities of the London Stock Exchange and if and to the extent that the rules of the UK Listing Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK. Any such notice shall be deemed to have been given on the later of such publication and the seventh day after being so mailed.

All notices required to be given by the Company to the Holders pursuant to any applicable laws, regulations or other agreements shall be given by the Company to the Depositary and upon receipt of any such notices, the Depositary shall forward such notices to the Holders. The Depositary shall not be liable for any notices required to be given by the Company which the Depositary has not received from the Company, nor shall the Depositary be liable to monitor the obligations of the Company to provide such notices to the Holders.

All formal complaints to the Depositary should be made in writing to the compliance officer of the Depositary at the address set out in Clause 17 of the Deposit Agreement.

24. Reports and Information on the Company

(A) The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language by mail, or one copy by facsimile or electronic transmission as agreed between the Company and the Depositary (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of any financial statements or accounts that it makes generally available to its shareholders, including but not limited to any financial statements or accounts that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange, or another other stock exchange, in accordance with Condition 18, as soon as practicable following the publication or availability of such communications. If such communication is not furnished to the Depositary in English, the Depositary shall, at the Company's expense, arrange for an English translation thereof to be prepared.

(B) The Depositary shall, upon receipt thereof, give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

(C) For so long as any Rule 144A GDRs or shares represented thereby are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of Rule 144A GDRs or of the Rule 144A Master GDRs or the beneficial owner of an interest in such GDRs, and to any prospective purchaser of Rule 144A GDRs or shares represented thereby designated by such person, upon request of such owner, beneficial owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4). If at any time the Company is neither subject to and in compliance with Section 13 or 15(d) of the Exchange Act nor exempt pursuant to Rule 12g3-2(b) under the Exchange Act, the Company shall immediately so notify the Depositary and the Depositary may so notify Holders in writing at the Company's expense. The Company has authorised the Depositary to deliver such information as furnished by the Company to the Depositary during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4) to any such Holder, owner of Rule 144A GDRs, beneficial owner of an interest in Rule 144A GDRs or shares represented thereby or prospective purchaser at the request of such person. The Company has agreed to reimburse the Depositary for its reasonable expenses in connection with such deliveries and to provide the Depositary with such information in such quantities as the Depositary may from time to time reasonably request. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary such number of copies of any notice to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, and any other material (which in the opinion of the Company contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. The Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to paragraph (A) of Condition 9, and shall make the same available to Holders in such manner as it may determine.

26. Moneys Held by the Depositary

The Depositary will hold moneys received by it, in respect of or in connection with the Deposited Property in an account with itself as banker and not as trustee, will not hold such moneys in accordance with the FSA's client money rules, shall be entitled to deal with such moneys in the same manner as other moneys paid to it as a banker to its customers and shall not be liable to account to the Company or any holder or any other person for any interest on any moneys paid to it by the Company for the purposes of the Deposit Agreement, except as otherwise agreed.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Disclosure of Beneficial Ownership, Other Information and Ownership Restrictions

(A) The Depositary may from time to time request Holders or former Holders to provide information as to the capacity in which they hold or held GDRs and regarding the identity of any other persons then or previously interested in such GDRs and the nature of such interest and various other matters. Each such Holder agrees to provide any such information reasonably requested by the Depositary pursuant to the Deposit Agreement whether or not still a Holder at the time of such request.

(B) To the extent that provisions of or governing any Deposited Property, the Charter or applicable law may require the disclosure of, or limitations in relation to, beneficial or other ownership of Deposited Property and other securities of the Company, the Holders, owners of GDRs and beneficial owners, as the case may be, shall comply with the Depositary's instructions to Holders, owners and beneficial owners, as the case may be, of GDRs in respect of such disclosure or limitation, as may be forwarded to them from time to time by the Depositary, to the extent they have knowledge of the identity of such owners or beneficial owners.

29. Governing Law

(A) The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law. The rights and obligations attaching to the Deposited Shares will be governed by Russian law. The Company has submitted in respect of the Deposit Agreement and these Conditions to the jurisdiction of the English courts. The Company has also agreed in the Deed Poll to allow the Holders to elect that disputes are resolved by arbitration.

(B) The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("**Proceedings**") may be brought in such courts. This submission is made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not.)

30. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce these terms and conditions under the Contracts (Rights of Third Parties) Act 1999 except and to the extent (if any) that these terms and conditions expressly provide for such Act to apply.

SUMMARY OF PROVISIONS RELATING TO THE GDRS WHILE IN MASTER FORM

Upon issue, the GDRs will be evidenced by a single Regulation S Master GDR and a single Rule 144A Master GDR, each in registered form. The Regulation S Master GDR has been registered in the name of BNP Paribas Security Services, Luxembourg Branch, as common depositary for Clearstream, Luxembourg and Euroclear, and the Rule 144A Master GDR has been registered in the name of Cede & Co. as nominee and held by JPMorgan Chase Bank (through Mellon Investor Services) in New York for DTC on or about the Closing Date. The Regulation S Master GDR and the Rule 144A Master GDR contain provisions that apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the GDRs. The following is a summary of those provisions. Unless otherwise defined herein, terms defined in the Conditions have the same meaning herein.

Exchange

The Regulation S Master GDR and the Rule 144A Master GDR will be exchanged for certificates in definitive registered form representing GDRs only in the circumstances set forth below. The Depositary will undertake in the Regulation S Master GDR and the Rule 144A Master GDR to make available certificates evidencing GDRs in definitive registered form, in whole but not in part, in exchange for either the Regulation S Master GDR or the Rule 144A Master GDR, as the case may be, to GDR holders within 60 days if:

- DTC, Clearstream, Luxembourg or Euroclear, or any successor, notifies the Depositary in writing that it is at any time unwilling or unable to continue as a depositary and a successor depositary is not appointed within 90 calendar days; or
- In the case of the Rule 144A Master GDR, DTC or any successor ceases to be a "clearing agency" registered under the Exchange Act; or
- Either Clearstream, Luxembourg or Euroclear (in the case of the Regulation S Master GDR) or DTC (in the case of the Rule 144A Master GDR) is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Depositary is available within 45 days; or
- The Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Company, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form.

Any such exchange will be at the expense of the GDR holder. Upon:

- Any exchange of a part of the Regulation S Master GDR or the Rule 144A Master GDR for GDRs in registered definitive form;
- Any exchange of interests between the Regulation S Master GDR and the Rule 144A Master GDR pursuant to the terms of the Deposit Agreement;
- Any distribution of GDRs pursuant to Condition 5, 7 or 10; or
- Any reduction in the number of GDRs represented by the Regulation S Master GDR or the Rule 144A Master GDR following any withdrawal of Deposited Property pursuant to Condition 1,

in each case, the Depositary will enter the relevant details on the register maintained by the Depositary, whereupon the number of GDRs evidenced by the Regulation S Master GDR or the Rule 144A Master GDR will decrease or increase accordingly.

Voting Rights, Payments and Distributions

GDR holders will have voting rights in respect of the underlying shares as set forth in Condition 12 and the Deposit Agreement. The Depositary will exercise voting rights only upon receipt of written instructions in accordance with the Conditions and the Deposit Agreement and if permitted by law.

The Depositary will make payments of cash dividends and other amounts, including cash distributions, in respect of the GDRs represented by the Regulation S Master GDR or the Rule 144A Master GDR through Clearstream, Luxembourg and Euroclear in respect of the Regulation S Master GDR, and through DTC in respect of the Rule 144A Master GDR, on behalf of persons entitled thereto upon receipt of funds for such purpose from the Company. Any dividend or distribution in the form of shares received by the Depositary on behalf of GDR holders that results in an increase in the number of GDRs will result in an adjustment to the records of the Depositary to reflect the increased number of GDRs evidenced by the Regulation S Master GDR and/or the Rule 144A Master GDR.

Surrender of GDRs

Any requirement in the Conditions relating to the surrender of a GDR to the Depositary will be satisfied by the production, on behalf of a person entitled to an interest therein, by the common depositary in respect of the Regulation S Master GDR, and by DTC in respect of the Rule 144A Master GDR, of such evidence as the Depositary may reasonably require of such person's entitlement. Such evidence is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg, or DTC or, if relevant, an alternative clearing system. The delivery or production of such evidence will be sufficient evidence, in favor of the Depositary, any Agent and the Custodian, of the title of such person to receive, or to issue instructions for the receipt of, all monies or other property payable or distributable and to issue voting instructions in respect of the Deposited Property evidenced by such GDRs.

Notices

For so long as the Regulation S Master GDR is registered in the name of the Common Depositary on behalf of Euroclear and Clearstream, Luxembourg, and for so long as the Rule 144A Master GDR is registered in the name of DTC or its nominee, the Depositary may give notices to GDR holders by delivery to Euroclear and Clearstream, Luxembourg in respect of the Regulation S Master GDR, and to DTC or its nominee in respect of the Rule 144A Master GDR, for dispatch to persons entitled thereto instead of by the methods required by Condition 23. However, so long as the GDRs are listed on the LSE and the LSE so requires, the Depositary must also publish notices in a leading newspaper having general circulation in the U.K.

The Regulation S Master GDR and the Rule 144A Master GDR will be governed by and construed in accordance with English law.

TAXATION

The following summary of material U.S. federal income, United Kingdom and Russian tax consequences of ownership of Securities is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Securities. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Securities. Each prospective holder is urged to consult its own tax advisor as to the particular tax consequences to such holder of the ownership and disposition of the Securities, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

Certain U.S. Federal Income Tax Considerations

This section is a summary, under current law, of certain U.S. federal income tax considerations relevant to beneficial owners of the Ordinary Shares or GDRs that are eligible for benefits as U.S. residents under the current income tax convention between the United States and Russia (the "**Treaty**") in respect of their investment in the Ordinary Shares or GDRs ("**U.S. shareholders**"). In general, a shareholder will be eligible for such benefits if the shareholder:

- Is:
  - ➢ An individual U.S. citizen or resident;
  - ➢ A U.S. corporation; or
  - ➢ A partnership, estate, or trust to the extent the shareholder's income is subject to taxation in the United States as the income of a resident, either in the shareholder's hands or in the hands of the shareholder's partners or beneficiaries;
- Is not also a resident of Russia for Russian tax purposes;
- Is the beneficial owner of the Ordinary Shares or GDRs (and the dividends paid with respect thereto);
- Holds the Ordinary Shares or GDRs as a capital asset for tax purposes;
- Does not hold the Ordinary Shares or GDRs in connection with the conduct of business through a permanent establishment, or the performance of personal services through a fixed base, in Russia; and
- Is not subject to an anti-treaty shopping provision in the Treaty that applies in limited circumstances.

This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, and does not address the tax treatment of investors who are subject to special rules. It is based upon the assumption that prospective shareholders are familiar with the tax rules applicable to investments in securities generally and with any special rules to which they may be subject.

This summary has been written to support the marketing of the Ordinary Shares or GDRs. It is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding U.S. federal income tax penalties. Investors should consult their own tax advisors in determining the tax consequences to them of investing in the Ordinary Shares or GDRs, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

In general, for U.S. federal income tax purposes, U.S. shareholders will be treated as the beneficial owners of the Ordinary Shares underlying their GDRs.

Taxation of Dividends

U.S. shareholders must include the gross amount of cash dividends paid in respect of the Ordinary Shares or GDRs, without reduction for Russian withholding tax, in ordinary income on the date that they are treated as having received them, translating dividends paid in rubles into U.S. dollars using the exchange rate in effect on that date.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by a non-corporate U.S. shareholder in respect of the Ordinary Shares or GDRs before January 1, 2011 will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends." Dividends received in respect of the Ordinary Shares or GDRs will be qualified dividends if the Company:

- Is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules; and
- Was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("**PFIC**").

The Treaty has been approved for the purposes of the qualified dividend rules. Based on the Company's audited financial statements and relevant market data, the Company believes that it was not treated as a PFIC for U.S. federal income tax purposes with respect to its 2005 taxable year. In addition, based on its audited financial statements and its current expectations regarding the value and nature of its assets, the sources and nature of its income, and relevant market data, the Company does not anticipate becoming a PFIC for its 2006 taxable year or future taxable years.

Russian tax withheld from dividends will be treated, up to the 10% rate provided under the Treaty, as a foreign income tax that, subject to generally applicable limitations under U.S. tax law, generally is eligible for credit against the U.S. federal income tax liability of U.S. shareholders or, if they have elected to deduct such taxes, may be deducted in computing taxable income. See "—Russian Federation Tax Considerations—Taxation of Dividends—Non-Resident Holders" regarding the position that the Company intends to take in respect of its obligation to withhold Russian withholding tax on dividends that it pays to the Depositary.

In the case of any refund of Russian withholding tax pursuant to the Treaty, fluctuations in the ruble-dollar exchange rate between the date that a U.S. shareholder is treated as receiving a dividend and the date that it receives the related refund of Russian withholding tax may give rise to foreign currency gain or loss, which generally is treated as ordinary income or loss for U.S. tax purposes.

Taxation of Sales or Other Taxable Dispositions

Sales or other taxable dispositions by U.S. shareholders generally will give rise to capital gain or loss equal to the difference between the U.S. dollar value of the amount realized on the disposition and the U.S. shareholder's U.S. dollar basis in the Ordinary Shares or GDRs. Any such capital gain or loss generally will be long-term capital gain or loss, subject to taxation at reduced rates for non-corporate taxpayers, if the Ordinary Shares or GDRs were held for more than one year. The deductibility of capital losses is subject to limitations.

U.K. Tax Considerations

The comments below are of a general nature and are based on current U.K. law and published H.M. Revenue & Customs practice as of the date of this prospectus, as well as the provisions of the 1994 Income and Capital Gains Tax Convention between the United Kingdom and Russia (referred to in this discussion as the "**U.K. Treaty**"), each of which is subject to change, possibly with retroactive effect. The summary only covers the principal U.K. tax consequences for the absolute beneficial owners of Ordinary Shares and GDRs (and any dividends paid in respect of them) who:

- Are resident (and, in the case of individuals only, ordinarily resident and domiciled) in the U.K. for tax purposes;
- Are not resident in Russia; and
- Do not have a permanent establishment or fixed base in Russia with which the holding of the Ordinary Shares or GDRs is connected.

Such absolute beneficial owners of the Ordinary Shares or GDRs are referred to in this discussion as "**U.K. holders**."

In addition, the summary only addresses the principal U.K. tax consequences for U.K. holders who hold the Ordinary Shares or GDRs as capital assets. It does not address the U.K. tax consequences that may be relevant to certain other categories of holders, for example, brokers, dealers or traders in shares, securities or currencies. It also does not address the U.K. tax consequences for holders that are banks, financial institutions, insurance companies, collective investment schemes, tax-exempt organizations or persons connected with the Company.

Further, the summary assumes that:

- A holder of the GDRs is, for U.K. tax purposes, beneficially entitled to the underlying Ordinary Shares and to the dividends on those Ordinary Shares;
- The U.K. holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the shares and/or voting power of the Company; and
- The Ordinary Shares will not be registered in a register kept in the United Kingdom by or on behalf of the Company.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under U.K. law and H.M. Revenue & Customs practice, of acquisition, ownership and disposition of Ordinary Shares or GDRs in their own particular circumstances, by consulting their own tax advisors.

Taxation of Dividends

Income Tax and Corporation Tax

U.K. holders will, in general, be subject to income tax or corporation tax on the total of the dividends received on their Ordinary Shares or GDRs plus any withholding tax deducted in Russia.

Withholding Tax and Tax Credits

When the Company pays dividends to U.K. holders, it generally must, for Russian tax purposes, act as a tax agent to withhold tax and remit the amount of tax due to the Russian state budget. See "—Russian Federation Tax Considerations—Taxation of Dividends." Under the U.K. Treaty, U.K. holders may be able to obtain relief at source, or a refund from the Russian tax authorities, in respect of withholding tax to the extent that it is levied at a rate in excess of 10% of the gross amount of the dividend. However, see "—Russian Federation Tax Considerations—Taxation of Dividends—Non-Resident Holders" and "—Russian Federation Tax Considerations—Taxation of Capital Gains—Non-Resident Holders—Tax Treaty Procedures" regarding, among other things, the procedures for obtaining relief at source or a refund, certain uncertainties relating thereto and the position that the Company intends to take in respect of its obligation to withhold tax on dividends that it pays to the Depositary.

Any remaining Russian withholding tax is generally allowed as a credit against the U.K. tax liability of a U.K. holder but any excess of such Russian withholding tax over the U.K. tax payable on the aggregate amount of the dividend and the Russian withholding tax is generally not refundable.

The Company need not make any deduction from payments of dividends for or on account of U.K. tax.

Tax Liability for Individual Holders

For an individual U.K. holder who is liable to U.K. tax on the dividend at the dividend upper rate (currently 32.5%), the U.K. tax will be chargeable on the gross dividend with credit (as described above) for Russian tax deducted at source. For an individual U.K. holder who is liable to U.K. tax on the dividend at the dividend ordinary rate (currently 10%), the credit for Russian tax deducted at source may equal or exceed his U.K. income tax liability in respect of the dividend, in which case he will have no further U.K. tax to pay. In either case, the amount of credit for Russian tax cannot exceed the credit that would have been allowed had all reasonable steps been taken under the U.K. Treaty and Russian domestic law to minimize the amount of tax payable in Russia, including obtaining relief at source and any available refunds.

Tax Liability for Corporate Shareholders

A U.K. holder within the charge to corporation tax will be liable for U.K. corporation tax on the receipt of the gross dividend with credit for Russian tax deducted at source as described above. In appropriate cases, a holder may be entitled to relief at source or a refund of Russian tax.

Taxation of Capital Gains

The disposal or deemed disposal of Ordinary Shares or GDRs by U.K. holders may give rise to a chargeable gain or an allowable loss for the purposes of U.K. taxation of capital gains (where the U.K. holder is an individual) and U.K. corporation tax on chargeable gains (where the U.K. holder is within the charge to U.K. corporation tax), depending on their circumstances and subject to any available exemption or relief. In addition, individual U.K. holders who dispose of their Ordinary Shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the U.K. Any gains or losses in respect of currency fluctuations over the period of holding the Ordinary Shares or GDRs would also be brought into account on the disposal.

As regards individual U.K. holders, the principal factors that will determine the extent to which such gain will be subject to capital gains tax ("**CGT**") are the extent to which they realize any other capital gains in that year, the extent to which they have incurred capital losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the "**annual exemption**") and the level of available taper relief.

Taper relief will reduce the proportion of any gain realized on the disposal of Ordinary Shares or GDRs that is brought into the charge to CGT if (in the case of non-business assets) the holder holds the GDRs for at least three years. In the case of non-business assets, a reduction of 5% of the gain is made for each whole year for which the GDRs have been held in excess of two years, up to a maximum reduction of 40% after ten complete years of holding.

The annual exemption for individuals is GBP 8,800 for the 2006-07 tax year and, under current law, this exemption is, unless the U.K. Parliament decides otherwise, increased annually in line with the rate of increase in the retail price index (rounded up to the nearest GBP 100).

A U.K. holder that is a company is entitled to an indexation allowance that applies to reduce capital gains to the extent that (broadly speaking) they arise due to inflation. Indexation allowance may reduce a chargeable gain but not create any allowable loss.

Stamp Duty and Stamp Duty Reserve Tax

No ad valorem stamp duty will be payable in the U.K. in connection with a transfer of Ordinary Shares executed and retained outside the U.K.

No stamp duty reserve tax ("**SDRT**") will be payable in the U.K. in respect of any agreement to transfer Ordinary Shares for so long as they continue to be registered on a share register maintained outside the U.K.

No ad valorem stamp duty or SDRT will arise in the U.K. in respect of:

- The issue of the GDRs;
- The delivery of GDRs into a clearance service, such as Euroclear or Clearstream; or
- Any dealings in the GDRs once they are issued into the clearance service, where such dealings are effected in book entry form in accordance with the procedures of the clearance service and not by written instrument of transfer.

Inheritance Tax

U.K. inheritance tax may be chargeable on the death of, or in certain circumstances on a gift by the owner of, Ordinary Shares or GDRs, where the owner is an individual who is domiciled or is deemed to be domiciled in the U.K. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rates apply to gifts where the donor reserves or retains some benefit.

Russian Federation Tax Considerations

The following is a summary of certain Russian tax considerations relevant to payments to Russian resident and non-resident holders of the Ordinary Shares or the GDRs and to the purchase, ownership and disposition of such Ordinary Shares or GDRs by their Russian resident and non-resident holders. The summary is based on the laws of Russia in effect on the date of this prospectus. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by the regions, municipalities or other non-federal level authorities of the Russian Federation. Nor does the summary seek to address the availability of double tax treaty relief, and it should be noted that there might be practical difficulties involved in claiming relief under an applicable double tax treaty. Prospective investors should consult their own advisors regarding the tax consequences of investing in the Ordinary Shares or the GDRs. No representations with respect to the Russian tax consequences to any particular holder are made hereby.

The Russian tax rules applicable to the Ordinary Shares and the GDRs are characterized by uncertainties and by an absence of interpretative guidance. Both the substantive provisions of Russian tax law and the interpretation and application of those provisions by the Russian tax authorities may be subject to more rapid and unpredictable change than in a jurisdiction with more developed capital markets and more developed taxation systems. In particular, the interpretation and application of such provisions will in practice rest substantially with local tax inspectors.

For the purposes of this summary, a "**non-resident holder**" means:

- A physical person, actually present in the Russian Federation for less than 183 days in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) that holds Securities; or
- A legal person or organization, in each case not organized under Russian law, that holds and disposes of Securities otherwise than through a permanent establishment in Russia.

For the purposes of this summary, a "**Russian resident holder**" means:

- A physical person, actually present in the Russian Federation for 183 days or more in a given calendar year (excluding days of arrival into Russia, but including days of departure from Russia) that holds Securities;
- A legal person or organization, in each case organized under Russian law, that holds Securities; or
- A legal person or organization, in each case organized under a foreign law, that holds and disposes of Securities through its permanent establishment in Russia.

Taxation of Dividends

A Russian company that pays dividends generally must act as a tax agent to withhold tax on the dividends and remit the amount of tax due to the Russian state budget. However, the applicable withholding tax rate will depend on the status of the dividend's recipient.

Russian Resident Holders

Dividends paid to Russian resident holders of Ordinary Shares are generally subject to Russian withholding tax at a rate of 9%. The effective rate of this tax may be lower than 9% owing to the fact that the Company should calculate this tax by multiplying the tax rate (9%) by the difference between (i) the dividends to be distributed by the Company to its shareholders (other than to non-resident companies and non-resident individuals) and (ii) dividends collected by the Company in the current and preceding tax periods from other Russian entities.

There are uncertainties in relation to withholding tax on dividends payable to Russian resident GDR holders. In particular, it is unclear whether this income may be treated as dividends for Russian tax purposes and what tax rate applies to this income. Also, there are no specific provisions in the Russian tax legislation with respect to the concept of beneficial ownership and taxation of income of beneficial owners. It is unclear therefore how the Russian tax authorities and courts will ultimately treat GDR holders in this regard. In 2005 and 2006, the Ministry of Finance expressed an opinion that GDR holders (rather than the relevant depositary) should be treated as the beneficial owners of dividends for the purposes of the double tax treaty provisions applicable to taxation of dividend income from the underlying shares, provided that tax residence of the GDR holders is duly confirmed.

In view of the foregoing, Russian residents are urged to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the Ordinary Shares or the GDRs.

Non-Resident Holders

Dividends paid to non-resident holders of Ordinary Shares generally will be subject to Russian withholding tax, which will be withheld by the Company acting as a tax agent. The applicable domestic rates of withholding tax on such dividends currently are:

- 15% in the case of dividends paid to non-resident holders that are legal entities or organizations; and
- 30% in the case of dividends paid to non-resident individual holders.

These rates may be reduced under the terms of income tax treaties to which Russia is a party. However, because the beneficial ownership concept is not developed in Russian law, it is not clear whether the Depositary (the legal holder of the shares) or a GDR holder should be treated for the purposes of such treaties as the beneficial owner of the Ordinary Shares underlying the GDRs.

Unless the Company receives adequate clarification from the Russian tax authorities that, subject to certain certification requirements, it is appropriate under Russian law to withhold Russian withholding tax in respect of dividends that it pays to the Depositary at reduced rates under the relevant treaties instead of at the domestic rates applicable to such payments (currently 15%), the Company intends to withhold Russian withholding tax at the domestic rates applicable to such dividends, regardless of whether the Depositary (the legal owner of the shares) or a GDR holder would be entitled to reduced rates of Russian withholding tax under the relevant income tax treaty if it were the beneficial owner of the dividends for purposes of that treaty.

Although non-resident GDR holders may apply for a refund under the relevant income tax treaty of a portion of the amount withheld by the Company, the Company cannot make any assurances that the Russian tax authorities will grant any refunds.

Taxation of Capital Gains

Russian Resident Holders

Legal Entities and Organizations

Capital gains arising from the sale of Ordinary Shares or GDRs by any Russian resident holder that is a legal entity or organization will be taxable at a regular Russian tax rate of 24%. Russian tax law requires that profit arising from operations with securities quoted on a stock exchange must be calculated and accounted for separately from profits and losses from operations with securities that are not quoted on a stock exchange and from operating profits and losses. Therefore, Russian resident holders that are not individuals may be able to apply losses arising in respect of sales of the Ordinary Shares or GDRs only to offset capital gains, or as a carry forward to offset future capital gains, from the sale, exchange or other disposition of securities quoted on a stock exchange. Special tax rules apply to Russian legal entities that hold a dealer license. Transactions with the Ordinary Shares and the GDRs will also be subject to transfer pricing rules established by the Tax Code.

Individuals

Under Russian law, capital gains arising from a sale, exchange or other disposition of the Ordinary Shares or the GDRs by Russian resident holders will be subject to tax at a rate of 13% on an amount equal to the sales price less the acquisition value of the securities less other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realized by the resident individual and tax withheld upon the sale of securities by 1 April of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the resident holder would have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

Where the expenses related to acquisition, holding and sale of securities cannot be confirmed by documentation, the individual is technically entitled to a property tax deduction, reducing his sales proceeds by RUB 125,000 if the securities were held for a period of less than three years, or by the entire amount of the sales proceeds if the securities were held for three years or more. In practice, the tax authorities rarely grant the deduction in the sum of the entire amount of sales proceeds as it is difficult to prove to their satisfaction the inability of the taxpayer to document the expenses. It would be within the tax authorities' rights to request confirmation of the taxpayer's efforts to gather such documentation (for example, from the purchaser or the Depositary), and to refuse to grant the property tax deduction in the absence of such documentation. The provisions allowing a property tax deduction on a sale of securities are scheduled to be removed from the law as of 1 January 2007.

Because Russian law related to taxation of income derived by Russian resident holders (including legal entities, organizations and individuals) on a sale, exchange or other disposition of the Ordinary Shares or the GDRs is not entirely clear, Rosneft urges Russian residents to consult their own tax advisors regarding the tax treatment of the purchase, ownership and disposition of the Ordinary Shares or the GDRs.

Non-Resident Holders

Legal Entities and Organizations

Under current Russian law, capital gains arising from the sale, exchange or other disposition of Ordinary Shares or GDRs by non-resident holders (legal entities or organizations) should not be subject to tax in Russia if immovable property located in Russia constitutes 50% or less of the Company's assets.

The Company believes that immovable property located in Russia does not currently, and will not, constitute more than 50% of its assets. However, because the determination of whether more than 50% of the Company's assets consist of immovable property located in Russia is inherently factual and is made on an ongoing basis, and because the relevant laws and regulations are not entirely clear, there can be no assurance that immovable property located in Russia does not currently, or will not, constitute more than 50% of such assets.

If more than 50% of the Company's assets were to consist of immovable property located in Russia, then non-resident holders of Ordinary Shares or GDRs would be subject to a 20% withholding tax on the gross proceeds from a sale, exchange or other disposition of Ordinary Shares or GDRs, or 24% withholding tax on the capital gain realized from such sale, exchange or other disposal, capital gain being the difference between the sales price and acquisition costs of the Ordinary Shares or GDRs. However, gains arising from the sale of the Ordinary Shares or the GDRs on a foreign stock exchange by a non-resident holder that is a legal entity or organization should not be subject to taxation in Russia.

Individuals

Under Russian personal income tax law, gains from a sale, exchange or other disposal of Ordinary Shares or GDRs by non-resident holders who are individuals will likely be considered Russian source income, but will be subject to tax at the rate of 30% at the source of payment only if the sale was made by a non-resident holder through or to a professional dealer or broker that is a Russian legal entity or a foreign company with a permanent establishment in Russia.

According to Russian tax legislation, taxation of income for non-resident individual holders will depend on whether this income is received from Russian or non-Russian sources. Russian tax law gives no clear indication as to how the sale of securities should be sourced, other than that income from the sale of securities "in Russia" is Russian-source. As there is no further definition of what should be considered to be a sale "in Russia", the Russian tax authorities have a certain amount of freedom to conclude what transactions take place in or outside Russia, including looking at the place of the transaction, the place of the issuer of the shares, or other similar criteria.

Any sale of securities in Russia by non-resident individual holders will be considered Russian source income and will be subject to tax at the rate of 30% on an amount equal to the sales price minus the acquisition value of the securities and other documented expenses related to the purchase, holding and sale of such securities. If the sale is made by a non-resident holder through a professional dealer or broker that is a Russian legal entity or a foreign company with a registered permanent establishment in Russia, such professional dealer or broker should also act as a tax agent and withhold the applicable tax. The amount of tax withheld will be calculated after taking into account deductions for the acquisition value and related expenses. The tax agent would be required to report to the Russian tax authorities the income realized by the resident individual and tax withheld upon the sale of the securities by 1 April of the year following the reporting year. When a sale is made to other legal entities or individuals, generally no withholding of tax needs to be made and the non-resident holder would have an obligation to file a tax return, report his income realized and apply for a deduction of acquisition expenses, based on the provision of supporting documentation.

A non-resident holder may be exempt from Russian withholding tax on the sale, exchange or other disposition of Ordinary Shares or GDRs in Russia under the terms of a double tax treaty between Russia and the country of residence of the non-resident holder. For example, under the U.S.–Russia Tax Treaty, U.S. holders are exempt from the withholding tax on capital gains unless 50% or more of the assets of the Company are represented by immovable property located in Russia. The U.K.–Russia Tax Treaty provides for an exemption from withholding tax on capital gains received by U.K. holders unless the gains relate to shares that derive all or substantially all of their value directly or indirectly from immovable property in Russia and are not quoted on an approved stock exchange. See "—Tax Treaty Procedures."

Tax Treaty Procedures

The relief at source and refund procedures discussed below may be more complicated with respect to GDRs due to separation of legal ownership and beneficial ownership of the Ordinary Shares underlying the GDRs. Russian tax law does not provide for clear guidance regarding availability of double tax treaty relief for GDR holders. Therefore, the Company cannot assure prospective GDR holders that relief at source or refunds will be available under the applicable tax treaty in respect of Russian taxes payable or withheld in respect of dividends on Ordinary Shares represented by GDRs.

The Profits Tax Chapter of the Tax Code does not provide for the requirement that a non-resident holder that is a legal entity or organization must obtain tax treaty clearance from Russian tax authorities prior to receiving any income at a reduced rate of withholding tax at source under an applicable tax treaty. However, in connection with a tax audit, the Russian tax authorities may still dispute the non-resident's eligibility for the double tax treaty relief and require the tax agent (*i.e.*, the company paying dividends or the Russian purchaser of the shares) to pay tax.

A non-resident investor seeking to obtain a reduced rate of Russian withholding tax at source under an income tax treaty must provide a confirmation of its tax treaty residence that is certified by the competent authorities in the relevant treaty jurisdiction in advance of the Company's payment of dividends. The residence confirmation needs to be reviewed on an annual basis and certified by the relevant authority. The residence confirmation may need to bear an apostille.

If the Russian tax authorities were to approve a certification process for the purposes of allowing the Company to withhold Russian withholding tax at reduced treaty rates in respect of dividends that it pays to the Depositary, it is anticipated that a U.S. GDR holder would be required to provide the Company with the U.S. GDR holder's certification of its last filed U.S. federal income tax return in the form of an IRS Form 6166 (an "IRS Form 6166") in order to allow the Company to comply with that certification process.

For this purpose, it also may be necessary for a non-resident GDR holder to demonstrate its legal title to the relevant GDR interest.

The Deposit Agreement provides that the Depositary will make all reasonable efforts to provide the Company with certifications and other documents that are required in order to comply with any certification process that has been approved by the Russian tax authorities for this purpose.

An IRS Form 6166 can generally be obtained by filing a request (generally an IRS Form 8802) with the Internal Revenue Service Center in Philadelphia, Pennsylvania, U.S. Residency Certification Request, P.O. Box 16347, Philadelphia PA 19114-0447, USA. U.S. GDR holders should consult their tax advisors and the instructions to IRS Form 8802 for further details on how to obtain this certification.

Under current Russian tax law and practice, advance relief from withholding taxes will generally be impossible for individual investors because it is very unlikely that the supporting documentation for the treaty relief can be provided to the tax authorities and approval from the latter obtained before the year end as currently required.

If a non-resident does not obtain double tax treaty relief at the time that income or gains are realized and tax is withheld by a Russian payer, the non-resident holder may apply for a refund within three years from the end of the tax period in which the tax was withheld, if the recipient is a legal entity or organization, or within the one-year period from the end of the tax period in which the tax was withheld, if the recipient is an individual. To process a claim of a refund, the Russian tax authorities require:

- An apostilled confirmation of the tax treaty residence of the non-resident at the time the income was paid;
- An application for refund of the tax withheld in a format provided by the Russian tax authorities (Form 1012DT for dividends and interest and 1011DT for other income); and
- Copies of the relevant contracts and payment documents confirming the payment of the tax withheld to the Russian Federation state budget.

The Russian tax authorities may require a Russian translation of some documents. The refund of the tax withheld should be granted within one month of the filing of the application for the refund and the relevant documents with the Russian tax authorities. However, procedures for processing such claims have not been clearly established and there is significant uncertainty regarding the availability and timing of such refunds. See “Risk Factors—Risks Relating to the Securities and the Trading Market—Non-resident investors may be subject to Russian tax withheld at source on trades of the Ordinary Shares or GDRs through or to certain Russian payors.”

PLAN OF DISTRIBUTION

Description of the Distribution

The Global Offering consists of:

- An international institutional offering of GDRs outside the United States and the Russian Federation in reliance on Regulation S and within the United States to QIBs as defined in, and in reliance on, Rule 144A through registered U.S. broker-dealer affiliates of the Managers;
- An international institutional offering of Ordinary Shares in the Russian Federation, in the United States to QIBs in reliance on Rule 144A through registered U.S. broker-dealer affiliates of the Managers and outside the United States in offshore transactions in reliance on Regulation S; and
- A domestic retail offering of Ordinary Shares in the Russian Federation.

A significant portion of the Securities is being offered in the Global Offering to certain oil and gas companies and individuals and institutions in the Russian Federation and elsewhere. Four investors (including oil and gas companies) each intend to purchase more than 5% of the Securities in the Global Offering, accounting for approximately 49.4% of the Global Offering, and four investors (including oil and gas companies) each intend to purchase more than 5% of the GDRs in the GDR Offering, accounting for approximately 51.2% of the GDR Offering, in each case assuming the exercise of the Overallotment Option in full.

The Company, the Selling Shareholder and the Managers have entered into the Underwriting Agreement with respect to the Securities being offered. Subject to the satisfaction of certain conditions set forth in the Underwriting Agreement, each Manager has agreed, severally but not jointly, to purchase the number of Ordinary Shares set forth opposite its name in the following table:

Managers	Address	Number of Ordinary Shares (in the form of Ordinary Shares or GDRs)
ABN AMRO Bank N.V. and NM Rothschild and Sons Limited (together trading as ABN AMRO Rothschild)	250 Bishopsgate London EC2M 4AA United Kingdom	247,061,638
Dresdner Bank AG, London Branch	30 Gresham Street London EC2V 7PG United Kingdom	247,061,638
J.P. Morgan Securities Ltd.	125 London Wall London EC2Y 5AJ United Kingdom	247,061,638
Morgan Stanley & Co. International Limited	25 Cabot Square London E14 4QA United Kingdom	247,061,638
Sberbank (Savings Bank of the Russian Federation)	117997, Moscow 19 Vavilova Street Russian Federation	70,391,862
Goldman Sachs International	Peterborough Court 133 Fleet Street London EC4A 2BB United Kingdom	64,870,933
Barclays Bank PLC	5 The North Colonnade Canary Wharf London E14 4BB United Kingdom	23,463,954
Bank Austria Creditanstalt AG	80 Cheapside London EC2V 6EE United Kingdom	33,125,583
Daiwa Securities SMBC Europe Limited	5 King William Street London EC4N 7AX United Kingdom	33,125,583

Managers	Address	Number of Ordinary Shares (in the form of Ordinary Shares or GDRs)
Fortis Bank (Nederland) N.V.	Rokin 55 1012 KK Amsterdam The Netherlands	23,463,954
ING Bank N.V., London Branch	60 London Wall London EC2M 5TQ United Kingdom	23,463,954
Natexis Banques Populaires, London Branch	Capital House 85 King William Street London EC4N 7BL United Kingdom	33,125,583
Open Joint Stock Company Alfa-Bank	107078, Moscow 27 Kalanchevskaya Street Russian Federation	2,760,456
Limited Liability Company Aton	105062, Moscow 27 Pokrovka Street, 6 Bldg. Russian Federation	8,281,396
Banca Caboto S.p.A. (Gruppo Intesa)	Piazzetta Giordano Dell'Amore, 3 20121 Milan Italy	4,140,698
Banca IMI S.p.A.	Corso Matteotti, 6 20121 Milan Italy	4,140,698
Bayerische Landesbank	Brienner Strasse 18 D-80333 Munich Germany	4,140,698
Banco Bilbao Vizcaya Argentaria, S.A.	Via de Los Poblados S/N Planta 3 Madrid 28033 Spain	4,140,698
Deutsche Bank AG	Winchester House 1 Great Winchester Street London EC2N 2DB United Kingdom	8,281,396
Erste Bank der oesterreichischen Sparkassen AG	Graben 21 1010 Vienna Austria	4,140,698
JSB Gazprombank (CJSC)	117418, Moscow 63 Novocheremushkinskaya Street Russian Federation	12,422,094
Renaissance Securities (Cyprus) Limited	2–4 Archbishop Makarios III Avenue Capital Center, 9th Floor Nicosia 1505 Cyprus	8,281,396
Standard Bank PLC	Cannon Bridge House 25 Dowgate Hill London EC4R 2SB United Kingdom	4,140,698
The Closed Joint-Stock Company Investment Company "Troika Dialog"	125009, Moscow 4 Romanov pereulok Russian Federation	11,041,860
OJSC Bank Uralsib	119048, Moscow 8 Efremova Street Russian Federation	11,041,860
Total		1,380,232,613

The GDRs will be represented by a Master Rule 144A GDR and a Master Regulation S GDR and will be subject to certain restrictions set forth in "Terms and Conditions of the Global Depositary Receipts."

The Offer Price is USD 7.55 per Ordinary Share and per GDR. The Managers will receive a combined underwriting, management and selling commission of USD 0.10 per Ordinary Share. The Offer Price was determined on the basis of a bookbuilding process.

The Company estimates its expenses in relation to the Global Offering, other than commissions, to be up to USD 40 million, which it expects to be fully reimbursed. Accordingly, the Company does not deduct this amount for purposes of determining its net proceeds from the Global Offering.

In the Underwriting Agreement, the Company and the Selling Shareholder have made certain representations and warranties and agreed to indemnify the several Managers against certain liabilities, including liability under the Securities Act. If these indemnities are unenforceable, the Company and the Selling Shareholder have agreed to contribute to any payments that the Managers must make in respect of the liabilities against which the Company and the Selling Shareholder have agreed to indemnify them.

The Managers are offering the Securities (including the Optional Ordinary Shares in the form of GDRs) when, as and if delivered to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Ordinary Shares, and other conditions contained in the Underwriting Agreement, such as Admission and the receipt by the Managers of officers' certificates and legal opinions.

The Underwriting Agreement provides that, upon the occurrence of certain events, such as the suspension or limitation of trading on the LSE or a material adverse change in Rosneft's financial condition or business, and on certain other conditions, the Joint Global Coordinators, on behalf of the Managers, have the right to suspend or terminate the Global Offering before the delivery of any Securities.

Overallotment Option

The Company has granted to the Joint Global Coordinators, on behalf of the Managers, an overallotment option, exercisable until 30 days after the announcement of the Offer Price, to purchase or procure purchasers for up to 52,980,132 Optional Ordinary Shares in the form of GDRs, solely to cover overallotments in the Global Offering.

Lock-Up Arrangements

The Company and the Selling Shareholder have agreed, as part of the arrangements with the Managers, for a period of 180 days after the Closing Date, without the prior written consent of the Joint Global Coordinators on behalf of the Managers, that they will not, and their subsidiaries, affiliates and persons acting on their behalf will not:

- Issue, offer, sell, lend, mortgage, assign, contract to sell or issue, pledge, charge, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or publicly announce any such action), directly or indirectly, any Ordinary Shares or any securities convertible or exchangeable into or exercisable for, or substantially similar to, any Ordinary Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of any Ordinary Shares or such securities, including equity swaps, forward sales and options or global depositary receipts representing the right to receive any such Ordinary Shares or such securities ("**Locked-Up Securities**");
- Enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of Ordinary Shares; or
- Enter into any transaction with the same economic effect as, agree to or publicly announce any intention to enter into any transaction described above,

whether any such transaction described above is to be settled by delivery of Ordinary Shares or such other securities, in cash or otherwise.

The foregoing agreement does not apply to:

- The issue, offer and sale of the Securities pursuant to the Underwriting Agreement;
- The issuance, offer, sale or any other transfer or transaction of a kind referred to above of Locked-Up Securities to any subsidiary of the Company or, in the case of the Selling Shareholder, other entities beneficially majority owned, directly or indirectly, by the Russian government or, with the prior consent of the Joint Global Coordinators on behalf of the Managers, any other person, provided that such transferee first agrees to be bound by a substantially similar lock-up arrangement with the Company or the Selling Shareholder, as the case may be, which shall be expressed to be for the benefit of the Managers and compliance with which the Company or the Selling Shareholder, as the case may be, shall not waive without the prior consent of the Joint Global Coordinators;

- In the case of the Company only, any issuance, offer, sale or any other transfer or transaction of a kind referred to above of any Locked-Up Securities under or in connection with any stock incentive and other employee ownership or benefit plans, provided that any person receiving title to Locked-Up Securities pursuant to any such plan or option first agrees to be bound by a substantially similar lock-up arrangement;
- In the case of the Company only, the issuance of Ordinary Shares in connection with the Share Swap; and
- In the case of the Company only, any issuance on or around the Closing Date by a subsidiary of the Company (guaranteed by Rosneft) of debt securities exchangeable or convertible into Locked-Up Securities.

Stabilization

In connection with the Global Offering, the Stabilizing Manager or its agents may, in consultation and after agreement with the other Joint Global Coordinators, on behalf of the Managers and for a limited period after the announcement of the Offer Price, overallot or effect transactions in the GDRs with a view to supporting the market price of the GDRs at a level higher than that which might have otherwise prevailed in the open market. However, the Stabilizing Manager or such agents have no obligation to do so. Such stabilization, if commenced, may begin on the date of adequate public disclosure of the Offer Price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 days after the date of such adequate public disclosure of the Offer Price. The Managers do not intend to disclose the extent of any such stabilization transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Other Relationships

The Managers and their respective affiliates have engaged in transactions with and performed various investment banking, financial advisory and other services for the Company and the Selling Shareholder and their respective affiliates, for which they received customary fees. In particular, the Joint Global Coordinators are lead arrangers of and lenders in the Facility. See "Reasons for the Global Offering and Use of Proceeds." The Managers and their respective affiliates may provide such services for the Company and the Selling Shareholder and their respective affiliates in the future.

In connection with the Global Offering, each of the Managers and any affiliate acting as an investor for its own account may take up Securities and in that capacity may retain, purchase or sell for its own account such Securities and any related investments and may offer or sell such Securities or other investments otherwise than in connection with the Global Offering. Accordingly, references in this Prospectus to the Securities being offered or placed should be read as including any offering or placement of Securities to the Managers and any affiliate acting in such capacity. No Manager intends to disclose the extent of any such investment or transactions otherwise than to the Company and the Selling Shareholder and in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Global Offering, certain of the Managers may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where Securities are used as collateral, that could result in such Managers acquiring shareholdings in the Company.

Russian Retail Offering

99,431,775 Ordinary Shares are being offered to retail investors in Russia. The Offer Price for such Ordinary Shares offered to retail investors in Russia is equal to the Offer Price in the rest of the Global Offering.

Selling Restrictions

No action has been taken or will be taken in any jurisdiction, other than in the Russian Federation in relation to the Share Offering and in Switzerland, that would permit a public offering of the Securities in any country or jurisdiction where action for that purpose is required.

United States

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

The Securities are being offered and sold outside of the United States in reliance on Regulation S. The Underwriting Agreement provides that certain of the Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of the GDRs within the United States only to QIBs in reliance on Rule 144A.

In addition, until 40 days after the commencement of the Global Offering, an offer or sale of Securities within the United States by a dealer, whether or not participating in the Global Offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each of the Managers has represented, warranted and agreed that it has:

- Only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Securities in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- Complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a "**Relevant Member State"**), an offer to the public of any Securities may not be made in that Relevant Member State other than the offers contemplated in the Prospectus in the U.K. once the Prospectus has been approved by the competent authority in the U.K. and published in accordance with the Prospectus Directive as implemented in the U.K., except that an offer to the public in that Relevant Member State of any Securities may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- To legal entities that are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- To any legal entity which has two or more of:
  - ➢ An average of at least 250 employees during the last financial year;
  - ➢ A total balance sheet of more than EUR 43,000,000; and
  - ➢ An annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts;
- By the Managers to fewer than 100 natural or legal persons, other than qualified investors as defined in the Prospectus Directive, subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- In any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Securities shall result in a requirement for the publication by the Company or any Manager of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer to the public**" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase any Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Russian Federation

No Manager may offer, transfer or sell the GDRs as part of their initial distribution in the Russian Federation, or to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted under Russian law.

Since neither the issuance of the GDRs nor a Russian securities prospectus in respect of the GDRs has been registered, or is intended to be registered, with the FSFM, at no time should any person carry out any activities in breach of the restrictions set forth above.

Japan

The Securities have not been and will not be registered under the Securities and Exchange Law of Japan (the "**Securities and Exchange Law**"). Accordingly, each of the Managers has represented, warranted and agreed that it will not directly or indirectly, offer or sell Securities:

- In Japan;
- To, or for the benefit of, any resident of Japan; or
- To, or for the account or benefit of, any persons for reoffering or resale, directly or indirectly in Japan or to, or for the account or benefit of, any resident of Japan,

except, in each case, pursuant to an exemption from the registration requirements of, or otherwise in compliance with the Securities and Exchange Law and other relevant laws and regulations of Japan.

Singapore

This Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. No Manager may offer or sell any Securities, cause any Securities to be made the subject of an invitation for subscription or purchase or circulate or distribute this Prospectus or any other document or material in connection with offer or sale, or invitation for subscription or purchase, of such Securities, in each case whether directly or indirectly, to persons in Singapore, other than:

- To an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**");
- To a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA; or
- Otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Securities are subscribed or purchased under Section 275 by a relevant person which is:

- A corporation (which is not an accredited investor) (as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- A trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

then shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 except:

- To an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than SGD 200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- Where no consideration is or will be given for the transfer; or
- Where the transfer is by operation of law.

Switzerland

The Securities will not be listed on the SWX Swiss Exchange, and neither the offer to purchase nor any other document related to the Global Offering constitutes a prospectus under the Listing Rules of the SWX Swiss Exchange.

The Company has not applied for a listing of the Securities being offered pursuant to this Prospectus on the SWX Swiss Exchange or on any other regulated securities market in Switzerland, and consequently, the information presented in this document does not necessarily comply with the information standards set forth in the relevant listing rules.

SETTLEMENT AND DELIVERY

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerized book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations. See "Taxation—Certain U.S. Federal Income Tax Considerations."

Because DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of BNP Paribas Security Services, Luxembourg Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by JPMorgan Chase Bank (through Mellon Investor Services) as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from Rosneft for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from Rosneft for holders holding through DTC are received by DTC.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement. See "Terms and Conditions of the Global Depositary Receipts."

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the GDRs, see "Plan of Distribution—Selling Restrictions" and "Registration of Placement Report and Pre-Release."

Trading between Euroclear and Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC Participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between a DTC Seller and Euroclear/Clearstream, Luxembourg Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to:

- Decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR; and

- Increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR.

Trading between a Clearstream, Luxembourg/Euroclear Seller and DTC Purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depositary to:

- Decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR; and
- Increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

General

Although the foregoing sets forth the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

Settlement of the Ordinary Shares

Each purchaser of Ordinary Shares in the Global Offering is required to pay for any Ordinary Shares in U.S. dollars or rubles, as the case may be, as agreed between each investor and the relevant Manager. In order to take delivery of the Ordinary Shares, potential purchasers will be required to have a depo account at one or more custodians in Moscow able to hold the Ordinary Shares in accordance with applicable laws and market practice. In addition, in order to trade Ordinary Shares on the RTS and MICEX, purchasers may have to transfer their Ordinary Shares to an account at a different depositary.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is J.P. Morgan Europe Limited. J.P. Morgan Europe Limited is a banking subsidiary of JPMorgan Chase & Co. The Depositary was incorporated on 18 September 1968 and is subject to regulation by the FSA. The registered office of the Depositary is located at 125 London Wall, London EC2Y 5AJ, United Kingdom. A copy of JPMorgan Chase & Co.'s by-laws, as amended, together wth copies of the most recent consolidated reports of condition and income-FFIEC 031 (call reports) will be available for inspection at the Office of the Secretary, JPMorgan Chase & Co., located at 70 Park Avenue, New York, New York 10017, United States of America.

OTHER MATTERS

Legal Matters

Cleary Gottlieb Steen & Hamilton LLP will pass upon certain legal matters in connection with the Global Offering for the Company with respect to U.S., English and Russian laws. Linklaters will pass upon certain legal matters in connection with the Global Offering for the Managers with respect to U.S., English and Russian laws.

Independent Auditors

The Annual Financial Statements and related notes as of and for the years ended 31 December 2003, 2004 and 2005 have been audited by Ernst & Young LLC ("**Ernst & Young**"), independent auditors, of Sadovnicheskaya Naberezhnaya 77, Bldg. 1, Moscow 115035, Russian Federation. The Interim Financial Statements and related notes as of and for the three-month periods ended 31 March 2005 and 2006 are unaudited. Ernst & Young is a member of the Institute of Professional Accountants and Auditors of Russia ("**IPAR**"). IPAR is a full member of the International Federation of Accountants.

Reservoir Engineers

The Reserves Reports and Resources Reports have been prepared by DeGolyer and MacNaughton, reservoir engineers, of 5001 Spring Valley Road, Suite 800 East, Dallas, Texas 75244, United States of America. DeGolyer and MacNaughton has given and not withdrawn its written consent to the inclusion of the Reserves Reports and the Resources Reports in this Prospectus, in the form and context in which they appear, and has authorized the contents of those parts of this Prospectus that consist of the Reserves Reports and the Resources Reports for the purpose of Rule 5.5.4R(2)(f) of the Prospectus Rules.

Financial and Trading Position of Rosneft

Except as set forth under "Capitalization," there have been no significant changes in the financial or trading position of Rosneft since 31 March 2006, the date of the Interim Financial Statements.

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OJSC Rosneft Oil Company

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OJSC Rosneft Oil Company

Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	March 31, 2006 (unaudited)	December 31, 2005
ASSETS			
Current assets:			
Cash and cash equivalents	4	**$ 489**	$ 1,173
Restricted cash		**24**	23
Short-term investments		**230**	165
Accounts receivable, net		**2,965**	2,858
Inventories		**911**	814
Deferred tax assets		**55**	48
Prepayments and other current assets		**944**	897
Total current assets		**5,618**	5,978
Non-current assets:			
Long-term investments		**517**	436
Long-term bank loans granted, net		**50**	63
Acquired debt receivable, net	5	**456**	—
Oil and gas properties, net	6	**21,309**	20,939
Property, plant and equipment, net		**2,063**	2,030
Construction-in-progress		**581**	509
Goodwill		**35**	35
Deferred tax assets		**12**	8
Other non-current assets, net		**32**	18
Total non-current assets		**25,055**	24,038
Total assets		**$30,673**	$30,016
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued liabilities		**$ 1,589**	$ 1,358
Short-term loans and current portion of long-term debt	7	**3,925**	4,005
Income and other tax liabilities		**2,928**	2,810
Deferred tax liabilities		**47**	40
Other current liabilities		**32**	32
Total current liabilities		**8,521**	8,245
Asset retirement obligations		**588**	566
Long-term debt	7	**7,708**	8,198
Deferred tax liabilities		**3,760**	3,696
Other non-current liabilities		**19**	18
Total liabilities		**20,596**	20,723
Minority interest		**1,842**	1,860
Shareholders' equity:			
Common stock par value 0.01 RUR (shares issued and outstanding: 9,092,174,000 as of both March 31, 2006 and December 31, 2005)		**20**	20
Additional paid-in capital		**19**	19
Retained earnings		**8,196**	7,394
Total shareholders' equity		**8,235**	7,433
Total liabilities and shareholders' equity		**$30,673**	$30,016

The accompanying notes to the interim condensed consolidated financial statements are an integral part of these statements.

OJSC Rosneft Oil Company

Consolidated Statements of Income

(in millions of US dollars, except earnings per share data)

	Notes	Three months ended March 31, 2006 (unaudited)	Three months ended March 31, 2005 (unaudited)
Revenues			
Oil and gas sales	**8**	**$ 5,213**	$ 2,991
Petroleum products and processing fees	**8**	**2,219**	1,311
Support services and other revenues		**84**	61
Total		**7,516**	4,363
Costs and expenses			
Production and operating expenses		**421**	357
Cost of purchased oil and petroleum products		**541**	114
Selling, general and administrative expenses		**167**	86
Pipeline tariffs and transportation costs		**693**	358
Exploration expenses		**35**	25
Depreciation, depletion and amortization		**384**	337
Accretion expense		**8**	8
Taxes other than income tax		**1,574**	1,024
Excise tax and export customs duty	**8**	**2,168**	854
Total		**5,991**	3,163
Operating income		**1,525**	1,200
Other income/(expenses)			
Interest income		**38**	14
Interest expense		**(203)**	(191)
Loss on disposal of property, plant and equipment		**(4)**	(2)
Loss on disposal of investments		**—**	(10)
Equity share in affiliates' profits		**8**	9
Dividends and income from joint ventures		**1**	8
Other expenses, net		**(26)**	(53)
Foreign exchange (loss)/gain		**(159)**	14
Total other income/(expenses)		**(345)**	(211)
Income before income tax and minority interest		**1,180**	989
Income tax expense	**9**	**(335)**	(257)
Income before minority interest		**845**	732
Minority interest in subsidiaries' earnings, net of tax		**(43)**	(8)
Net income		**$ 802**	$ 724
Earnings per share (in US$)—basic and diluted		**$ 0.09**	$ 0.08
Weighted average number of shares outstanding (in thousands)		**9,092,174**	9,092,174

The accompanying notes to the interim condensed consolidated financial statements are an integral part of these statements.

OJSC Rosneft Oil Company

Consolidated Statements of Cash Flows

(in millions of US dollars)

	Three months ended March 31, 2006 (unaudited)	Three months ended March 31, 2005 (unaudited)
Operating activities		
Net income	**$ 802**	$ 724
Reconciliation of net income to net cash provided by/(used in) operating activities:		
Effect of foreign exchange	**135**	28
Depreciation, depletion and amortization	**384**	337
Dry well expenses	**1**	4
Loss on disposal of property, plant and equipment	**4**	2
Deferred income tax	**(78)**	(58)
Accretion expense	**8**	8
Equity share in affiliates' profits	**(8)**	(9)
Increase in allowance for doubtful accounts and bank loans granted	**1**	10
Minority interests in subsidiaries' earnings	**43**	8
Changes in operating assets and liabilities net of acquisitions:		
Increase in accounts receivable	**(110)**	(982)
Increase in inventories	**(97)**	(147)
Increase in restricted cash	**(1)**	(6)
Increase in prepayments and other current assets	**(47)**	(76)
(Increase)/decrease in other non-current assets	**(14)**	4
Decrease/(increase) in long-term bank loans granted	**15**	(62)
Increase in interest payable	**25**	54
Increase/(decrease) in accounts payable and accrued liabilities	**231**	(182)
Increase in income and other tax liabilities	**118**	309
Increase/(decrease) in other current and non-current liabilities	**1**	(18)
Net cash provided by/(used in) operating activities	**1,413**	(52)
Cash flows from investing activities		
Capital expenditures	**(848)**	(312)
Proceeds from disposals of property, plant and equipment	**4**	3
Acquisition of short-term investments	**(75)**	(36)
Proceeds from sale of short-term investments	**10**	50
Acquisition of entities and additional shares in subsidiaries, net of cash acquired	**(105)**	(112)
Proceeds from sale of long-term investments	**7**	21
Acquisition of debt receivable	**(463)**	—
Acquisition of long-term investments	**(36)**	(14)
Net cash used in investing activities	**$(1,506)**	$ (400)
Cash flows from financing activities		
Proceeds from short-term debt	**$ 99**	$ 395
Repayment of short-term debt	**(518)**	(460)
Proceeds from long-term debt	**669**	163
Repayment of long-term debt	**(851)**	(129)
Net cash used in financing activities	**(601)**	(31)
Decrease in cash and cash equivalents	**(694)**	(483)
Cash and cash equivalents at beginning of period	**1,173**	1,033
Effect of foreign exchange on cash and cash equivalents	**10**	(19)
Cash and cash equivalents at end of period	**$ 489**	$ 531
Supplementary disclosures of cash flow information		
Cash paid for interest (net of amount capitalized)	**$ 166**	$ 132
Cash paid for income taxes	**$ 374**	$ 231
Supplementary disclosure of non-cash activities		
Income tax offsets	**$ 9**	$ 1

The accompanying notes to the interim condensed consolidated financial statements are an integral part of these statements.

1. Nature of Operations

Open Joint Stock Company ("OJSC") Rosneft Oil Company ("Rosneft") and its subsidiaries, (collectively the "Company" or the "Group"), are principally engaged in exploration, development, production and sale of crude oil and gas and refining, transportation and sale of petroleum products in the Russian Federation ("RF") and in certain international markets.

2. Significant Accounting Policies

Form and Content of the Interim Condensed Consolidated Financial Statements

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by the Russian legislation. The accompanying interim condensed consolidated financial statements were derived from the Company's Russian statutory books and records with adjustments made to present them in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The interim condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with US GAAP for interim financial reporting of public companies (primarily Accounting Principle Board Opinion 28 (APB 28) *"Interim Financial Reporting"*) and do not include all disclosures required by US GAAP. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2005 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequent to the issuance of its 2005 audited consolidated financial statements. Management believes that the disclosures are adequate to make the information presented not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2005 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company's financial position, results of operations and cash flows for the interim periods.

The results of operations for three months ended March 31, 2006 may not be indicative of the results of operations for the full year. These interim condensed consolidated financial statements contain information updated through June 9, 2006.

The accompanying interim condensed consolidated financial statements differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments, not recorded in the Company's statutory books, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP. The principal adjustments relate to: (1) recognition of certain expenses; (2) valuation and depreciation of property, plant and equipment; (3) foreign currency translation; (4) deferred income taxes; (5) valuation allowances for unrecoverable assets; (6) accounting for the time value of money; (7) accounting for investments in oil and gas property and conveyances; (8) consolidation principles; (9) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (10) accounting for asset retirement obligations; (11) business combinations and goodwill/negative goodwill.

The impact on the consolidated statement of income of the OJSC Yuganskneftegaz purchase price allocation adjustment recorded in the third quarter of 2005 has been accounted for retrospectively from January 1, 2005. Accordingly, depreciation depletion and amortization expense for the three months period ended March 31, 2005 reflects this retrospective effect.

2. Significant Accounting Policies (Continued)

Management Estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the amounts of revenues and expenses recognized during the reporting periods. Certain significant estimates and assumptions for the Company include: estimation of economically recoverable oil and gas reserves; rights to and recoverability and useful lives of long-term assets and investments; impairment of goodwill; allowances for doubtful accounts receivable; asset retirement obligations; legal and tax contingencies; environmental remediation obligations; recognition and disclosure of guarantees and other commitments; fair value measurements; ability to renew operating leases and to enter into new lease agreements; classification of certain debt amounts. Some of the most significant estimates are made in connection with the acquisition of OJSC Yuganskneftegaz. Management believes it has a reasonable and appropriate basis for its judgment pertaining to its estimates and assumptions. However, actual results could differ from those estimates.

Foreign Currency Translation

The management of the Company has determined the US Dollar as the functional and reporting currency for the purpose of financial reporting under US GAAP.

Monetary assets and liabilities have been translated into US dollars using the official exchange rate as of the balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into US dollars at average exchange rates prevailing on transaction dates. Gains and losses resulting from the re-measurement into US dollars are included in the "Foreign exchange gain" in the consolidated statement of income.

As of March 31, 2006, December 31, 2005, and as of March 31, 2005, the Central Bank of Russian Federation official rates of exchange ("CBR rate") were 27.76 rubles, 28.78 RUR and 27.83 rubles per US dollar respectively. Average rates of exchange in the first three months of 2006 and 2005 were calculated as 28.16 rubles and 27.84 rubles per US dollar, respectively. As of June 9, 2006 the official rate of exchange was 26.88 rubles per US dollar.

The translation of local currency denominated assets and liabilities into US dollars for the purposes of these financial statements does not indicate that the Company could realize or settle, in U.S. dollars, the reported values of these assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported US dollar value of capital to its shareholders.

Income Taxes

The Company follows the provisions of APB 28, *"Interim Financial Reporting",* to arrive at the effective tax rate. The effective tax rate is the best estimate of the expected annual tax rate to be applied to the taxable income for the current reporting period. The rate is based on the currently enacted tax rate (24%) and includes estimates of the annual tax effect of permanent differences and the realization of certain deferred tax assets.

Comprehensive Income

As of March 31, 2006 and 2005, there were no other comprehensive income items and, therefore, comprehensive income for the first three months of 2006 and 2005 equals net income.

3. Significant Acquisitions

OJSC Rosneft—Tuapsenefteprodukt

In January 2006, the Company, through one of its subsidiaries, purchased an additional 39.26% of the voting stock (30.24% of the share capital) of OJSC Rosneft—Tuapsenefteprodukt, a consolidated subsidiary. The purchase price amounted to US$ 100 million and was paid in cash. After the purchase, the Company's

3. Significant Acquisitions (Continued)

OJSC Rosneft—Tuapsenefteprodukt (Continued)

share in OJSC Rosneft—Tuapsenefteprodukt increased from 50.67% to 89.93% of voting shares (from 38.00% to 68.24% of the share capital). The purchase price was fully allocated to the fair value of assets acquired and liabilities assumed. This allocation is preliminary and will be adjusted upon completion of the valuation of properties, plant and equipment.

OJSC Daltransgaz

In February 2006, the Company purchased 25% of the additional issue of shares by OJSC Daltransgaz, an equity investee, for RUR 722 million (US$ 26 million at the exchange rate as of date of settlement), thus maintaining its interest in OJSC Daltransgaz of 25% plus one share.

4. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	March 31, 2006 (unaudited)	December 31, 2005
Cash in hand and cash in bank—RUR	**$130**	$ 414
Cash in hand and cash in bank—foreign currencies	**214**	394
Deposits and other	**145**	365
Total cash and cash equivalents	**$489**	$1,173

Cash accounts denominated in foreign currencies represent primarily cash in US$.

5. Acquired Debt Receivable, net

The Company and a group of banks led by Societe Generale S.A. entered into an agreement granting the Company the right to claim the outstanding balance due from Yukos Oil Company under a syndicated loan of US$ 1,000 million. Under this agreement, the right to claim the debt and other rights and benefits per original loan agreement between the bank syndicate and Yukos Oil Company were transferred from the banks to the Company in March 2006 upon the payment of the outstanding loan principal, accumulated interest (up to the date of repayment), legal and other fees in the amount totaling US$ 483 million.

In particular the Company took over from the bank syndicate the claimant position in the court hearings, in Amsterdam Arbitration court, with respect to the collection the outstanding debt balance.

The carrying value of the receivable includes allowance for losses in the amount of US$ 27 million. No interest is being accrued on this balance.

6. Oil and Gas Properties, Net

Oil and gas properties comprise the following:

	March 31, 2006 (unaudited)	December 31, 2005
Wells and related facilities	**$13,082**	$12,606
Mineral rights	**10,959**	10,723
Pipelines	**1,047**	1,057
Equipment under capital lease	**219**	214
Total cost	**25,307**	24,600
Less: accumulated depletion	**(3,998)**	(3,661)
Total oil and gas properties, net	**$21,309**	$20,939

6. Oil and Gas Properties, Net (Continued)

Mineral rights include costs to acquire unproved properties in the amount of US$ 1,619 million as of March 31, 2006 and US$ 1,382 million as of December 31, 2005. The Company plans to explore and develop the respective fields. The Company's management believes these costs are recoverable.

OJSC Yuganskneftegaz in its operating activities enters into short-term lease contracts for a significant number of wells and related equipment and facilities. These agreements are entered into with the owners of the wells, equipment and facilities, which are certain subsidiaries of Yukos Oil Company. All of the lease agreements are cancellable in nature and most expire within one year. The inability of the Company to extend these lease agreements and/or otherwise obtain rights to use the wells and related facilities in the oil production may have material adverse consequences for the Company's ability to extract and recover a portion of the carrying value of the $7,903 million in oil and gas properties and the $9,291 million in mineral rights acquired in the business combination. During 2005, all the expired lease contracts were extended for a period of up to one year. The Company's management plans to attempt to further extend the above leases. Following a claim brought by OJSC Yuganskneftegaz in March 2006, the Moscow Arbitration Court ruled that the 100% ownership interest in one of the subsidiaries, which is the most significant lessor, should be transferred from Yukos Oil Company to OJSC Yuganskneftegaz. This ruling was upheld in the appeal hearings on June 1, 2006, which made it legally binding and enforceable. However, this ruling is subject to further appeals during the two-month period following the decision and the Company has not yet assessed the impact of such transfer, if any, on the financial position or results of operations. While the Company believes that it will likely be able either to extend the above leases and/or otherwise continue to extract minerals from the related sites, no assurances can be provided in this regard.

7. Short-Term Loans and Long-Term Debt

Short-term loans and borrowings comprise the following:

	March 31, 2006 (unaudited)	December 31, 2005
Loans and borrowings—US$ denominated		
Bank loans	**$ 300**	$ 794
Customer deposits	**39**	42
Other	**6**	3
Loans and borrowings—RUR denominated		
Bank loans	**8**	9
Promissory notes payable	**697**	657
Customer deposits	**127**	96
Other	**479**	453
	1,656	2,054
Current portion of long-term debt	**2,269**	1,951
Total short-term loans and current portion of long-term debt	**$3,925**	$4,005

The rate of interest on the Company's short-term loans denominated in US$ was from LIBOR plus 1% to LIBOR plus 3.32% p.a. The RUR denominated loans generally bear an annual interest rate ranging from 2.4% to 8% p.a.

Promissory notes are primarily payable on demand and bear an interest rate ranging from 0% to 18%. Interest free promissory notes are recorded at amortized cost.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary bank, denominated in RUR and foreign currencies. Customer deposits denominated in RUR bear an interest rate ranging from 2.5 to 12.6% p.a. Customer deposits denominated in foreign currencies bear an interest rate ranging from 2 to 12% p.a.

7. Short-Term Loans and Long-Term Debt (Continued)

Other RUR-denominated borrowings primarily include four loans provided to OJSC Yuganskneftegaz by YUKOS Capital S.a.r.l., which bear interest of 9% p.a. and mature in 2007. As of March 31, 2006 and December 31, 2005 these loans are classified as current since the creditor demanded early repayment of these loans due to non-compliance with the terms of the loan agreements.

Long-term debt comprises the following:

	March 31, 2006 (unaudited)	December 31, 2005
Bank loans—US$ denominated	**$ 4,304**	$ 4,220
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz—US$ denominated	**5,502**	5,743
Borrowings—US $ denominated	**43**	49
Customer deposits—US$ denominated	**8**	8
Borrowings—RUR denominated	**10**	9
Customer deposits—RUR denominated	**56**	60
Bonds of the subsidiary bank—RUR denominated	**21**	20
Other long-term liabilities—RUR denominated	**33**	40
	9,977	10,149
Current portion of long-term debt	**(2,269)**	(1,951)
Total long-term debt	**$ 7,708**	$ 8,198

The rates of interest on the Company's long-term bank loans denominated in US$ were from 4.35% to 12.92% p.a. Weighted average interest rates on these loans were LIBOR plus 1.84% and LIBOR plus 2.19%, as of March 31,2006 and as of December 31, 2005, respectively. These loans are primarily secured by contracts for the export of crude oil.

In January 2006, a subsidiary of the Company registered in Cyprus signed a loan agreement with a major international bank for an amount of EUR 188 million or US$ 227 million using the official rate of exchange as of March 31, 2006. The loan bears an interest rate of EURIBOR plus 0.35%. The first drawdown was made during the first quarter 2006 in the amount of EUR 88.7 million or US$ 106.9 million using the CBR rate as of March 31, 2006. Funds borrowed are to be invested in the construction of ice-reinforced tankers for crude oil transportation purposes in north-western regions of the Russian Federation. The loan is scheduled to be repaid within the twelve years following the completion of tanker construction.

In February 2006, the Company signed a loan agreement with a syndicate of Western banks for US$ 2,000 million with a term of 5 years. The loan bears interest at LIBOR plus 0.65% p.a. In March 2006, the Company received US$ 575 million under this loan agreement and used these funds to repay loans with less favourable terms. See also Note 13.

As of March 31, 2006 the bank loans raised for funding the acquisition of OJSC Yuganskneftegaz represent a long-term loan obtained through a government-owned bank at a rate of LIBOR plus 0.7% p.a. repayable in equal monthly installments. It is scheduled for repayment in 2011 and is secured by pledging the Company's receivables under a long-term contract for the supply of crude oil (see Note 11).

Weighted average interest rates on US$ denominated borrowings were 8.58% and 8.54% as of March 31, 2006, as of December 31, 2005, respectively.

Customer deposits include fixed-term RUR and foreign currency denominated customer deposits placed with the Company's subsidiary bank which mature primarily at the end of 2006 and are included in the current portion of long-term debt. The RUR-denominated deposits bear an interest rate ranging from 8.5% to 13% p.a. Deposits denominated in foreign currencies bear an interest rate ranging from 4% to 7.75% p.a.

7. Short-Term Loans and Long-Term Debt (Continued)

As of March 31, 2006, other long-term liabilities include interest-free promissory notes which mature at the end of 2006. The promissory notes are stated at amortized cost and are included in the current portion of long-term debt.

The Company is obliged to comply with a number of restrictive financial and other covenants contained within its loan agreements. Restrictive covenants include maintaining certain financial ratios. As a result of the Company's acquisition of OJSC Yuganskneftegaz in December 2004, and the resulting debt incurred and assets and liabilities, including contingent liabilities, consolidated, the Company was not in compliance with various financial and other covenants of existing loan agreements as of that date.

As of December 31, 2004, the long-term portion of the debt outstanding under loan agreements which were in default amounted to US$ 1,661 million. This debt continued to be reflected as long-term in nature in the December 31, 2004 consolidated balance sheet. In July 2005, the creditors waived violations related to restrictive financial ratios and agreed to amend the financial ratio covenants in line with the Company's new structure and new scope of activities. The creditors also waived other events of default arising from the breach of other covenant provisions. To date, the creditors have provided waivers relating to these provisions which have been granted on condition that the Company furnishes to the creditors, by no later than December 31, 2006, acceptable evidence that the Company has:

1. Discharged in full, or restructured, OJSC Yuganskneftegaz's tax liabilities for 2004 (which should not be in excess of a set limit),
2. Discharged in full, or restructured, OJSC Yuganskneftegaz's tax liabilities for the periods 1999 to 2003,
3. Discharged in full, or restructured, the indebtedness to YUKOS Capital S.a.r.l. in the amount of US$ 470 million,
4. Discharged in full, or restructured, the guarantee claims of Societe General S.A. related to a US$ 1,600 million loan (see Note 11).

These conditions also apply to certain new borrowings obtained throughout 2005 and also subsequent to that date. Thus, as of March 31, 2006 and December 31, 2005, long-term borrowings, for which creditors waived events of default arising from the breach of certain covenant provisions, amounted to US$ 3,013 million and US$ 2,831 million, respectively. This debt continues to be reflected as long-term in nature in March 31, 2006 and December 31, 2005 consolidated balance sheets. The Company's management believes that the conditions referred to above will be fulfilled.

The aggregate maturity of long-term debt outstanding as of March 31, 2006 is as follows (assuming the debt will not be called by creditors ahead of scheduled maturities):

	(unaudited)
Up to December 31, 2006	**$1,814**
2007	**1,998**
2008	**2,154**
2009	**2,098**
2010	**1,753**
2011 and after	**160**
Total long-term debt	**$9,977**

8. Revenue Related Taxes

Revenues include the following taxes and duties:

	Three months ended March 31, 2006 (unaudited)	Three months ended March 31, 2005 (unaudited)
Oil and gas sales		
Export customs duty	**$1,833**	$755
Petroleum products sales and processing fees		
Export customs duty	**331**	83
Excise	**4**	16
Total revenue related taxes	**$2,168**	$854

9. Taxes

Income taxes comprise the following:

	Three months ended March 31, 2006 (unaudited)	Three months ended March 31, 2005 (unaudited)
Current income tax expense	**$413**	$315
Deferred income tax benefit	**(78)**	(58)
Total income tax	**$335**	$257

10. Related Party Transactions

In the course of its usual activity, the Company regularly enters into transactions with other enterprises which are directly or indirectly controlled by the Russian Government. Such enterprises are business units of RAO UES, OJSC Gazprom, OJSC Russian Railways, OJSC Sberbank, OJSC Vnesheconombank, OJSC Vneshtorgbank, OJSC Gazprombank, OJSC Transneft and federal agencies including tax authorities. Management considers these business relations as part of regular activities in the Russian Federation and believes that they will remain unchanged in the foreseeable future.

10. Related Party Transactions (Continued)

Total amounts of transactions with companies controlled by the Government of the Russian Federation for each of the reporting periods ending March 31, as well as related party balances as of March 31, 2006 and December 31, 2005 are provided in the table below:

	Three months ended March 31, 2006 (unaudited)	Three months ended March 31, 2005 (unaudited)
Revenues		
Oil and gas sales	**$ —**	$ 4
Sales of petroleum products and processing fees	**66**	19
	$ 66	$ 23
Costs and expenses		
Pipeline tariffs and transportation costs	**$ 449**	$130
Other expenses	**3**	4
Interest expense	**122**	116
	$ 574	$250
Other operations		
Sale of short-term and long-term investments	**$ 2**	$ 10
Acquisition of short-term and long-term investments	**—**	73
Proceeds from short-term and long term debt	**2**	—
Repayment of short-term and long term debt	**1,180**	—
Deposits placed	**2,694**	—
Deposits paid	**$2,877**	$ —

	March 31, 2006 (unaudited)	December 31, 2005
Assets		
Cash and Cash equivalents	**$ 80**	$ 376
Accounts receivable and other current assets	**22**	203
Prepayments	**136**	154
	$ 238	$ 733
Liabilities		
Accounts payable	**$ 1**	$ 4
Short-term and long-term debt (including interest)	**5,623**	6,890
	$5,624	$6,894

Total amounts of transactions with related parties (except for those controlled by the Government of the Russian Federation), which are primarily equity investees and joint ventures, for each of the reporting periods

10. Related Party Transactions (Continued)

ending March 31, as well as related party balances as of March 31, 2006 and December 31, 2005 are provided in the table below:

	Three months ended March 31, 2006 (unaudited)	Three months ended March 31, 2005 (unaudited)
Revenues		
Oil and gas sales	**$ 9**	$ 1
Sales of petroleum products and processing fees	**16**	3
Support services and other revenues	**8**	10
	$33	$14
Costs and expenses		
Pipeline tariffs and transportation costs	**$ 3**	$ 3
Production and operating expense	**4**	6
Other expenses	**9**	6
	$16	$15
Other operations		
Sales of short-term and long-term investments	**$10**	$78
Acquisition of short-term and long-term investments	**26**	77
Proceeds from short-term and long term debt	**14**	31
Repayment of short-term and long term debt	**24**	31
Borrowings issued	**15**	20
Borrowings repaid	**$ 1**	$21

	March 31, 2006 (unaudited)	December 31, 2005
Assets		
Accounts receivables and other current assets	**$ 13**	$ 13
Prepayments	**5**	—
Short-term and long-term investments	**132**	128
	$150	$141
Liabilities		
Accounts payable	**$ 32**	$ 24
Short-term and long-term debt (including interest)	**18**	2
	$ 50	$ 26

11. Commitments and Contingencies

Environmental Matters

Russian Business Environment

The Russian economy, while deemed to be of market status, continues to display certain traits of a market in transition, for example inflation is not low enough and the existence of currency controls, which cause the national currency to be illiquid outside Russia. In addition laws and regulations, including interpretations, enforcement and judicial processes, continue to evolve in Russia. Other laws and regulations and certain other restrictions producing a significant effect on the Company's industry, including, but not limited to the following issues: rights to use subsurface resources, environmental matters, site restoration, transportation and export, corporate governance, taxation, etc.

11. Commitments and Contingencies (Continued)

Environmental Matters (Continued)

Taxation

Legislation and regulations regarding taxation in Russia continue to evolve. The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities. Instances of inconsistent opinions are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Russia's laws, decrees and related regulations is severe. Interest and penalties are levied when an understatement of a tax liability is discovered. As a result, penalties and interest can result in amounts higher than unreported taxes.

In Russia tax declarations remain open and subject to inspection for a period of up to three years. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

Russian transfer pricing rules were introduced in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions with significant (by more than 20%) price fluctuations. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the Group's prices and propose an adjustment. If such price adjustments are upheld by the Russian courts and implemented, the Group's future financial results could be adversely affected. In addition, the Group could face significant losses associated with the assessment of prior tax underpaid and related interest and penalties, which could have an adverse effect on the Group's financial condition and results of operations. The Management believes that such transfer pricing related tax contingencies are remote rather than possible or probable and cannot be reasonably estimated.

During 2004 several tax audits of OJSC Yuganskneftegaz for 1999-2003 years took place and their results have been appealed in court (see the "Litigation" caption below).

During 2005 tax audits of several subsidiaries for the years 2002-2003 took place. The results of these tax audits are currently being appealed with the tax authorities. The Company believes that the resolution of these matters will not result in any material tax payments.

Overall, management believes that the Group has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and regulations are not accrued in the interim condensed consolidated financial statements.

Capital Commitments

The Company and its subsidiaries are engaged in ongoing capital projects for exploration and development of production facilities and modernization of refineries and the distribution network. The budgets for these projects are generally set on an annual basis. Depending on the current market situation, actual expenditures may vary from the budgeted amounts.

Environmental Matters

Due to the nature of its business, Rosneft and its subsidiaries are subject to federal legislation regulating environmental protection. The majority of environmental liabilities arise as a result of accidental oil spills and leaks that pollute land, and air pollution. The Company considers fines paid and other environmental liabilities as immaterial, given the scale of its operations.

11. Commitments and Contingencies (Continued)

Environmental Matters (Continued)

In the course of its operations, the Company seeks to comply with international environmental standards and monitors compliance therewith on a regular basis. With a view to improve environmental activities, the Company takes a number of measures to mitigate the adverse impact of its current operations on the environment.

Legislation that regulates environmental protection in the Russian Federation is evolving, and the Company evaluates its liabilities in accordance therewith. Currently it is not possible to reasonably estimate the liabilities of the Company which may be incurred should the legislation be amended (if amended at all).

The management believes that, based on the existing legislation, the Company is unlikely to have liabilities that need to be accrued in addition to the amounts already recognized in the interim condensed consolidated financial statements and that may have a material adverse effect on the operating results or financial position of the Company.

Pension Plans

For the first three months of 2006 and 2005 the Company contributed to the corporate pension fund US$ 5 million and US$ 3 million, respectively.

Social Commitments

The Company possesses social infrastructure assets for use by employees. In accordance with the Presidential Edict on privatization in Russia, the Company is required to transfer social infrastructure assets to the relevant local city administrations without significant consideration. Accordingly, as the Company does not have ownership of these assets, they are not recorded in the interim condensed consolidated financial statements. However, the Company is required to maintain these assets.

The Company incurred US$ 6 million and US$ 2 million in social infrastructure and similar expenses for the first three months of 2006 and 2005, respectively. These expenses are presented as other expenses in the consolidated statement of income.

Insurance

The Company insured its assets through the insurance company SK Neftepolis LLC.

As of March 31, 2006 and December 31, 2005 the amount of coverage on assets under such insurance amounted to US$ 1,483 million and US$ 1,420 million, respectively.

Russian insurance providers do not offer business interruption insurance. Currently, it is not a common practice in Russia to obtain such insurance.

Guarantees and Indemnity

As of March 31, 2006, the Company has provided guarantees for certain debt agreements. In accordance with the loan agreements, the Company is obliged to perform on the guarantee and to pay the bank all amounts of outstanding guaranteed liabilities, including interest, upon the bank's request.

The Company cannot substitute guarantees issued by any novation agreement or mutual offset. The Company's obligations under guarantees issued are valid in case of any change in loan agreements.

After the full payment and settlement of all obligations under the guarantees, the Company has the right to subrogate its respective part of all bank claims against the debtor in accordance with the loan agreement. In the event the Company makes payments under guarantees issued, it has a right to claim the amounts paid from the debtor.

11. Commitments and Contingencies (Continued)

Guarantees and Indemnity (Continued)

The Company's outstanding guarantees as of March 31, 2006 are as follows:

Beneficiary Bank	Loan debtor	Maturity date	Contractual principal amount	Amount of outstanding liability (principal amount) as of March 31, 2006
Societe Generale S.A (as Facility Agent)	Yukos Oil Company	May 29, 2009	$1,600	$ 656
ABN AMRO	OJSC Rosneftegaz	December 30, 2008	$7,500	$7,306

In May 2005, Moravel Investments Limited, an affiliate of Yukos Oil Company, filed an arbitral claim against OJSC Yuganskneftegaz in the London Court of International Arbitration for the recovery of US$ 662 million pertaining to the loan of US$ 1,600 million from Societe Generale S.A. The Company is contesting the claim vigorously. The case will be heard in July 2006. The Company believes that the probability of any payments under the above guarantee is remote. On March 17, 2006 the Moscow Arbitration Court ruled that the guarantee agreement signed by OJSC Yuganskneftegaz with respect to Yukos Oil Company loan received from Societe Generale S.A. in the amount of US$ 1,600 million was invalid. This ruling was upheld on May 15, 2006 by the 9th Appeal Arbitration Court in appeal hearings, which made it legally binding and enforceable. Though this resolution may be further appealed by Yukos Oil Company in accordance with generally accepted legal practices the management believes that this ruling supports the Company's position in the London Court of International Arbitration.

Litigation, Claims and Assessments

As of March 31, 2006, OJSC Yuganskneftegaz had unresolved disputes with the tax authorities on decisions issued as a result of tax audits for 1999-2003 in the total amount of US$ 4,848 million. As a result of court hearings the amount of such taxes claimed was subsequently reduced to US$ 789 million. Based on the above court decisions the estimated tax liabilities (including fines) accrued as of September 30, 2005 were decreased by RUR 1.3 billion (US$ 46 million at March 31, 2006 CBR rate), but the additional interest in the amount of RUR 5.5 billion (US$ 197 million at March 31, 2006 CBR rate) have been accrued. Such additional penalties include both the interest calculated based on the final amount of 1999-2003 tax liabilities and also the interest relating to 2004 tax liabilities of OJSC Yuganskneftegaz which were outstanding as of December 31, 2004. Accordingly, the total additional income tax and other tax liabilities relating to OJSC Yuganskneftegaz accrued as of March 31, 2006 amounted to US$ 986 million (December 31, 2005— US$ 922 million).

In 2002 an option agreement was entered into between Total E&P Vankor (Total) and Anglo-Siberian Oil Company Limited (ASOC) under which Total had a conditional option to buy the latter's 60% stake in Taimyrneft LLC which ASOC held through Anglo-Siberian Oil Company Limited (Cyprus) (ASOC Cyprus) for US$ 1 million. ASOC and ASOC Cyprus belong to the Rosneft International Group. Total obtained injunctions in various jurisdictions to prevent ASOC Cyprus from trading in the shares of Taimyrneft LLC. In 2005 Total filed for arbitration under the option agreement requesting the specific performance under the option agreement or alternatively damages of US$ 430 million. The Company's management believes that the claim is without merit and the option is not exercisable. Beyond professional fees, which are not material to the Company, it is unclear whether any further liabilities will be incurred but the Company's management does not believe these will be material.

During 2004 Total E&P Vankor filed a claim against ASOC Cyprus for US$ 640 million under the sale and purchase agreement for 52% share in Eniseineft LLC. Total alleged that under the terms of a sale agreement, the shareholding in Eniseineft LLC should have been sold to them. The Company has contested this on the grounds that the relevant conditions precedent to the sale had not been met. The arbitration proceedings were completed during late 2005 and a decision is expected in June 2006.

The Company is a co-defendant in the litigation in the USA in respect of the acquisition of OJSC Yuganskneftegaz. This litigation was brought by certain holders of American Depository Receipts ("ADRs")

11. Commitments and Contingencies (Continued)

Litigation, Claims and Assessments (Continued)

of Yukos Oil Company seeking US$ 3 million in damages due to the fall in market value of the ADRs. The Company believes that this claim is without merit.

The Company is also a co-defendant in litigation in the Moscow Arbitration Court with respect to the auction for the common shares of OJSC Yuganskneftegaz. This litigation was brought by Yukos Oil Company. The claimant is seeking to recover all the common shares of OJSC Yuganskneftegaz and also damages in the total amount of RUR 388 billion (approximately US$ 14 billion at the CBR rate as of March 31, 2006). The court hearings have been postponed for an indefinite period. The Company believes that this claim is without merit.

The Company's subsidiaries are involved in other litigations which arise from time to time in the course of their business activities. The Company's management believes that the ultimate result of these litigations will not significantly affect the operating results or financial position of the Company.

License Agreements

In accordance with certain licence agreements or separate agreements concluded from time to time with the local and regional authorities the Company is required to maintain certain levels of expenditures for health, safety and environmental protection, as well as maintain certain level of capital expenditures. Generally these expenditures are within the normal operating and capital budgets and are accounted for when incurred in accordance with existing accounting policies for respective costs and expenses.

Oil Supplies

In January 2005, the Company entered into a long-term contract until 2010 with China National United Oil Corporation for export supplies of crude oil in the total amount of 48.4 million tonnes to be delivered in equal annual amounts. The prices are determined based on usual commercial terms for crude oil deliveries.

12. Segment Information

Presented below is information about the Company's operating segments in accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information.* The Company determines its operating segments based on differences in the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The exploration and production segment is engaged in field exploration and development and production of crude oil and natural gas. The refinery, marketing and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as purchasing, sale and transportation of crude oil and petroleum products. The other activities segment consists of banking, finance services, drilling services, construction services and other activities. Substantially all of the Company's operations are conducted in the Russian Federation. Further, the geographical regions within the Russian Federation have substantially similar economic and regulatory conditions. Therefore, the Company has not presented any separate geographical disclosure.

The segments are combinations of subsidiaries. The significant accounting policies applied to each segment are consistent with those applied to the interim condensed consolidated financial statements. Sales transactions for goods and services between the segments are carried out using prices agreed upon between Rosneft and its subsidiaries.

12. Segment Information (Continued)

Operating segments during the three months ended March 31, 2006 are as follows:

	Exploration and production	Refining, marketing and distribution	Other activities	Total Elimination	Consolidated
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues from external customers	**$ 117**	**$7,359**	**$ 40**	**$ —**	**$ 7,516**
Intersegmental revenues	**2,679**	**209**	**129**	**(3,017)**	**—**
Total revenues	**$ 2,796**	**$7,568**	**$ 169**	**$(3,017)**	**$ 7,516**
Operating expenses and cost of purchased oil and petroleum products	**$ 306**	**$ 646**	**$ 10**	**$ —**	**$ 962**
Depreciation, depletion and amortization	**$ 267**	**$ 114**	**$ 3**	**$ —**	**$ 384**
Operating income	**$ 605**	**$3,813**	**$ 124**	**$(3,017)**	**$ 1,525**
Total other income, net					**(345)**
Income before income tax					**$ 1,180**
Total assets	**$23,358**	**$6,189**	**$1,126**	**$ —**	**$30,673**

Operating segments during the three months ended March 31, 2005 are as follows:

	Exploration and production	Refining, marketing and distribution	Other activities	Total Elimination	Consolidated
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues from external customers	$ 90	$4,248	$ 25	$ —	$ 4,363
Intersegmental revenues	1,701	176	74	(1,951)	—
Total revenues	$ 1,791	$4,424	$ 99	$(1,951)	$ 4,363
Operating expenses and cost of purchased oil and petroleum products	$ 285	$ 174	$ 12	$ —	$ 471
Depreciation, depletion and amortization	$ 305	$ 31	$ 1	$ —	$ 337
Operating income	$ 177	$2,909	$ 65	$(1,951)	$ 1,200
Total other expenses, net					(211)
Income before income tax					$ 989
Total assets	$21,206	$4,651	$1,051	$	$26,908

Below is a breakdown of revenues by domestic and export sales, with a classification of export sales based on the direction of shipment.

Oil and gas sales	Three months ended March 31, 2006	Three months ended March 31, 2005
	(unaudited)	(unaudited)
Domestic sales of crude oil	**$ 58**	$ 257
Domestic sales of gas	**50**	40
Export sales of crude oil—CIS	**395**	319
Export sales of crude oil—Europe	**3,747**	2,156
Export sales of crude oil—Asia	**963**	219
Total oil and gas sales	**$5,213**	$2,991

12. Segment Information (Continued)

Petroleum products and processing fees	Three months ended March 31, 2006 (unaudited)	Three months ended March 31, 2005 (unaudited)
Domestic sales	**$ 915**	$ 542
Export sales of petroleum products and processing fees—CIS	**38**	5
Export sales of petroleum products and processing fees—Europe	**810**	481
Export sales of petroleum products and processing fees—South-East Asia	**456**	283
Total petroleum products and processing fees	**$2,219**	$1,311

13. Subsequent Events

In April 2006, the Company executed several agreements granting it a decrease in the interest rate to LIBOR plus 0.65% p.a. for outstanding loans totalling US$ 3,096 million as of March 31, 2006.

In April 2006 the company received remaining US$ 1,425 million related to the loan agreement with a syndicate of Western banks for US$ 2,000 million (See Note 7).

In the second quarter of 2006 the Company won a number of auctions for the exploration and development of oil and gas fields in the Irkutsk region. The total cost of acquisitions amounted to RUR 3.7 billion (US$ 134 million at the CBR rate as of March 31, 2006).

In April 2006, the Rosneft Board of Directors, as well as the boards of directors or other relevant corporate bodies of each of OJSC Yuganskneftegaz, OJSC Rosneft-Purneftegaz, OJSC Selkupneftegaz, OJSC Severnaya Neft, OJSC Rosneft-Krasnodarneftegaz, OJSC Rosneft-Stavropolneftegaz, OJSC Rosneft-Sakhalinmorneftegaz, OJSC Rosneft-Komsomolskiy Refinery, OJSC Rosneft-Tuapse Refinery, OJSC Rosneft-Arkhangelsknefteprodukt, OJSC Rosneft-Nakhodkanefteprodukt and OJSC Rosneft-Tuapsenefteprodukt (each, a "Merging Subsidiary" and collectively, the "Merging Subsidiaries"), adopted the proposal to shareholders to consolidate each respective Merging Subsidiary into Rosneft through a statutory merger and an exchange of shares at specified ratios (the "Share Swap"). In June 2006, the Rosneft shareholders, as well as the shareholders of each Merging Subsidiary, approved the Share Swap. Pursuant to the Share Swap, Rosneft will offer in aggregate up to 1,222,059,382 of its common shares to minority shareholders in the Merging Subsidiaries in consideration for their common and preferred shares. Shares in each Merging Subsidiary will be exchanged at a certain agreed exchange ratio.

On May 5, 2006 the Rosneft Board of Directors recommended to the annual shareholders' meeting to declare annual dividends for common stock in the amount of RUR 11,336 million (US$ 408 million at the CBR rate as of March 31, 2006). This amount is approximately US$ 0.04 per share at the CBR rate as of March 31, 2006. This recommendation was approved by the Rosneft shareholders meeting on June 7, 2006.

Rosneft shareholders meeting on June 7, 2006 also authorized issuance of up to 7,438,514,449 additional common shares par value 0.01 RUR, which includes those allocated for the Share Swap as discussed above. Furthermore, the shareholders authorized issuance of additional 400,000,000 common shares par value 0.01 RUR through a private placement.

In July 2006 the Rosneft Shareholders intend to execute Initial Public Offering of Rosneft common shares in Russian Federation and global depository receipts ('GDR') representing such common shares on London Stock Exchange.

OJSC Rosneft Oil Company

Consolidated Financial Statements

Years ended December 31, 2005, 2004 and 2003

With Report of Independent Auditors

OJSC Rosneft Oil Company

Consolidated Financial Statements

Years ended December 31, 2005, 2004 and 2003

Contents

ERNST & YOUNG

■ Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel.: 7 (495) 705-9700
7 (495) 755-9700
Fax: 7 (495) 755-9701
www.ey.com/russia

■ ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: 7 (495) 705-9700
7 (495) 755-9700
Факс: 7 (495) 755-9701
ОКПО: 59002827

Report of Independent Auditors

Shareholders and the Board of Directors
of OJSC Rosneft Oil Company

We have audited the accompanying consolidated balance sheets of OJSC Rosneft Oil Company, an open joint stock company, and subsidiaries ("the Company") as of December 31, 2005, 2004 and 2003 and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 18 to the consolidated financial statements, as of December 31, 2004 the Company was not in compliance with certain provisions of debt agreements, which constituted events of default, and as a result the related debt became callable by the respective creditors as of that date. Subsequently the Company has obtained waiver letters from the respective creditors which have provided for a grace period to cure these defaults and this grace period was ultimately extended until December 31, 2006, which is not more than one year from the most recent balance sheet date. Based on the Company's current strategy towards curing these matters, we do not believe that it is probable that all events of default will be cured before December 31, 2006. The Company continues to classify the related debt in the amount of US$ 2,803 million as non-current, which is not in compliance with Statement of Financial Accounting Standard (SFAS) No. 78 *"Classification of Obligations That Are Callable by the Creditor"*, which requires classification of such debt as current.

As discussed in Note 4 to the consolidated financial statements, the Company has not presented pro-forma results of operations for the years 2003 and 2004 as though its OJSC Yuganskneftegaz acquisition had been completed as of January 1, 2003. These disclosures are required by SFAS No. 141 *"Business Combinations"*.

As discussed in Note 4 to the consolidated financial statements, the value of property, plant and equipment pertaining to non-controlling shareholders in the accounting for minority interests resulting from acquisitions of OJSC YNG has been recorded at appraised values rather than at historical cost as required by SFAS No. 141 *"Business Combinations"*.

In our opinion, except for the effects of the matters described in the preceeding paragraphs, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2005, 2004 and 2003, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the consolidated financial statements, effective January 1, 2003, the Company adopted SFAS No. 143 *"Accounting for Asset Retirement Obligations."*

Ernst & Young LLC

May 15, 2006

OJSC Rosneft Oil Company

Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	As of December 31, 2005	2004	2003
ASSETS				
Current assets:				
Cash and cash equivalents	**5**	**$ 1,173**	$ 1,033	$ 228
Restricted cash	**5**	**23**	25	7
Short-term investments	**6**	**165**	183	315
Accounts receivable, net of allowance for doubtful accounts of US$69, US$75 and US$62, respectively	**7**	**2,858**	4,799	753
Inventories	**8**	**814**	517	331
Deferred tax assets	**24**	**48**	28	23
Prepayments and other current assets	**9**	**897**	256	155
Total current assets		**5,978**	6,841	1,812
Non-current assets:				
Long-term investments	**10**	**436**	277	181
Long-term bank loans granted, net of allowance of US$12, US$4 and US$6, respectively		**63**	40	24
Oil and gas properties, net	**11, 14**	**20,939**	16,540	3,292
Property, plant and equipment, net	**12, 14**	**2,030**	1,758	1,063
Construction-in-progress	**13**	**509**	482	372
Goodwill	**15**	**35**	35	—
Deferred tax assets	**24**	**8**	5	20
Other non-current assets, net of allowance of US$2, US$0 and US$0, respectively	**16**	**18**	34	4
Total non-current assets		**24,038**	19,171	4,956
Total assets		**$30,016**	$26,012	$6,768
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	**17**	**$ 1,358**	$ 1,386	$ 670
Short-term loans and current portion of long-term debt	**18**	**4,005**	4,720	588
Income and other tax liabilities	**20**	**2,810**	1,560	131
Deferred tax liabilities	**24**	**40**	—	4
Other current liabilities		**32**	42	5
Total current liabilities		**8,245**	7,708	1,398
Asset retirement obligations	**21**	**566**	555	126
Long-term debt	**18**	**8,198**	9,022	1,820
Deferred tax liabilities	**24**	**3,696**	2,854	71
Other non-current liabilities		**18**	3	2
Total liabilities		**20,723**	20,142	3,417
Minority interest	**22**	**1,860**	2,535	789
Shareholders' equity:				
Common stock par value 0.01 RUR (shares issued and outstanding: 9,092,174,000 as of December 31, 2005, 2004 and 2003)	**19**	**20**	20	20
Additional paid-in capital	**19**	**19**	19	19
Accumulated other comprehensive income		**—**	—	13
Retained earnings		**7,394**	3,296	2,510
Total shareholder's equity		**7,433**	3,335	2,562
Total liabilities and shareholder's equity		**$30,016**	$26,012	$6,768

The accompanying notes to the consolidated financial statements are an integral part of these statements.

OJSC Rosneft Oil Company

Consolidated Statements of Income and Comprehensive Income

(in millions of US dollars, except earnings per share data)

	Notes	For the years ended December 31, 2005	2004	2003
Revenues				
Oil and gas sales	**27**	**$ 16,202**	$ 2,735	$ 1,714
Petroleum products and processing fees	**27**	**7,374**	2,233	1,724
Support services and other revenues		**375**	307	203
Total		**23,951**	5,275	3,641
Costs and expenses				
Production and operating expenses		**1,623**	608	442
Cost of purchased oil and petroleum products		**732**	547	368
Selling, general and administrative expenses		**663**	269	305
Pipeline tariffs and transportation costs		**2,164**	562	452
Exploration expenses		**194**	51	18
Depreciation, depletion and amortization		**1,472**	307	302
Accretion expense	**21**	**35**	8	12
Taxes other than income tax	**24**	**5,264**	957	642
Excise tax and export customs duty	**23**	**6,281**	760	436
Total		**18,428**	4,069	2,977
Operating income		**5,523**	1,206	664
Other income/(expenses)				
Interest income		**81**	65	73
Interest expense		**(775)**	(159)	(110)
(Loss)/gain on disposal of property, plant and equipment		**(74)**	121	(21)
(Loss)/gain on disposal of investments		**(13)**	(30)	5
Gain on disposal of share in CJSC Sevmorneftegaz	**10**	**1,303**	—	—
Equity share in affiliates' profits	**10**	**51**	52	—
Dividends and income from joint ventures		**10**	46	16
Other expenses, net		**(137)**	(196)	(101)
Foreign exchange gain		**245**	96	63
Total other income/(expenses)		**691**	(5)	(75)
Income before income tax and minority interest		**6,214**	1,201	589
Income tax expense	**24**	**(1,609)**	(298)	(201)
Income before minority interest		**4,605**	903	388
Minority interest in subsidiaries' earnings	**22**	**(446)**	(66)	(52)
Net income before cumulative effect from change in accounting principle		**4,159**	837	336
Cumulative effect from change in accounting principle, net of income tax		**—**	—	50
Net income		**4,159**	837	386
Other comprehensive income	**2**	**—**	—	13
Comprehensive income		**$ 4,159**	$ 837	$ 399
Earnings per share (in US$)—basic and diluted		**$ 0.46**	$ 0.09	$ 0.04
Weighted average number of shares outstanding (in thousands)	**19**	**9,092,174**	9,092,174	9,092,174

The accompanying notes to the consolidated financial statements are an integral part of these statements.

OJSC Rosneft Oil Company

Consolidated Statements of Changes in Shareholders' Equity

for the years ended December 31, 2005, 2004 and 2003

(in millions of US dollars)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income	Retained earnings	Shareholder's equity
Balance at December 31, 2002	$20	$—	$ —	$2,173	$2,193
Share issue and premium	—	19	—	—	19
Unrealised gains on available-for-sale securities	—	—	13	—	13
Net income for the year	—	—	—	386	386
Dividends declared on common stock	—	—	—	(49)	(49)
Balance at December 31, 2003	$20	$19	$ 13	$2,510	$2,562
Realized gains on available-for-sale securities	—	—	(13)	—	(13)
Net income for the year	—	—	—	837	837
Dividends declared on common stock	—	—	—	(51)	(51)
Balance at December 31, 2004	$20	$19	$ —	$3,296	$3,335
Net income for the year	—	—	—	**4,159**	**4,159**
Dividends declared on common stock	—	—	—	**(61)**	**(61)**
Balance at December 31, 2005	**$20**	**$19**	**$ —**	**$7,394**	**$7,433**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

OJSC Rosneft Oil Company

Consolidated Statements of Cash Flows

(in millions of US dollars)

	For the years ended December 31,		
	2005	**2004**	**2003**
Operating activities			
Net income	**$ 4,159**	$ 837	$ 386
Reconciliation of net income to net cash provided by operating activities:			
Effect of foreign exchange on cash and cash equivalents and deferred tax	**(115)**	(24)	(16)
Gain on disposal of share in CJSC Sevmorneftegaz (Note 10)	**(1,303)**	—	—
Cumulative effect from change in accounting principle, net of income tax	**—**	—	(50)
Depreciation, depletion and amortization	**1,472**	307	302
Dry well expenses	**17**	7	—
Loss/(gain) on disposal of property, plant and equipment	**74**	(121)	21
Deferred income tax	**(79)**	(11)	(43)
Accretion expense	**35**	8	12
Equity share in affiliates' profits	**(51)**	(52)	—
Increase in allowance for doubtful accounts and bank loans granted	**4**	11	27
Minority interests in subsidiaries' earnings	**446**	66	52
Changes in operating assets and liabilities net of acquisitions:			
Decrease/(increase) in restricted cash	**2**	(4)	—
Increase in accounts receivable	**(1,353)**	(146)	(114)
Increase in inventories	**(297)**	(92)	(56)
(Increase)/decrease in prepayments and other current assets	**(641)**	(100)	42
Decrease/(increase) in other non-current assets	**16**	(26)	(3)
Increase in long-term bank loans granted	**(23)**	(16)	(13)
(Decrease)/increase in accounts payable and accrued liabilities	**(28)**	(44)	169
Increase in income and other tax liabilities	**414**	34	53
Increase in interest payable	**158**	35	18
Increase in other current and non-current liabilities	**5**	38	7
Net cash provided by operating activities	**2,912**	707	794
Cash flows from investing activities			
Capital expenditures	**(2,085)**	(853)	(821)
Proceeds from disposals of property, plant and equipment	**30**	206	6
Acquisition of short-term investments	**(693)**	(88)	(614)
Proceeds from sale of short-term investments	**707**	253	449
Acquisition of entities and additional shares in subsidiaries	**(366)**	(270)	(728)
Acquisition of OJSC Yuganskneftegaz	**—**	(9,398)	—
Proceeds from sale of long-term investments	**147**	248	463
Acquisition of long-term investments	**(33)**	(267)	(315)
Net cash used in investing activities	**$(2,293)**	$(10,169)	$(1,560)
Cash flows from financing activities			
Proceeds from short-term debt	**$ 977**	$ 3,211	$ 548
Repayment of short-term debt	**(2,018)**	(132)	(588)
Proceeds from long-term debt	**2,547**	8,092	1,043
Repayment of long-term debt	**(1,829)**	(867)	(228)
Dividends paid to minority shareholders of subsidiaries	**(74)**	(10)	(19)
Common dividends paid	**(61)**	(51)	(49)
Net cash (used in)/provided by financing activities	**(458)**	10,243	707
Increase/(decrease) in cash and cash equivalents	**161**	781	(59)
Cash and cash equivalents at beginning of year	**1,033**	228	271
Effect of foreign exchange on cash and cash equivalents	**(21)**	24	16
Cash and cash equivalents at end of year	**$ 1,173**	$ 1,033	$ 228
Supplementary disclosures of cash flow information			
Cash paid for interest (net of amount capitalized)	**$ 617**	$ 124	$ 92
Cash paid for income taxes	**$ 1,636**	$ 309	$ 199
Supplementary disclosure of non-cash activities			
Income tax offsets	**$ 41**	$ 6	$ 49
Non-cash capital expenditures	**$ (32)**	$ (50)	$ (61)

The accompanying notes to the consolidated financial statements are an integral part of these statements.

1. General

Nature of Operations

Open Joint Stock Company ("OJSC") Rosneft Oil Company ("Rosneft") and its subsidiaries, (collectively the "Company" or the "Group"), are principally engaged in exploration, development, production and sale of crude oil and gas and refining, transportation and sale of petroleum products in the Russian Federation ("RF") and in certain international markets.

Rosneft State Enterprise was incorporated as an open joint stock company on December 7, 1995. All assets and liabilities previously managed by Rosneft State Enterprise were transferred to the Company at their book value effective on that date together with the Government of the RF ("State") ownership in other privatized oil and gas companies. The transfer of assets and liabilities was made in accordance with Resolution No. 971, "On the Transformation of Rosneft State Enterprise into an Open Joint Stock Company "Rosneft Oil Company", dated September 29, 1995. Such transfers represented a reorganization of assets under the common control of the State and, accordingly, were accounted for at their book value. As of December 31, 2004 and 2003, the State maintained a 100% interest in Rosneft. In 2005, the shares of Rosneft were contributed to the share capital of OJSC Rosneftegaz (see Note 19). As of December 31, 2005, 100% of the shares of Rosneft less one share were owned by OJSC Rosneftegaz and one share was owned by the RF Federal Agency for the Management of Federal Property.

Under Russian legislation, natural resources, including oil, gas, precious metals and minerals and other commercial minerals situated within the territory of the RF are the property of the State until they are extracted. The Law of the RF No. 2395-1, *On Subsurface Resources*, regulates relations arising in connection with the geological study, use and protection of subsurface resources within the territory of the RF. Pursuant to the Law, subsurface resources may be developed only on the basis of a licence. The licence is issued by the regional governmental body and contains information on the site to be developed, the period of activity, financial and other conditions. The Company holds several licences issued by regional authorities for the geological study and development of oil and gas blocks and fields in areas where its subsidiaries are located.

In addition, the Company participates in a number of production sharing agreements (PSAs). As a result, the Company has rights to develop certain licence blocks according to the existing PSAs and may receive similar rights in the future (see Note 11).

Due to the limited capacity of OJSC Transneft's pipeline system, the State Pipeline Commission sets export quotas for each oil company based on the legislation on equal access to the oil pipeline system. In addition, the Company exports certain quantities of crude oil bypassing the Transneft system thus enabling it to increase its export capacities. In 2005, 2004 and 2003 the Company's export sales were approximately 62%, 57% and 51% of production, respectively. The remaining production was processed at the Company's refineries and other Russian refineries for further sales on domestic and international markets. Generally, export sales result in a higher net realized price than Russian domestic sales after considering related transportation and export duties and other charges.

1. General (Continued)

Nature of Operations (Continued)

Principal subsidiary companies included in the consolidated financial statements and respective ownership interests of the Company as of December 31, 2005 are as follows:

Name	Nature of Business	Preferred and Common Shares	Voting Shares
		%	%
Exploration and production			
OJSC Yuganskneftegaz (Note 22)	Oil and gas development and production	76.79	100.00
OJSC Rosneft-Purneftegaz	Oil and gas development and production	83.09	90.82
OJSC Rosneft-Sakhalinmorneftegaz	Oil and gas development and production	64.62	84.63
OJSC Rosneft-Krasnodarneftegaz	Oil and gas development and production	95.46	97.91
OJSC Rosneft-Stavropolneftegaz	Oil and gas development and production	75.18	89.33
OJSC Rosneft-Dagneft	Oil and gas development and production	68.70	91.60
OJSC Grozneftegaz	Oil and gas development and production	51.00	51.00
OJSC Rosneft-Sakhalin	Field survey and exploration	55.00	55.00
OJSC Severnaya Neft (Northern Oil)	Oil and gas development and production	100.00	100.00
OJSC Selkupneftegaz	Oil and gas development and production	100.00	100.00
Caspoil LLC	Oil and gas development and production	75.10	75.10
CJSC Vostokshelf	Field survey and exploration	100.00	100.00
RN-Kazakhstan LLC	Field survey and exploration	100.00	100.00
OJSC Dagneftegaz	Oil and gas development and production	81.22	94.96
RN-Kaiganneftegaz LLC	Field survey and exploration	100.00	100.00
CJSC Vostok-Smidt Neftegaz	Field survey and exploration	100.00	100.00
CJSC Zapad-Smidt Neftegaz	Field survey and exploration	100.00	100.00
Vostok Smidt Invest LLC	Field survey and exploration	100.00	100.00
Zapad Smidt Invest LLC	Field survey and exploration	100.00	100.00
Komsomolskoye NGDU LLC	Oil and gas development and production	100.00	100.00
West Kamchatka Holding B.V.	Field survey and exploration	100.00	100.00
Veninneft LLC	Field survey and exploration	100.00	100.00
Kamchatneftegaz LLC	Field survey and exploration	100.00	100.00
CJSC Vankorneft	Field survey and exploration	100.00	100.00
Taymyrneft LLC	Field survey and exploration	60.00	60.00
Eniseineft LLC	Field survey and exploration	99.00	99.00
Refining, marketing and distribution			
OJSC Rosneft-Tuapse Refinery	Petroleum refining	81.23	90.62
OJSC Rosneft-Komsomolsky Refinery	Petroleum refining	79.98	86.86
OJSC Rosneft-MZ Nefteproduct	Petroleum refining	65.42	87.23
OJSC Rosneft-ARTAG	Marketing and distribution	38.00	50.67
OJSC Rosneft-Altainefteproduct	Marketing and distribution	64.18	78.59
OJSC Rosneft-Arkhangelsknefteproduct	Marketing and distribution	75.42	84.65
OJSC Rosneft-Kabardino-Balkarskaya Toplivnaya Company	Marketing and distribution	88.66	92.91
OJSC Rosneft-Kubannefteproduct	Marketing and distribution	89.50	96.61
OJSC Rosneft-Karachaevo-Cherkessknefteproduct	Marketing and distribution	85.99	87.46
OJSC Rosneft-Kurgannefteproduct	Marketing and distribution	83.32	90.33
OJSC Rosneft-Murmansknefteproduct	Marketing and distribution	45.38	60.51
OJSC Rosneft-Nakhodkanefteproduct	Marketing and distribution	40.62	51.53
OJSC Rosneft-Smolensknefteproduct	Marketing and distribution	66.67	86.97
OJSC Rosneft-Tuapsenefteproduct	Marketing and distribution	38.00	50.67
OJSC Rosneft-Yamalnefteproduct	Marketing and distribution	49.52	66.03
RN-Vostoknefteproduct LLC	Marketing and distribution	100.00	100.00
OJSC Rosneft-Stavropolye	Marketing and distribution	99.08	99.08
RN-Trade LLC	Marketing and distribution	100.00	100.00
Other			
Rosneft International Limited	Holding company	100.00	100.00
CJSC Rosnefteflot	Transportation services	82.66	82.66
OJSC All-Russian Bank for Reconstruction and Development of Russian Regions (VBRR)	Banking	50.98	50.98
CJSC RN-Astra	Investment activities	100.00	100.00
CJSC Sakhalinskie Proekty	Corporate planning	100.00	100.00
CJSC Vostochny Neftenalivnoy Terminal	Services	100.00	100.00
Baikalfinancegroup LLC	Investment activities	100.00	100.00

1. General (Continued)

Nature of Operations (Continued)

All of the above subsidiaries, except for Rosneft International Ltd. and West Kamchatka Holding B.V., are incorporated in the RF. Rosneft International Ltd. is registered in Ireland, West Kamchatka Holding B.V. is registered in the Netherlands.

Currency Exchange and Control

Foreign currencies, in particular the US dollar and the Euro, play a significant role in the underlying economics of many business transactions in Russia. For the oil and gas sector in particular, substantial export arrangements as well as investing and financing activities are conducted in foreign currencies, primarily the US dollar.

The Russian Federation has established currency regulation rules designed to stimulate use of the ruble in business operations. Such rules allow the Central Bank of Russia (the "CBR") to place restrictions on the conversion of rubles into foreign currencies and retain the CBR's powers to independently impose the quota of foreign currency to be converted into rubles. In March 2006, mandatory conversion of foreign currency was abolished.

2. Summary of Significant Accounting Policies

Format and Content of Consolidated Financial Statements

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by Russian legislation. The accompanying consolidated financial statements were derived from the Company's Russian statutory books and records with adjustments and reclassifications made to present them in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments, not recorded in the Company's statutory books, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP. The principal adjustments relate to: (1) recognition of certain expenses; (2) valuation and depreciation of property, plant and equipment; (3) foreign currency translation; (4) deferred income taxes; (5) valuation allowances for unrecoverable assets; (6) accounting for the time value of money; (7) accounting for investments in oil and gas property and conveyances; (8) consolidation principles; (9) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (10) accounting for asset retirement obligations; (11) business combinations and goodwill/negative goodwill.

Certain amounts in the 2003 and 2004 consolidated financial statements were reclassified to conform to the current year presentation.

As discussed in Note 4, on December 31, 2004 the Company acquired OJSC Yuganskneftegaz. Accordingly, the results of OJSC Yugansneftegaz operations were included in the Company's consolidated statement of income from January 1, 2005. Consequently, the results of the Company's operations in 2005, 2004 and 2003 are not comparable without considering this matter in 2005. Revenue from sales of crude oil and refined products related to OJSC Yuganskneftegaz in 2005 accounts for approximately 69% of the consolidated revenue of the Company.

Management Estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the amounts of revenues and expenses recognized during the reporting periods. Certain significant estimates and assumptions for the Company include: estimation of economically recoverable oil and gas reserves; rights to and recoverability and useful lives of long-term assets and investments; impairment of goodwill; allowances for doubtful accounts receivable; asset retirement obligations; legal and tax

2. Summary of Significant Accounting Policies (Continued)

Management Estimates (Continued)

contingencies; environmental remediation obligations; recognition and disclosure of guarantees and other commitments; fair value measurements; ability to renew operating leases and to enter into new lease agreements; classification of certain debt amounts. Some of the most significant estimates are made in connection with the acquisition of OJSC Yuganskneftegaz. Management believes it has a reasonable and appropriate basis for its judgment pertaining to its estimates and assumptions. However, actual results could differ from those estimates.

Principles of Consolidation

The consolidated statements include business transactions of the subsidiaries in which the Company directly or indirectly owns more than 50% of common voting stock, or on which it otherwise exercises control. All intercompany transactions and balances have been eliminated. Investments in other significant entities in which the Company owns between 20% and 50% are generally accounted for under the equity method since the Company does not have absolute control, but rather significant influence. Investments in other companies are accounted for at cost and adjusted for any estimated impairment.

The Company analyzed the application of Financial Accounting Standards Board ("FASB") Interpretation ("FIN") 46R, *Consolidation of Variable-Interest Entities* (VIEs), for potential consolidation of companies. FIN 46R was applied from January 1, 2004 for VIEs created after December 31, 2003, and from January 1, 2005, for all other VIEs. As discussed in Note 3, the application of FIN 46R did not have a significant impact on the Company's operations and financial position.

Minority Interest

Minority interests in the net assets and net results of consolidated subsidiaries are shown under "Minority interest" in the accompanying consolidated balance sheets and statements of income and comprehensive income. For majority-owned subsidiaries that incur losses, the Company recognizes 100% of the losses, after first reducing the related minority interests' balances to zero, unless minority shareholders committed to fund the losses. Further, when a majority-owned subsidiary becomes profitable, the Company recognizes 100% of profits until such time as the excess losses previously recorded have been recovered. Thereafter, the Company recognizes profits in accordance with the underlying ownership percentage. The actual ruble-denominated balances attributable to minority interests may differ from these amounts presented in these consolidated financial statements.

Foreign Currency Translation

The management of the Company has determined the US Dollar as the functional and reporting currency for the purpose of financial reporting under US GAAP.

Monetary assets and liabilities have been translated into US dollars using the exchange rate as of the balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into US dollars at average exchange rates prevailing on transaction dates. Gains and losses resulting from the re-measurement into US dollars are included in the "Foreign exchange gain" in the consolidated statement of income.

As of December 31, 2005, 2004 and 2003, the official CBR rates of exchange were 28.78 rubles, 27.75 rubles and 29.45 rubles per US dollar, respectively. As of May 15, 2006 the official rate of exchange was 26.94 rubles per US dollar.

The translation of local currency denominated assets and liabilities into US dollars for the purposes of these financial statements does not indicate that the Company could realize or settle, in U.S. dollars, the reported values of these assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported US dollar value of capital to its shareholders.

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash represents cash on hand and in the Company's bank accounts and interest bearing deposits which can be effectively withdrawn at any time without prior notice or penalties reducing the principal amount of the deposit.

Accounts Receivable

Trade accounts receivable are stated at their principal amounts outstanding net of allowances for doubtful debts. Specific allowances are recorded against trade receivables whose recovery or collection has been identified as doubtful. Estimates of allowances require the exercise of judgment and the use of assumptions.

Earnings Per Share

Basic earnings per share is calculated by dividing net earnings attributable to common shares by the weighted average number of common shares outstanding during the corresponding period. In the absence of any securities-to-shares conversion transactions, the amount of basic earnings per share stated in these financial statements is equal to the amount of diluted earnings per share.

Inventories

Inventories, consisting primarily of crude oil, petroleum products and materials and supplies, are stated at the lower of weighted average cost of acquisition or market value. Market value shall not exceed net realizable value (i.e. the price at which inventories can be sold after allowing for the cost of completion and sale), and shall not be lower than net realizable values less the amount of margin.

Financial Investments

All debt and equity securities held by the Company are classified into one of the following three categories: trading securities; available-for-sale securities; held-to-maturity securities.

Trading securities are purchased and held principally for the purpose of sale in the nearest future. Held-to-maturity securities represent financial instruments that the Company has both the intent and the ability to hold to maturity. All other securities, which do not fall into these two categories are classified as available-for-sale securities.

Trading securities and available-for-sale securities are carried at fair (market) value. Held-to-maturity securities are stated at amortized cost. Unrealized gains or losses on trading securities are included in the consolidated statements of income. Unrealized gains and losses on available-for-sale securities less related tax effects are recorded as a separate component of comprehensive income until the date of disposal.

Realized gains and losses from the sale of available-for-sale securities are reported separately for each type of security. Dividends and interest income are recognized in the consolidated statements of income on an accrual basis.

Investments in shares or interests of companies where the Company has less than 20% equity interest and no significant influence, which are not publicly traded and whose market value is not readily available are carried at cost.

If the decline in fair value of an investment below its carrying value is other than temporary, the carrying value of the investment is reduced and a loss in the amount of any such decline is recorded. Cost method investments are evaluated for impairment when events or changes in circumstances occur which may have a significant effect on the fair value of these investments.

Sale and Repurchase Agreements and Securities Lending

Sale and repurchase agreements are treated as secured financing transactions. Securities sold under sale and repurchase agreements are included in trading securities. The corresponding liability is presented within

2. Summary of Significant Accounting Policies (Continued)

Sale and Repurchase Agreements and Securities Lending (Continued)

short-term debt. The difference between the sale and repurchase price is treated as interest and is accrued over the life of repurchased agreements using the effective interest method.

Oil and Gas Properties

In accordance with Statement of Financial Accounting Standard ("SFAS 19"), *Financial Accounting and Reporting by Oil and Gas Producing Companies* (SFAS 19*),* oil and gas properties and the related expenses are recognized under the successful efforts method. This method prescribes that exploration costs, including geological and geophysical costs and the costs of dry holes, are charged to expense when incurred.

In April 2005, FASB issued FASB Staff Position FSP FAS 19-1, *Accounting for suspended well costs* ("FSP FAS 19-1"), which amends SFAS 19.

FSP FAS 19-1 provides for continued capitalization of exploratory drilling costs past one year if a company is making sufficient progress on assessing the reserves and the economic and operating viability of the project. FSP FAS 19-1 also provides certain disclosure requirements with respect to capitalized exploratory drilling costs. As of January 1, 2005 the Company adopted FSP FAS 19-1.

Exploratory well costs (including costs associated with stratigraphic test wells) are temporarily capitalized pending determination of whether potentially economic oil and gas reserves have been discovered by the drilling effort. The length of time necessary for this determination depends on the specific technical or economic difficulties in assessing the recoverability of the reserves. If a determination is made that the well did not encounter oil and gas in economically viable quantities, the well costs are expensed and are reported in "exploration expenses".

Exploratory drilling costs are temporarily capitalized pending determination of whether the well has found proved reserves if both of the following conditions are met:

- The well has found a sufficient quantity of reserves to justify, if appropriate, its completion as a producing well, assuming that the required capital expenditure is made; and
- Satisfactory progress toward ultimate development of the reserves is being achieved, with the Company making sufficient progress assessing the reserves and the economic and operating viability of the project.

The Company evaluates the progress made on the basis of regular project reviews which take into account the following factors:

- First, if additional exploratory drilling or other exploratory activities (such as seismic work or other significant studies) are either underway or firmly planned, the Company deems there to be satisfactory progress. For these purposes, exploratory activities are considered firmly planned only if they are included in the Company's three-year exploration plan/budget. At December 31, 2005, exploratory drilling costs capitalized on this basis were not material.
- In cases where exploratory activity has been completed, the evaluation of satisfactory progress takes into account indicators such as the fact that costs for development studies are incurred in the current period, or that governmental or other third-party authorizations are pending or that the availability of capacity on an existing transport or processing facility awaits confirmation. At December 31, 2005, exploratory drilling costs capitalized on this basis were not material.

Should the project be deemed economically viable, it is then transferred to the development stage, otherwise the costs are expensed.

Costs, including "internal" costs relating to drilling and equipping of development wells, including development dry holes, as well as costs required for drilling and equipping of injection wells in the process of oil and gas reserves development, are capitalized. These costs are included in oil and gas properties in the consolidated balance sheet.

2. Summary of Significant Accounting Policies (Continued)

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost, net of accumulated depreciation. The cost of maintenance, repairs, and replacement of minor items of property is charged to operating expenses. Renewals and betterments of assets are capitalized.

Upon sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in the statement of income.

Depreciation, Depletion and Amortization

Depletion expense of acquisition costs of proved oil and gas properties is calculated using the unit-of-production method based on total proved reserves. Depletion expense of other capitalized costs related to oil and gas production is calculated using the unit-of production method based on proved developed reserves. Management of the Company considers each extraction division as the appropriate level for these calculations.

Acquisition costs of unproved properties are not amortized. These costs are reclassified as proved properties when the relevant reserve reclassification is made. Acquisition costs of unproved properties are reviewed for impairment. In case of impairment these costs are expensed when incurred.

Depreciation and amortization charges with respect to property, plant and equipment other than oil and gas properties is computed using the straight-line method and based on their useful lives.

Depreciation rates are applied to similar types of buildings, machinery and equipment having similar economic characteristics, as shown below:

Asset Group	Average Useful Life
Buildings and constructions	30-35 years
Plant and machinery	15 years
Vehicles and other equipment	6 years
Service vessels	20 years
Offshore drilling assets	20 years

Interests in Joint Operations

A joint operation is a contractual arrangement whereby two or more parties (participants) undertake an economic activity that is subject to joint control. Joint control is only exercised when strategic, financial and operating decisions relating to the joint activity are made unanimously by all the parties. A joint venture is as a registered company, partnership or any other legal form for the purposes of handling joint operations.

Financial results, assets and liabilities arising from interests in joint ventures are recognized in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in joint ventures are recognized at the cost of financial investments increased by any change to the share of net assets from the date of inception of a joint venture, less distributed earnings and impairment of financial investments. The consolidated statements of income include the Company's share in gains and losses arising from joint ventures.

The Company discontinues the use of the equity method of accounting from the date on which it ceases to have joint control over, or have significant influence in, a jointly-controlled entity, or when its interest in a jointly-controlled entity is reclassified to assets held for sale.

Certain activities of the Company (mainly oil exploration and production) are conducted through interests in joint projects, where the parties exercise joint control over the assets without a legal entity being established. Income, expenses, assets and liabilities arising from participation in joint projects are included in the consolidated financial statements on a pro rata basis corresponding to the participation share.

2. Summary of Significant Accounting Policies (Continued)

Interests in Joint Operations (Continued)

A part of an interest in a jointly-controlled oil and gas exploration and production entity may be assigned to other participants or third parties. In which case, in accordance with SFAS 19, *Financial Accounting and Reporting by Oil and Gas Producing Companies*, such assignment is performed and accounted for under an arrangement called a "carried interest" whereby the assignee agrees to carry all costs of drilling, developing, and operating the property. The assignee is also entitled to all of the revenue from hydrocarbon production from the property, excluding any third party interest, until all of the assignee's costs, including the contractual rate of return, have been recovered, at such time the assignor will resume its participation in operating expenses and income.

Impairment of Long-Lived Assets

Long-lived assets, including blocks with proved oil and gas reserves, are assessed for potential impairment in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Oil and gas properties are assessed whenever events or circumstances indicate potential impairment. If the carrying value of oil and gas properties is not recoverable through undiscounted cash flows, an impairment is recognized. The impairment is determined on the basis of the estimated fair value of oil and gas properties which, in turn, is measured by discounting future net cash flows or with reference to current market prices of oil and gas properties, if available. Discounted future cash flows from oil and gas fields are based on the most reliable management estimates of future prices that rely on recent actual prices and published prices for forward transactions; such prices are applied to forecast production volumes at particular fields with further discounting for the expected risk level. Forecast production volumes shall be understood as reserves, including probable reserves that are proposed to be extracted using a known amount of capital expenditures. Production volumes and prices correspond to the internal plans and forecasts, as well as other data in the published financial statements. Assumptions regarding future prices and costs used to assess oil and gas properties for impairment differ from those used in the standard procedure for discounting net cash flows from proved oil and gas reserves. In accordance with SFAS 69, *Disclosures about Oil and Gas Producing Activities*, such disclosures should be based on assumptions that use prices and expenses as of the balance sheet date without forecasting future changes.

Grouping of assets for the purpose of depreciation is performed on the basis of the lowest level of identifiable cash flows that are largely independent of the cash flows from other groups of assets—as a rule, for oil and gas properties such level is represented by the field, for refining assets—by the whole refining unit, for service stations—by the facilities. Long-lived assets intended by management for use during a period not exceeding one year are recorded at the lower of depreciated value or fair value, less selling expenses.

Acquisition costs of unproved oil and gas properties are assessed for impairment on a regular basis and any estimated impairment is charged to expenses.

Recoverability of oil and gas properties attributable to the refining, marketing and distribution segment is generally assessed on the basis of expected future cash flows from key operating units, usually entire legal entities. Since assets of this segment (particularly refining units) represent an integrated set of operations, this condition is taken into account in measuring the value of particular units or the extent of their utilization to generate other cash flows.

Business Combinations

The Company accounts for its business acquisitions under the purchase method of accounting. The total cost of acquisitions is allocated to the underlying assets, including intangible assets, and liabilities based on their respective estimated fair values. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, licence and other asset lives and market multiples, among other items.

2. Summary of Significant Accounting Policies (Continued)

Business Combinations (Continued)

As discussed further in Note 4, the Company's December 2004 acquisition of OJSC Yuganskneftegaz resulted in the fair value of the underlying net assets acquired exceeding the purchase price and thus resulted in negative goodwill. The negative goodwill reduced, on a pro rata basis, amounts assigned to the acquired non-current assets.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the acquisition cost over the fair value of net assets acquired. The excess of the fair value of the acquired share of net assets over their acquisition cost represents negative goodwill and is allocated among the non-current assets acquired, excluding investments and deferred tax assets, which may result in their value being reduced to zero.

For investees accounted for under the equity method, the excess of the cost to acquire a share in those entities over the fair value of the acquired share of net assets as of the acquisition date is treated as embedded goodwill and is considered in computing the Company's equity share in income/loss of equity investees.

In accordance with requirements of SFAS 142, *Goodwill and Other Intangible Assets*, goodwill and intangible assets with indefinite useful lives are not amortized. Instead, they are tested at least annually for impairment.

Intangible assets that have a finite useful life are amortized using the straight-line method over the shorter of their useful life or the term established by legislation.

Capitalized Interest

Interest expense related to the use of borrowed funds used for capital construction projects and acquisition of properties, plant and equipment is capitalized provided such interest expense could have been avoided if the Company had not made capital investments. Interest is capitalized only during the period when construction activities are actually in progress and until the resulting properties are put into operation. The Company capitalized US$ 79 million, US$ 22 million and US$ 34 million of interest expenses on loans and borrowings in 2005, 2004 and 2003, respectively.

Leasing Agreements

Capital leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the interest charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liabilities. Interest charges are charged directly to the consolidated statements of operation and comprehensive income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term unless leased assets are capitalized because the terms of the lease agreement grant the Company ownership rights over the leased assets by the end of the lease term or containing a bargain purchase option. In the latter cases capitalized assets are depreciated over the estimated useful life of the asset regardless of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of operation and comprehensive income on a straight-line basis over the lease term.

2. Summary of Significant Accounting Policies (Continued)

Asset Retirement Obligations

The Company has conditional asset retirement obligations associated with its core business activities. The nature of the assets and potential obligations are as follows:

Exploration and Production—The Company's exploration, development and production activities involve the use of the following assets: wells, related equipment and operating sites, oil gathering and treatment facilities, tank farms and in-field pipelines. Generally, licences and other regulatory acts require that such assets be decommissioned upon the completion of production. According to these requirements, the Company is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Company's estimates of these obligations are based on current regulatory or licence requirements, as well as actual dismantling and other related costs. Asset retirement obligations are calculated in accordance with the provisions of SFAS 143, *Accounting for Asset Retirement Obligations*.

Refining, Marketing and Distribution—This business segment covers refining operations, marine and other distribution terminals, and retail sales. The Company's refining operations consist of major petrochemical operations and industrial complexes. These industrial complexes have been in operation for several decades. The Company's management believes that given the nature of the operations, the useful lives of these industrial complexes are indeterminable, while certain of their operating components and equipment have definite useful lives. Legal or contractual asset retirement obligations related to petrochemical, oil refining, marketing and distribution activities are not recognized due to the limited history of such activities in these segments, the lack of clear legal requirements as to the recognition of obligations, as well as the fact that useful lives of such assets are not determinable.

The Company's marine and other distribution terminals, including its retail network, operate under the regulatory requirements of local authorities and lease arrangements. These requirements generally provide for elimination of the consequences of the use of those assets, including dismantling of equipment, restoration of land, etc. The Company's estimate of conditional asset retirement obligations takes into account the above requirements.

SFAS 143 calls for measurements of asset retirement obligations to include, as a component of expected costs, an estimate of the price that a third party would demand, and could expect to receive, for bearing the uncertainties and unforeseeable circumstances inherent in the obligations, sometimes referred to as a market-risk premium.

To date, the oil and gas industry has few examples of credit-worthy third parties which are willing to assume this type of risk, for a determinable price, on major oil and gas production facilities and pipelines. Therefore, because determining such a market-risk premium would be an arbitrary process, it has been excluded from the SFAS 143 estimates.

Due to continuous changes in the Russian regulatory and legal environment, there could be future changes to the requirements and contingencies associated with the retirement of long-lived assets.

Fair Value of Financial Instruments

SFAS 107, *Disclosures about Fair Value of Financial Instruments,* defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Financial assets and financial liabilities recognized in the accompanying consolidated balance sheets include cash and cash equivalents, short-term and long-term investments, accounts receivable and payable, short-term debt and other current and non-current assets and liabilities. The accounting policies with respect to the recognition and measurement of these items are disclosed in the respective accounting policies in Note 28.

The Company, using available market information, management's estimates and appropriate valuation methodologies, has determined the approximate fair values of financial instruments.

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

Russian legislation does not contain the concept of a "consolidated tax payer' and, accordingly, the Company is not subject to Russian taxation on a consolidated basis but rather on an individual company basis. Income taxes are provided on taxable profit as determined under the Russian Federation Tax Code. Deferred income tax assets and liabilities are recognized in the accompanying consolidated financial statements in the amount determined by the Company using the liability method in accordance with SFAS 109, *Accounting for Income Taxes*. This method takes into account future tax consequences, based on the effective tax rate, associated with differences between the carrying values of assets and liabilities and their taxable base, which gives immediate income statement effect to changes in income tax laws, including changes in the tax rates.

A valuation allowance for a deferred tax asset is recorded when management believes that it is more likely than not that this tax asset will not be realized.

Recognition of Revenues

Revenues are recognized when title passes from the seller to the customer, the contract price is fixed or determinable and collectibility of the receivable is reasonably assured. Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are recognized when title passes. For export sales, title generally passes at the border of the Russian Federation and the Company covers transportation expenses, duties and taxes on those sales. Revenues include excise taxes and custom duties (see Note 23).

Sales of support services are recognized as services performed provided that the service price can be determined and no significant uncertainties regarding the receipt of revenues exist.

Revenues are shown net of value added tax.

Transportation Expenses

Transportation expenses recognized in the consolidated statement of income represent all expenses incurred in the transportation of crude oil and petroleum products via the Trasneft pipeline network, as well as by railway and other transport means.

Refinery Maintenance Costs

The Company recognizes the costs of overhauls and preventive maintenance performed with respect to oil refining assets as expenses when incurred.

Environmental Liabilities

Environmental expenditures are expensed or capitalized, depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed. Liabilities for these expenditures are recorded on an undiscounted basis when environmental assessments or clean-ups are probable and the costs can be reasonably estimated.

Guarantees

The fair value of a guarantee is determined and recorded as a liability at the time when the guarantee is issued. The initial guarantee amount is subsequently remeasured to reflect the changes in the underlying liability. The expense is included in the related line items of the consolidated income statement, based on the nature of the guarantee. When the likelihood of performing on a guarantee becomes probable, a liability is accrued, provided it is reasonably determinable on the basis of the facts and circumstances at that time.

2. Summary of Significant Accounting Policies (Continued)

Comprehensive Income

The Company applies SFAS 130, *Reporting Comprehensive Income,* which establishes standards for the calculation and reporting of the Company's comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in consolidated financial statements.

As of December 31, 2003, the Company recorded other accumulated comprehensive income in the amount of US$ 13 million that includes an unrealized holding gain resulting from appreciation of available-for-sale securities to their market value. There was no tax effect as a result of this appreciation.

In the first six months of 2004, the securities were sold and an unrealized gain on these securities was recognized as other income together with the gain from the sales of the securities.

As of December 31, 2005 and 2004, there are no material comprehensive income items and, therefore, comprehensive income for 2005 and 2004 equals net income.

Accounting for Contingencies

Certain conditions may exist as of the date of these consolidated financial statements which may further result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management makes an assessment of such contingent liabilities which is based on assumptions and is a matter of opinion. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal or tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

Recent Accounting Standards

In November 2004, the FASB issued SFAS 151, *Inventory Costs*, an amendment of the Accounting Research Bulletin ("ARB") 43, Chapter 4. The standard provides that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company will apply this standard with respect to inventory costs incurred during the fiscal year beginning from January 1, 2006. The management of the Company has not identified the impact this standard will have on the Company's financial position and results of operations.

In May 2005, the FASB issued SFAS 154, *Accounting Changes and Error Corrections*. SFAS 154 replaces Accounting Principles Board Opinion 20, *Accounting Changes* ("APB 20"), and SFAS 3, *Reporting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principles. SFAS 154 requires retrospective application to prior period's financial statements of all changes in accounting principle, unless it is impractical to determine either the period-specific effects or the cumulative effect of the change, if a pronouncement which requires the change in accounting principle does not include specific transition provisions. SFAS 154 carries forward without change

2. Summary of Significant Accounting Policies (Continued)

Recent Accounting Standards (Continued)

the guidance contained in APB 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimates. The Company currently cannot estimate the impact the adoption of FAS 154 will have on its consolidated financial statements as no such accounting changes are currently expected.

In June 2005, the FASB's Emerging Issues Task Force ("EITF") reached a consensus on Issue 05-6 ("EITF 05-6"), *Determining the Amortization Period for Leasehold Improvements*. EITF 05-6 requires that leasehold improvements acquired in a business combination or purchased subsequent to the inception of the operating lease should be amortized over the lesser of the useful life of the asset or the lease term that includes reasonably assured lease renewals as determined on the date of the acquisition of the leasehold improvement. EITF 05-6 is effective during reporting periods beginning after June 15, 2005 and is not expected to have a material impact on the Company's results and financial position.

On September 15, 2005 FASB issued EITF Issue No. 04-13 *Accounting for Purchases and Sales of Inventory with the Same Counterparty*. This EITF addresses the following issues: determining whether two or more exchange transactions involving inventory with the same counterparty are entered into in contemplation of one another and should be viewed as a single exchange transaction for purposes of evaluating the effect of APB 29, *Accounting for Nonmonetary Transactions*; determining whether nonmonetary exchanges of inventory in the same line of business should be recognized at fair value. This EITF should be applied to new arrangements entered into in reporting periods beginning after March 15, 2006 and to modifications or renewals of existing arrangements after that date. The Company does not expect that the application of EITF 04-13 will have a material impact on its "Sales" and "Operating expenses" accounts in 2006. The Company has identified no material exchanges of inventory that should be recognized at fair value according to EITF 04-13.

3. Changes in Accounting Principles

SFAS 143, Accounting for Asset Retirement Obligations

Since January 1, 2003, the Company has been applying SFAS 143, *Accounting for Asset Retirement Obligations*. This statement applies to obligations associated with the retirement of tangible long-lived assets upon expiration of their useful lives. In accordance to SFAS 143, fair value of asset retirement obligations should be recognized in the period when the obligations occurred if the fair value could be reasonably determined. Costs associated with asset retirement are capitalized within the net book value of long-lived assets.

As of January 1, 2003, the Company recorded an adjustment for the accumulated effect of the change in accounting principle as a result of adoption of this statement that increased net profit by US$ 50 million, net of income tax. The effect of the adoption of this statement includes an increase in the net book value of oil and gas properties of US$ 23 million, a decrease in asset retirement obligations of US$ 42 million, and an increase in deferred tax liability of US$ 16 million.

The effect of this accounting change on basic and diluted earning per share for the year ended December 31, 2003 is presented below (in US$):

Earnings per share before cumulative effect of change in accounting principle	$0.037
Cumulative effect of change in accounting principle,	0.005
Earnings per share—basic and diluted	**$0.042**

FIN 46R, Consolidation of Variable-Interest Entities

FIN 46R was applied from January 1, 2004 for VIEs created after December 31, 2003, and from January 1, 2005, for all other VIEs.

3. Changes in Accounting Principles (Continued)

In 2005 the Company consolidated certain VIEs to which it provided financing in order to construct offshore drilling assets. This consolidation did not have a material effect on the financial position and results of operations of the Company.

The Company did not identify any VIEs where it holds a significant variable interest (including a significant implicit variable interest) but is not the primary beneficiary.

The Company did not identify any subsidiaries which would need to be deconsolidated based on the FIN 46(R) guidance.

No entities requiring consolidation were identified in 2004.

4. Significant Acquisitions

OJSC Yuganskneftegaz and Baikalfinancegroup LLC

In late December 2004, the Company acquired a 100% interest in Baikalfinancegroup LLC, which a few days earlier had won an auction for the sale of a 76.79% interest in OJSC Yuganskneftegaz, which represents 100% of the common shares of OJSC Yuganskneftegaz. Following payment of the auction price the shares were registered in the name of Baikalfinancegroup LLC on December 31, 2004. The minority interest in the share capital OJSC Yuganskneftegaz amounts to 23.21% and is held by Yukos Oil Company. Yukos Oil Company is both the previous owner of the common shares and also the current owner of preferred shares comprising the minority interest. An open auction of OJSC Yuganskneftegaz's common shares was conducted by the Russian bailiff service in order to recover a portion of the unpaid taxes due to the Russian tax authorities by Yukos Oil Company. This transaction has been accounted for as a purchase of OJSC Yuganskneftegaz from Yukos Oil Company, in accordance with SFAS 141, *Business Combinations.*

OJSC Yuganskneftegaz is engaged in exploration, development, field facilities construction, and production of hydrocarbons in West Siberia. The purpose of the transaction was to acquire the oil and gas properties held by OJSC Yuganskneftegaz. The fields held by OJSC Yuganskneftegaz are located in Khanty-Mansi Autonomous Area, with well developed infrastructure and are close to Transneft's pipeline network.

The auction price (purchase price) paid for OJSC Yuganskneftegaz shares was RUR 260,782 million (US$ 9,398 million at the CBR exchange rate in effect on the settlement date).

As discussed in Note 26 the Company's acquisition of OJSC Yuganskneftegaz is currently subject to court challenges in the RF and in the USA.

The Company consolidated the balance sheet of OJSC Yuganskneftegaz as of December 31, 2004 and the results of operations of OJSC Yuganskneftegaz from January 1, 2005. No results of operations are consolidated during the year ended December 31, 2004 given that the acquisition occurred on December 31, 2004.

The fair value of net assets acquired amounted to US$ 12,204 million primarily based on a report of an independent appraiser. Because the fair value of the net assets acquired exceeded the purchase price, negative goodwill existed which has been allocated proportionately between oil and gas properties and mineral rights. Subsequent to the Company's preliminary December 31, 2004 purchase price allocation, adjustments were made as of September 30, 2005 so as to reflect the Company's revised estimate of the ultimate resolution of pre-acquisition contingencies. Significant changes in the preliminary purchase price allocation are discussed in further detail below.

4. Significant Acquisitions (Continued)

OJSC Yuganskneftegaz and Baikalfinancegroup LLC (Continued)

The following table summarizes the Company's allocation of the assets acquired and liabilities assumed:

	Final allocation	Initial allocation
ASSETS		
Current assets:		
Restricted cash	**$ 14**	$ 14
Short-term investments	**22**	22
Accounts receivable	**606**	3,900
Inventories	**94**	94
Prepaid expenses	**1**	1
Total current assets	**737**	4,031
Oil and gas properties, net	**7,276**	6,017
Mineral rights	**9,786**	6,837
Property, plant and equipment, net	**370**	370
Construction-in-progress	**41**	41
Deferred tax assets	**3**	3
Leased equipment	**175**	137
Other non-current assets	**4**	4
Total non-current assets	**17,655**	13,409
Total assets	**$18,392**	$17,440
LIABILITIES		
Accounts payable	**$ (760)**	$ (760)
Short-term loans and borrowings and current portion long-term debt	**(385)**	(385)
Accrued income and other taxes	**(2,231)**	(1,395)
Other current liabilities	**(6)**	(6)
Total current liabilities	**(3,382)**	(2,546)
Long-term loans and borrowings net of current liabilities	**(625)**	(625)
Asset retirement obligations	**(387)**	(387)
Deferred tax liability	**(3,834)**	(2,759)
Total non-current liabilities	**(4,846)**	(3,771)
Total liabilities	**(8,228)**	(6,317)
Total net assets	**$10,164**	$11,123
Minority interest	**$ (766)**	$ (1,725)
Purchase price	**$ 9,398**	$ 9,398

While preparing its interim consolidated financial statements for the third quarter of 2005, the Company revised its previous estimates of certain pre-acquisitions contingencies and made the following significant adjustments to the preliminary purchase price allocation:

- As of December 31, 2004, a total of US$ 3,881 million was due from Yukos Oil Company and its affiliates for oil supplied prior to the acquisition of OJSC Yuganskneftegaz. The Company's preliminary allocation of the purchase price at December 31, 2004 considered these amounts to be fully recoverable within a one year period based on the then considered prospects of (i) amicable settlement with Yukos Oil Company's previous common shareholders, (ii) an offset against related liabilities to Yukos Oil Company and its affiliates, (iii) gaining control of certain other valuable assets of Yukos Oil Company to directly settle the receivables, and/or (iv) other means which might have been supported by the Company's shareholder. This view was based on preliminary information available to the Company immediately subsequent to its acquisition of OJSC Yuganskneftegaz. Throughout the first nine months of 2005, the Company continued to evaluate each of these options.

4. Significant Acquisitions (Continued)

OJSC Yuganskneftegaz and Baikalfinancegroup LLC (Continued)

Ultimately, the Company concluded while preparing its September 30, 2005 consolidated financial statements that its previous estimates should be revised. The Company continues to believe that it has legally valid claims over these assets and that the amounts should be recoverable at some point in the future. However, the Company now realizes that it cannot reasonably estimate the timing and the precise amount of any recovery. Accordingly, the Company has fully provided for these amounts as of September 30, 2005 through an adjustment to the purchase price allocation, after netting the receivables in the amount of US$ 588 million with related payables of Yukos Oil Company and its affiliates, where the legal right to offset existed.

- As of September 30, 2005 the Company accrued approximately US$ 836 million of a tax contingency reflecting its then anticipated settlement of OJSC Yuganskneftegaz's 1999 - 2003 tax obligations to the Russian tax authorities. As discussed in Notes 26 and 29 final resolution of this matter occurred in April 2006.

As a result of the above adjustments and their related impact on both deferred taxes and minority interest accounts, the acquired net assets (and, accordingly, negative goodwill) were decreased by US$ 4,246 million as of September 30, 2005. In the final purchase price allocation negative goodwill of US$ 2,806 million was allocated proportionally between oil and gas properties and mineral rights. The impact on the consolidated statement of income of this purchase price allocation adjustment has been accounted for retrospectively from January 1, 2005.

Other significant elements of the Company's purchase price allocation include:

- For the purposes of valuation of oil and gas properties, property, plant and equipment, and construction-in-progress which relate to minority interest, the Company used their appraised fair values as the previous controlling shareholder did not provide the records of the historical cost of these non-current assets. Minority interest which relates to other assets and liabilities was determined on the basis of historical cost.

- OJSC Yuganskneftegaz in its operating activities enters into short-term lease contracts for a significant number of wells and related equipment and facilities. These agreements are entered into with the owners of the wells, equipment and facilities, which are Yukos Oil Company and certain of its subsidiaries. All of the lease agreements are cancellable in nature and most expire within one year (see Note 14). The inability of the Company to extend these lease agreements and/or otherwise obtain rights to use the wells and related facilities in the oil production may have material adverse consequences for the Company's ability to extract and recover a portion of the carrying value of the $7,276 million in oil and gas properties and the $9,786 million in mineral rights acquired in the business combination. During 2005, all the expired lease contracts were extended for a period of up to one year. The Company's management plans to attempt to further extend the above leases and believes that given Yukos Oil Company's current bankruptcy proceedings, that the administrator of Yukos Oil Company is likely to be inclined to do the same. Following a claim brought by OJSC Yuganskneftegaz in March 2006, the Moscow Arbitration Court ruled that the 100% ownership interest in one of the subsidiaries, which is the most significant lessor, should be transferred from Yukos Oil Company to OJSC Yuganskneftegaz. This ruling is subject to further appeals and the Company has not yet assessed the impact of such transfer, if any, on the financial position or results of operations. While the Company believes that it will likely be able either to renew the above leases and/or otherwise continue to extract minerals from the related sites, no assurances can be provided in this regard.

- The deferred tax liability presented in the above allocation represents the difference between fair values of assets and liabilities of OJSC Yuganskneftegaz and their respective tax basis.

Pro forma financial information assuming that the acquisition of OJSC Yuganskneftegaz had occurred as of the beginning of 2003 has not been presented herein as is required by SFAS 141. This information is not presented as the Company does not have access to reliable US GAAP financial information for OJSC Yuganskneftegaz for periods prior to acquisition.

4. Significant Acquisitions (Continued)

OJSC Northern Oil

In June 2003 the Company acquired a 100% interest in OJSC Northern Oil. OJSC Northern Oil is engaged in exploration, development field facilities construction and production of hydrocarbons in the Timan-Pechora region in the northern part of the Russian Federation.

The purpose of this transaction was to acquire the oil and gas properties held by OJSC Northern Oil with a developed infrastructure and proximity to the OJSC Transneft pipeline system.

The total purchase price which was paid in cash amounted to 18,990 million rubles (US$ 623 million at the CBR exchange rate in effect on the settlement dates).

The purchase price was fully allocated to the assets acquired and liabilities assumed as follows:

	Final allocation
ASSETS	
Current assets:	**$ 88**
Oil and gas properties, net	**233**
Mineral rights	**533**
Other non-current assets	**4**
Total non-current assets	**770**
Total assets	**$ 858**
LIABILITIES	
Current liabilities	**(235)**
Non-current liabilities	**—**
Total liabilities	**(235)**
Total net assets acquired	**$ 623**
Minority interest	**$ —**
Purchase price	**$ 623**

The results of operations of OJSC Northern Oil are consolidated from July 1, 2003 and are not material to warrant pro-forma presentation.

OJSC Verkhnechonskneftegaz

In the fourth quarter of 2005, the Company acquired 7,781,449 common shares (25.94% of the total number of common shares) of OJSC Verkhnechonskneftegaz. OJSC Verkhnechonskneftegaz holds the licence for the development of the Verkhnechonskoye oil and gas condensate deposit, which is the largest oil deposit in the Irkutsk region.

The purchase price amounted to US$ 230 million and was paid in cash. The acquisition price was fully allocated to the fair values of the acquired assets and liabilities. In these consolidated financial statements, the Company's interest in OJSC Verkhnechonskneftegaz shares is accounted for using the equity method (see Note 10).

Acquisition of Additional Interests

Eniseineft LLC and Taymyrneft LLC

In 2003, Rosneft acquired a 100% interest in Anglo-Siberian Oil Company ("ASOC") for US$ 76 million. The purpose of the transaction was to acquire control over Taimyrneft LLC and Eniseineft LLC, which hold exploration and production licences for the North-Vankor and Vankor oilfields respectively. As a result, the Company effectively acquired 60% of Taimyrneft LLC and 59% of Eniseineft LLC. The acquisition price was fully allocated to the fair value of assets acquired and liabilities assumed.

4. Significant Acquisitions (Continued)

Eniseineft LLC and Taymyrneft LLC (Continued)

In the first half of 2004, the Company acquired a 100% interest in Losiem Commercial for US$ 69 million. As a result of this transaction, the Company's share in Eniseineft LLC reached 95%. The acquisition price was fully allocated to the fair value of assets acquired and liabilities assumed. Subsequently, the Company's share in Eniseineft LLC increased to 99%.

OJSC Rosneft-Tuapse Refinery

In December 2004, the Company acquired 2,152,314 common shares (39.38% of the total number of common shares) and 907,038 preferred shares (49.79% of the total number of preferred shares) in OJSC Rosneft—Tuapse Refinery through its overseas subsidiary RN-International, thus increasing its share in the share capital of OJSC Rosneft—Tuapse Refinery to 81.23%. The purchase price of the above shares amounted to US$ 184 million and was paid in cash. The excess of the purchase price over the fair value of net assets amounted to US$ 35 million and was recorded as goodwill (See Note 15).

In connection with the acquisition of the additional share in OJSC Rosneft—Tuapse Refinery, the Company also purchased 62% of the shares of OJSC Moto for US$ 2 million and 67% of the shares of CJSC Tuapse-Kemoil for US$ 4 million. Both companies provide petroleum refining, marketing and distribution services.

OJSC Rosneft-Krasnodarneftegaz

In December 2004, OJSC Rosneft-Termneft ("Termneft"), which was the Company's subsidiary, merged with OJSC Krasnodarneftegaz ("Krasnodarneftegaz") by way of conversion of Termeft shares into Krasnodarneftegaz shares. The merger did not have any significant impact on the consolidated financial statements.

In the first half of 2005, the Company acquired 33,337,187 common shares (38.66% of the total number of common shares) and 17,633,509 preferred shares (61.63% of the total number of preferred shares) in OJSC Rosneft-Krasnodarneftegaz, thus increasing its share in the share capital of OJSC Rosneft-Krasnodarneftegaz to 95.46%. The purchase price of the above shares amounted to US$ 110 million and was paid in cash. The purchase price was fully allocated to the fair values of the acquired assets and liabilities. This allocation is preliminary and will be adjusted upon completion of the valuation of mineral rights.

OJSC Selkupneftegaz

In the third quarter of 2005, the Company acquired 34 common shares (34% of the total number of common shares) in OJSC Selkupneftegaz, thus increasing its share in the share capital of OJSC Selkupneftegaz to 100%. The purchase price of these shares amounted to US$ 20 million and was paid in cash. The purchase price was fully allocated to the fair values of the acquired assets and liabilities. This allocation is preliminary and will be adjusted upon completion of the valuation of mineral rights.

Other Changes to the Structure of the Company

In accordance with its long-term program for the disposal of non-core assets, the Company is selling its subsidiaries engaged in non-core businesses. Interests in CJSC FK Rosneft-Finance and SK Neftepolis LLC were sold during 2004 and 2005, respectively. The resulting gain from the sale of these interests was recognized in the consolidated financial statements for the year ending December 31, 2004 in the amount of US$ 1 million.

The Company also sold its share of CJSC Sevmorneftegaz (see Note 10).

5. Cash and Cash Equivalents

Cash and cash equivalents as of December 31 comprise the following:

	2005	2004	2003
Cash at hand and cash in bank in RUR	**$ 414**	$ 721	$ 86
Cash at hand and cash in bank—foreign currencies	**394**	283	100
Deposits and cash in transit	**365**	29	42
Total cash and cash equivalents	**$1,173**	$1,033	$228

Restricted cash as of December 31 comprises the following:

	2005	2004	2003
Obligatory reserve with the CBR	**$13**	$11	$7
Other restricted cash	**10**	14	—
Total restricted cash	**$23**	$25	$7

The obligatory reserve of VBRR with the CBR represents the amounts deposited with the CBR for securing the current operating activity of the bank. Credit institutions are required to maintain a non-interest earning cash deposit (obligatory reserve) with the CBR, the amount of which depends on the level of funds attracted by the credit institution and this amount has certain restrictions for use.

Cash accounts denominated in foreign currencies represent primarily cash in US$.

Deposits represent bank deposits that may be readily convertible into cash and may be withdrawn by the Company at any time without prior notice or penalties.

As part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it places its deposits. Banking relationships are primarily with Russian subsidiaries of international banking institutions and certain large Russian banks.

6. Short-Term Investments

Short-term investments as of December 31 comprise the following:

	2005	2004	2003
Short-term loans granted	**$ 27**	$ 28	$ 51
Loans to related parties	**32**	—	199
Trading securities			
Short-term promissory notes	**7**	15	10
Corporate and state bonds	**74**	50	20
Other	**10**	14	14
Settlements on notes with related party	**7**	26	—
Bank deposits	**3**	3	19
Short-term assignment agreements	**—**	22	—
Investments for resale	**2**	13	—
Other	**3**	12	2
Total short-term investments	**$165**	$183	$315

State bonds primarily represent federal loan bonds issued by the Ministry of Finance of the Russian Federation with maturity ranging from June 2007 to November 2021, coupon yields in 2005 ranging from 8.0% to 11.0% p.a. and yields to maturity ranging from 6.2% to 7.9% p.a. depending on the issue.

Corporate bonds represent bonds issued by large Russian corporations with maturity ranging from July 2007 to February 2010 and interest rates ranging from 11.00% to 14.65%.

Unrealized gains and losses on available-for-sale securities are not significant.

7. Accounts Receivable, Net

Accounts receivable as of December 31 comprise the following:

	2005	2004	2003
Trade receivables	**$ 935**	$3,982	$196
Value added tax receivable	**1,477**	518	382
Other taxes	**88**	35	20
Banking loans to customers	**305**	241	139
Other	**122**	98	78
Less: allowance for doubtful accounts	**(69)**	(75)	(62)
Total accounts receivable, net	**$2,858**	$4,799	$753

The Company's trade accounts receivable are denominated primarily in US dollars. Credit risk is managed through the use of letters of credit, and requesting advance payments from customers for the majority of sales.

Value added tax receivable (VAT) primarily includes VAT related to export sales, which is reimbursed from the budget in accordance with Russian tax legislation.

As of December 31, 2004, trade receivables included Yukos Oil Company payables to OJSC Yuganskneftegaz in the amount of US$ 3,881 million for oil supplied during 2004. Following the recoverability analysis, the above receivables were fully written down considering significant uncertainties regarding the timing and amount of repayment. The write down was made after offsetting liabilities against these receivables in the amount of US$ 588 million. (See Note 29 for the discussion of Yukos Oil Company bankruptcy proceedings).

8. Inventories

Inventories as of December 31 comprise the following:

	2005	2004	2003
Materials and supplies	**$332**	$276	$190
Crude oil and gas	**300**	115	70
Petroleum products	**182**	126	71
Total inventories	**$814**	$517	$331

Materials and supplies mostly include spare parts, construction materials and pipes. Petroleum products also include those designated for sale as well as for own use.

9. Prepayments and Other Current Assets

Prepayments and other current assets as of December 31 comprise the following:

	2005	2004	2003
Prepayments to suppliers	**$381**	$180	$126
Insurance prepayments	**46**	8	13
Customs	**451**	41	2
Other	**19**	27	14
Total prepayments and other current assets	**$897**	$256	$155

Customs primarily represent export duty prepayments related to the export of crude oil and petroleum products (see Note 23).

10. Long-Term Investments

Long-term investments as of December 31 comprise the following:

	2005	2004	2003
Equity method investments			
Polar Lights Company LLC	**$ 94**	$ 65	$ 29
CJSC Kaspiy-1	**29**	29	16
JV Rosneft-Shell Caspian Ventures Limited	**21**	—	—
OJSC Daltransgaz	**11**	11	9
CJSC Sevmorneftegaz	**—**	—	36
JV Aday Petroleum Company	**2**	2	2
OJSC Verkhnechonskneftegaz	**231**	—	—
Other	**2**	1	—
Total	**390**	108	92
Available for sale securities			
Russian government bonds	**2**	9	3
Long-term promissory notes	**7**	98	1
Held-to-maturity securities			
Long-term loans granted	**2**	5	21
Long-term loans to equity investees	**21**	36	17
Investments in joint operations	**4**	4	12
Cost method investments	**10**	17	35
Total long-term investments	**$436**	$277	$181

Equity share in income/(loss) of material investments recorded using the equity method:

	Participation interest (percentage) as of December 31, 2005	Share in income/(loss) of equity investees		
		2005	2004	2003
Polar Lights Company LLC	**50.00**	**$ 42**	$50	$ 1
CJSC Sevmorneftegaz	**—**	**—**	(3)	—
OJSC Daltransgaz	**25.00**	**—**	—	—
JV Rosneft-Shell Caspian Ventures Limited	**51.00**	**26**	—	—
Rosneft-Stroytransgaz LLC	**50.00**	**(17)**	—	(7)
CJSC Kaspiy-1	**45.00**	**—**	(1)	—
JV Aday Petroleum Company	**50.00**	**—**	—	—
OJSC Verkhnechonskneftegaz	**25.94**	**1**	—	—
Other		**(1)**	6	6
Total equity share		**$ 51**	$52	$—

CJSC Sevmorneftegaz

In January 2002, the Company, through OJSC Rosneft-Purneftegaz, and OJSC Gazprom, through CJSC Rosshelf jointly established CJSC Sevmorneftegaz with equal shares in equity. The cost of investment in CJSC Sevmorneftegaz was US$ 17 thousand. CJSC Sevmorneftegaz is primarily engaged in exploration and production activities on the Prirazlomnoye and Shtokmanovskoye oil and gas condensate fields.

In December 2004, it was resolved to sell the Company's share in the project to the other participant (the "Buyer") and full payment was received under the share purchase agreement. At December 31, 2004 and 2003 this investment was classified under equity method investments. Title to shares in CJSC Sevmorneftegaz was transferred to the Buyer in the first half of 2005. Under the share purchase provisions, the Buyer had the right to notify the Company in writing, not later than the end of June 2005, of its intention to sell the acquired share back to the Company and the Company was obliged to take back and pay for such share. The

10. Long-Term Investments (Continued)

CJSC Sevmorneftegaz (Continued)

Buyer did not exercise its right to repurchase at the time stipulated in the contract, therefore in June 2005 the Company recorded a gain on the sale of the interest in CJSC Sevmorneftegaz in the amount of US$ 1,303 million.

Polar Lights Company LLC ("PLC")

PLC is a limited liability company owned 50% by Conoco Phillips Timan-Pechora Inc., and 50% by the Company. PLC is primarily engaged in the development of the Ardalin and satellite fields in the Timan-Pechora Basin located 125 kilometers south of the Barents Sea above the Arctic Circle. Development of the Ardalin field commenced in late 1992 and the first oil was produced in 1994.

JV Rosneft-Shell Caspian Ventures Limited

JV Rosneft-Shell Caspian Ventures Limited ("JV") is a joint venture in which the Company holds a 51% interest. The Articles of Incorporation of this joint venture stipulate, however, that key decisions regarding its business shall be subject to unanimous approval by both participants and none of the participants has a preferential voting right.

On February 6, 1997, the Company, through the JV, signed an agreement with eight oil and gas companies and government agencies of the Russian Federation and the Republic of Kazakhstan for the establishment of Caspian Pipeline Consortium ("CPC"). The purpose of the consortium is to design, finance, construct and operate a pipeline from the oil fields located in Western Kazakhstan through Russia to the port of Novorossiysk. The interest of the JV in the CPC is 7.5%. In October 2001, the CPC pipeline was put in operation.

OJSC Daltransgaz

OJSC Daltransgaz is an operator for the program to supply gas to the Sakhalin Region and the Khabarovsk and Primorye Territories.

CJSC Kaspiy-1

In 1997, a subsidiary of the Company made a contribution to the share capital of CJSC Kaspiy-1, which was founded to construct an oil refinery in Makhachkala (Dagestan Republic). The refinery is planned to be commissioned in 2006.

11. Oil and Gas Properties, Net

Oil and gas properties as of December 31 comprise the following:

	2005	**2004**	**2003**
Wells and related facilities	**$12,606**	$10,524	$ 4,754
Mineral rights	**10,723**	7,562	712
Pipelines	**1,057**	802	293
Equipment under capital lease (Note 14)	**214**	144	53
Total	**24,600**	19,032	5,812
Less: accumulated depletion	**(3,661)**	(2,492)	(2,520)
Net oil and gas properties	**$20,939**	$16,540	$ 3,292

Mineral rights include costs to acquire unproved properties in the amount of US$ 1,382 million as of December 31, 2005, US$ 1,051 million as of 2004, and US$ 266 million as of December 31, 2003. The Company plans to explore and develop the respective fields. The Company's management believes these costs are recoverable.

11. Oil and Gas Properties, Net (Continued)

For the purposes of evaluation of the reserves as of December 31, 2005, 2004 and 2003, the Company used oil and gas reserves data prepared by DeGolyer and MacNaughton, independent reservoir engineers. The Company used the reserve report to calculate depreciation, depletion and amortization relating to oil and gas properties for 2005, 2004 and 2003. The reserve report was also used for the assessment of impairment of long-lived assets and for the required supplemental disclosure for oil and gas activities (see supplementary oil and gas disclosure).

As described in the "Depreciation, depletion and amortization" section of Note 2, the Company calculates depletion using the unit-of-production method over proved or proved developed oil and gas reserves depending on the nature of the costs involved. The proved or proved developed reserves used in the unit of production method assume the extension of the Company's production licences beyond their current expiration dates until the end of the economic lives of the fields as discussed below in further detail.

The Company's oil and gas fields are located principally in the territory of the Russian Federation. The Company obtains licences from the governmental authorities to explore and produce oil and gas from these fields. The Company's existing production licences generally expire during the period 2006 to 2026, Expiration dates of licences for the most significant fields are between 2013 and 2019, and the licence for the largest field, Priobskoye, expires in 2019. The economic lives of the licensed fields extend significantly beyond these dates. Under Russian law, the Company is entitled to renew the licences to the end of the economic lives of the fields, provided certain conditions are met. Article 10 of the Subsoil Law, *Concerning Subsurface Resources,* provides that a licence to use a field "shall be" extended at its scheduled termination at the initiative of the subsoil user if necessary to finish production of the field, provided that there are no violations of the conditions of the licence.

The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, clarifying that the subsoil user has an absolute right to extend the licence term so long as it has not violated the conditions of the licence. In 2005 the Company extended the terms of 39 of its production licences for the period equivalent to the expected life of the fields. There were no unsuccessful licence renewal applications.

The Company's current production plans are based on the assumption, which management considers to be reasonably certain, that the Company will be able to extend all other existing licences. These plans have been designed on the basis that the Company will be producing crude oil through the economic lives of the fields and not with a view to exploiting the Company's reserves to maximum effect only through the licence expiration dates. Accordingly, management has included in proved reserves in the supplementary information on oil and gas exploration and production activities of the consolidated financial statements as of and for the year ended December 31, 2005 all reserves that otherwise meet the standards for being characterized as "proved" and that the Company estimates the Company can produce through the economic lives of Company's licensed fields.

Proved reserves should generally be limited to those that can be produced through the licence expiration date unless there is a long and clear track record which supports the conclusion that extension of the license will be granted as a matter of course. The Company believes that extension of the licences will occur as a matter of course as fully described above.

Sakhalin-1

The Company's primary investment in a PSA is through the Sakhalin-1 project (PSA 1), which is operated by ExxonMobil, one of the PSA participants. In February 2001, the Company signed an agreement with Oil and Natural Gas Corporation ("ONGC") in relation to its interest in the PSA 1 which reduced the Company's interest to 20%. The Company records the investment in its retained share under the "carried interest" method. Commercial hydrocarbon production under PSA 1 commenced in October 2005. Accordingly, the Company's share in hydrocarbon reserves was reclassified as proved developed reserves.

11. Oil and Gas Properties, Net (Continued)

Sakhalin-5

The participants of the project are subsidiaries of the Company and BP p.l.c. In March 2004, the licence for geological study of the Kaigansko-Vasyukansky block held by the Company was transferred to CJSC Elvari Neftegaz, which is a 100% subsidiary of Elvary Neftegaz Holdings B.V., jointly established by the participants of the project.

The Shareholders and Operating Agreement was signed between the participants and the operator in June 2004. In accordance with the terms of the agreement, during the exploration stage project funding will be fully provided by BP p.l.c., while during the development stage BP p.l.c. will carry a portion of payments due from the Company and will provide credit support to obtain project funding.

If the project proves to be unsuccessful, BP p.l.c. bears all losses incurred. The Company recognizes this investment as an equity interest in a related company under the equity method of accounting.

Other Projects

The Company is a party to other projects associated with the development of the Sakhalin shelf (Zapadno-Shmidtovsky and Vostochno-Shmidtovsky blocks). Under those arrangements, the other participant (BP p.l.c.) has agreed to pay for exploration costs on behalf of the Company. Exploration and development of these projects is at an early stage. The Company's costs (currently insignificant) associated with these projects were capitalized.

In July 2005, the Company entered into a PSA agreement with the Kazakhstan Government for the joint development of Kurmangazy oil and gas field. The participants of the project are a subsidiary of the Company, OJSC "NK Rosneft—RN Kazakhstan" ("RN Kazakhstan") and a subsidiary of Kazakhstan State JSC KazMunaiGaz, JSC "NK KazMunaiGaz—KazMunaiTeniz", with equal shares of 50%. The agreement provides for a signing bonus in the amount of US$ 50 million. The Company's share of US$ 25 million is recognized within mineral rights. In accordance with the terms of the agreement, upon commercial discovery the RF has an option to buy a 25% share in the project at a future market price, by reducing the share of the Company's subsidiary in the project. If the RF does not exercise its option, this share shall be sold to 3rd parties at a market price or redistributed between the participants in equal parts. If the share is sold, the proceeds from the sale shall cover the expenses already incurred, including those suffered by RN Kazakhstan and related to the sold share. The excess of the proceeds from the sale of share over the expenses shall be equally distributed between the participants.

12. Property, Plant and Equipment, Net

Property, plant and equipment as of December 31 comprise the following:

	2005	2004	2003
Offshore drilling assets	**$ —**	$ —	$ 173
Service vessels	**8**	13	97
Buildings and constructions	**1,941**	1,729	1,277
Plant and machinery	**1,096**	1,037	568
Vehicles and other equipment	**356**	314	312
Assets under capital lease (Note 14)	**12**	43	35
Total	**3,413**	3,136	2,462
Less: accumulated depreciation	**(1,383)**	(1,378)	(1,399)
Property, plant and equipment, net	**$ 2,030**	$ 1,758	$ 1,063

13. Construction-in-Progress

Construction-in-progress includes various construction projects as well as machinery and equipment delivered but not yet installed. Construction-in-progress as of December 31 comprises the following:

	2005	2004	2003
Equipment to be installed	**$100**	$ 61	$ 40
Buildings and constructions	**303**	273	224
Plant and machinery	**106**	148	108
Total construction-in-progress	**$509**	$482	$372

14. Leased Property, Plant and Equipment

Since 2003, the Company has entered into a number of agreements for the lease of equipment and other assets.

The following is the analysis of the property, plant and equipment under capital leases as of December 31:

	2005	2004	2003
Oil and gas properties	**$214**	$144	$ 53
Less: accumulated depletion	**(10)**	(2)	(2)
Oil and gas properties, net	**204**	142	51
Other property, plant and equipment			
Buildings and constructions	**1**	1	—
Plant and machinery	**5**	16	12
Vehicles	**6**	26	23
Total	**12**	43	35
Less: accumulated depreciation	**(3)**	(8)	(2)
Property, plant and equipment, net	**9**	35	33
Total net book value of leased assets	**$213**	$177	$ 84

Below is the analysis of the repayment of capital lease obligations as of December 31:

	2005
2006	**$24**
2007	**7**
2008	**5**
2009	**6**
	42
Imputed interest	**(4)**
Present value of capital lease payments	**$38**

Operating Lease

The Company has obligations which are primarily related to the operating lease of oil and gas facilities in the amount of US$ 62 million for the subsequent year. See Note 4.

The total amount of operating lease expenses was as follows:

	2005	2004	2003
Total lease expenses	**$120**	$16	$40
Total sublease revenues	**$ 3**	$—	$—

15. Goodwill

Goodwill in the amount of US$ 35 million represents the excess of the purchase price of a share in OJSC Rosneft-Tuapse Refinery ("TNPZ") over the fair value of the corresponding share in net assets (See Note 4). As of December 31, 2005, no impairment of goodwill arising from the acquisition of an additional share in TNPZ was identified.

16. Other Non-Current Assets

Other non-current assets include a loan to OJSC Sibur-Tumen in the amount of US$ 4 million and US$ 16 million as of December 31, 2005 and December 31, 2004, respectively, which was restructured under an amicable agreement. As of December 31, 2003, this loan was stated within accounts receivable (see Note 7). This loan receivable is recorded at fair value which has been calculated based on the repayment schedule, and will be fully repaid in 2013. A portion of the loan receivable from OJSC Sibur-Tyumen in the amount of RUR 417 million (US$ 15 million) was sold to a third party in August 2005 under an assignment agreement and was repaid in equal monthly installments by the end of 2005.

17. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of December 31 comprise the following:

	2005	2004	2003
Trade accounts payable	**$ 649**	$ 875	$255
Salary and other benefits payable	**157**	81	51
Advances received	**192**	66	48
Dividends payable	**60**	16	22
Promissory notes payable	**2**	3	94
Banking customer accounts	**252**	245	70
Payables under licence agreements (Note 26)	**—**	30	19
Deferred income	**3**	3	—
Yukos Oil Company debt acquisition liability (Note 26)	**27**	—	—
Other	**16**	67	111
Total Accounts payable and accrued liabilities	**$1,358**	$1,386	$670

The Company's accounts payable are denominated primarily in RUR. Dividends payable represent dividends on shares payable to subsidiaries' minority shareholders.

18. Short-Term Loans and Long-Term Debt

Short-term loans and borrowings as of December 31 comprise the following:

	2005	2004	2003
Loans and borrowings—US$ denominated			
Bank loans	**$ 794**	$ 347	$ 63
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz	**—**	701	—
Other loans for funding the acquisition of OJSC Yuganskneftegaz	**—**	63	—
Customer deposits	**42**	30	6
Other borrowings	**3**	19	23
Loans and borrowings—RUR denominated			
Bank loans	**9**	3	8
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz	**—**	678	—
Promissory notes payable	**657**	382	—
Customer deposits	**96**	135	155
Other borrowings	**453**	20	3
	2,054	2,378	258
Current portion on long-term debt	**1,951**	998	330
CJSC Sevmorneftegaz share repurchase liability	**—**	1,344	—
Total short-term loans and current portion of long-term debt	**$4,005**	$4,720	$588

The Company's short-term bank loans denominated in US$ were from LIBOR plus 1.0% to 3.32% p.a. The RUR denominated loans bear interest rates of 1.25% to 9% p.a.

Promissory notes are primarily payable on demand and bear an interest rate ranging from 0% to 18%. Interest free promissory notes are recorded at amortized cost.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary bank, denominated in RUR and foreign currencies. Customer deposits denominated in RUR bear an interest rate ranging from 2.5 to 12.6% p.a. Customer deposits denominated in foreign currencies bear an interest rate ranging from 2.0 to 12.0% p.a.

The CJSC Sevmorneftegaz share repurchase liability represented a prepayment received under the CJSC Sevmorneftegaz share purchase agreement (see Note 10).

Other RUR-denominated borrowings primarily include four loans provided to OJSC Yuganskneftegaz by YUKOS Capital S.a.r.l., which bear interest of 9% p.a. and mature in 2007. As of December 31, 2005 these loans are classified as current since the creditor obtained the right to demand early repayment of these loans due to non-compliance with the terms of loan agreements.

18. Short-Term Loans and Long-Term Debt (Continued)

Long-term debt as of December 31 comprises the following:

	2005	2004	2003
Bank loans—US$ denominated	**$ 4,220**	$ 2,759	$2,103
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz—US$ denominated	**5,743**	6,465	—
Borrowings—US$ denominated	**49**	67	2
Customer deposits—US$ denominated	**8**	9	—
Borrowings—RUR denominated	**9**	430	9
Customer deposits—RUR denominated	**60**	24	2
Bonds of the subsidiary bank—RUR denominated	**20**	21	19
Other long-term liabilities	**40**	245	15
	10,149	10,020	2,150
Current portion of long-term debt	**(1,951)**	(998)	(330)
Total long-term debt	**$ 8,198**	$ 9,022	$1,820

The rates of interest on the Company's bank loans denominated in US$ were 4.35%–12.92% p.a. Weighted average interest rates on these loans were 6.58%, 5.50% and 5.37% (LIBOR plus 2.19%, LIBOR plus 3.10%, LIBOR plus 4.25%) as of December 31, 2005, 2004 and 2003 respectively. These bank loans are primarily secured by contracts for the export of crude oil.

In the third quarter of 2005, the Company received a 5-year loan from a syndicate of major foreign banks in the amount of US$ 2,000 million at a rate of LIBOR plus 1.8% repayable in equal monthly installments. The loan is secured by contracts for the export of crude oil. This loan was used for refinancing short-term loans in the amount of US$ 1,335 million and a number of long-term loans in the amount of US$ 594 million at more favourable terms.

As of December 31, 2005 the bank loans raised for funding the acquisition of OJSC Yuganskneftegaz represent a long-term loan obtained through a government-owned bank at a rate of LIBOR plus 3% p.a. repayable in equal monthly installments. It is scheduled for repayment in 2011 and is secured by pledging the Company's receivables under a long-term contract for the supply of crude oil (see Note 26).

Weighted average interest rates on US$ denominated borrowings were 8.54%, 8.79% and 6.12% as of December 31, 2005, 2004 and 2003 respectively.

Customer deposits include fixed-term RUR and foreign currency denominated customer deposits placed with the Company's subsidiary bank which mature primarily at the end of 2006. The RUR-denominated deposits bear an interest rate ranging from 4% to 12.5% p.a. Deposits denominated in foreign currencies bear an interest rate ranging from 4% to 9% p.a.

As of December 31, 2005, other long-term liabilities include interest-free promissory notes which mature at the end of 2006. The promissory notes are stated at amortized cost and are included in the current portion of long-term debt.

As discussed in Note 29, the interest rate on certain borrowings was reduced.

As of December 31, 2005, 2004 and 2003, the Company's collateral for short-term and long-term loans were oil and gas properties in the amount of nil, RUR 2,394 million and RUR 4,073 million, respectively (US$ 86 million and US$ 138 million at the exchange rate as of December 31, 2004 and 2003, respectively). The decrease is attributable to the repayment of the loan against which the assets were collateralized. Generally, long-term loans are secured by oil export contracts. Usually, under the terms of such contracts, the lender is provided with an express right of claim for contractual revenue which must be remitted directly to transit currency (US$ denominated) accounts with those banks, should the Company fail to repay its debt in time.

18. Short-Term Loans and Long-Term Debt (Continued)

The Company is obliged to comply with a number of restrictive financial and other covenants contained within its borrowing agreements. Restrictive financial covenants include maintaining certain financial ratios. As a result of the Company's acquisition of OJSC Yuganskneftegaz on December 31, 2004, and the resulting debt incurred and assets and liabilities, including contingent liabilities, consolidated, the Company was not in compliance with various financial and other covenants of existing loan agreements as of that date.

As of December 31, 2004, the long-term portion of the debt outstanding under loan agreements which were in default amounted to US$ 1,661 million. This debt continued to be reflected as long-term in nature in the December 31, 2004 consolidated balance sheet. In July 2005, the creditors waived violations related to restrictive financial ratios and agreed to amend the financial ratio covenants in line with the Company's new structure and new scope of activities. The creditors also waived other events of default arising from the breach of other covenant provisions. To date, the creditors have provided waivers relating to these provisions which have been granted on condition that the Company furnishes to the creditors, by no later than December 31, 2006, acceptable evidence that the Company has:

1. Discharged in full, or restructured, OJSC Yuganskneftegaz's tax liabilities for 2004 (which should not be in excess of a set limit),

2. Discharged in full, or restructured, OJSC Yuganskneftegaz's tax liabilities for the periods 1999 to 2003,

3. Discharged in full, or restructured, the indebtedness to YUKOS Capital S.a.r.l. in the amount of US$ 445 million, and,

4. Discharged in full, or restructured, the guarantee claims of Societe General S.A. related to a US$ 1,600 million loan (see Note 26).

These conditions also apply to certain new borrowings obtained throughout 2005 and also subsequent to that date. Thus, as of December 31, 2005, long-term borrowings, for which creditors waived events of default arising from the breach of certain covenant provisions, amounted to US$ 2,831 million. This debt continues to be reflected as long-term in nature in the December 31, 2005 consolidated balance sheet. As discussed in Note 26, the guarantee claim related to the US$ 1,000 million loan, which was previously a condition, was discharged in full in December 2005 to the satisfaction of the creditor banks. The Company's management believes that the other conditions referred to above will be fulfilled (see Notes 26 and 29).

The aggregate maturity of long-term debt outstanding as of December 31, 2005 is as follows (assuming the debt will not be called by creditors ahead of scheduled maturities):

	2005
2006	**$ 1,951**
2007	**1,979**
2008	**2,035**
2009	**1,990**
2010	**2,079**
2011 and after	**115**
Total long-term debt	**$10,149**

To finance its current operations and refinance its short-term loans, the Company continues to raise external funding. Operating income depends heavily on oil prices and oil export quotas available to the Company. In the event of a long-term drop in crude oil prices and a failure to raise external funding, the Company may be compelled to reduce its capital expenditures thus limiting its ability to maintain or increase the current level of oil production.

19. Shareholder's Equity

As of December 31, 2004 and 2003, 100% shares of the Company were held by the Government of the Russian Federation. In June 2005, the Company's entire shares were contributed to the share capital of OJSC Rosneftegaz, wholly owned by the State represented by the Federal Agency for Federal Property Management. In the third quarter of 2005, one share in Rosneft was transferred to the Federal Agency for Federal Property Management.

Amounts Available for Distribution to Shareholders

Amounts available for distribution to shareholders are based on the Company's unconsolidated statutory accounts prepared in accordance with Russian accounting standards, which differ significantly from US GAAP (see Note 2). Russian legislation identifies the basis of distribution as the current period net profit calculated in accordance with statutory accounting standards. According to Russian legislation, dividends cannot exceed the accounting income for the reporting year. However, this legislation and other statutory laws and regulations dealing with distribution rights are open to different legal interpretation.

In June 2005, the annual general meeting of shareholders declared dividends on common shares of RUR 1,755 million or US$ 61 million for 2004 at the exchange rate on the date of that decision, or US$ 0.007 per share.

In the third quarter of 2005, Rosneft increased the number of common shares by splitting one common share with par value of RUR 1 into 100 common shares with par value of RUR 0.01. As a result the total number of shares became 9,092,174,000. Net earnings per share for 2005 and the comparable data for 2004 and 2003 were calculated retrospectively based on the new number of outstanding shares.

20. Accrued Income and Other Taxes

Accrued income and other taxes as of December 31 comprise the following:

	2005	2004	2003
Mineral extraction tax	**$1,158**	$ 994	$ 47
Value added tax	**776**	282	34
Excise tax	**62**	14	14
Personal income tax	**19**	13	6
Property tax	**18**	24	12
Income tax	**644**	216	8
Other	**133**	17	10
Total accrued income and other taxes	**$2,810**	$1,560	$131

21. Asset Retirement Obligations

The movement of asset retirement obligations is as follows:

	2005	2004	2003
Asset retirement obligations as of the beginning of the reporting period	**$555**	$126	$140
Cumulative effect of adopting SFAS 143 at January 1, 2003	**—**	—	(42)
Recognition of additional obligations for new wells	**5**	5	16
Accretion expense	**35**	8	12
(Decrease)/increase as a result of change in estimates	**(27)**	29	
Assumed OJSC Yuganskneftegaz obligations	**—**	387	—
Spending on existing obligations	**(2)**	—	—
Asset retirement obligations as of the end of the reporting period	**$566**	$555	$126

22. Minority Interest

Minority owners' interests in the Company subsidiaries as of December 31 comprise the following:

	2005		2004		2003	
Company	Minority interest	Minority interest share in net assets	Minority interest	Minority interest share in net assets	Minority interest	Minority interest share in net assets
	%		%		%	
OJSC Rosneft-Purneftegaz	**16.91**	**$ 317**	16.91	$ 194	16.91	$158
OJSC Rosneft-Sakhalinmorneftegaz	**35.38**	**218**	35.63	221	36.66	231
OJSC Rosneft-Krasnodarneftegaz	**4.54**	**16**	49.22	101	48.94	85
OJSC Rosneft-Stavropolneftegaz	**24.82**	**21**	28.05	19	28.05	23
OJSC Rosneft-Tuapse Nefteproduct	**62.00**	**133**	62.00	130	62.00	115
OJSC Rosneft-Komsomolsky Refinery	**20.02**	**11**	22.69	13	22.69	12
OJSC Rosneft-Tuapse Refinery	**18.77**	**12**	18.49	10	60.47	30
OJSC Yuganskneftegaz	**23.21**	**1,000**	23.21	1,725	—	—
Other		**132**		122		135
Total		**$1,860**		$2,535		$789

To a significant extent, minority interest in subsidiaries is represented by preferred shares.

Rights Attributable to Preferred Shares

Unless a different amount is approved at the annual shareholders meeting, preferred shares earn dividends equal to their nominal value. The amount of a dividend for a preferred share may not be less than the amount of a dividend for a common share.

Preferred shareholders may vote at meetings only on the following decisions: the amendment of the dividends payable per preferred share; the issuance of additional shares with rights greater than the current rights of preferred shareholders; and the liquidation or reorganization of the Company.

The decisions listed above, except for the liquidation or reorganization of the Company, can be made only if approved by 75% of all shareholders.

Holders of preferred shares acquire the same voting rights as holders of common shares in the event that dividends are either not declared, or declared but not paid, on preferred shares. On liquidation, the shareholders are entitled to receive a distribution of net assets. Under Russian Joint Stock Companies law and the Company's charter, in the case of liquidation, preferred shareholders have priority over ordinary shareholders to be paid declared but unpaid dividends on preferred shares. Upon liquidation preferred and common shareholders have equal rights in distribution of liquidation value.

Dividends on preferred shares of OJSC Yuganskneftegaz have not been paid since 1998. Therefore preferred shareholders have equal rights with common shareholders with respect to questions raised at annual shareholders' meetings.

According to the charters of the majority of the Company subsidiaries, dividends on preferred shares generally amount to 10% of net income determined in accordance with Russian accounting legislation.

23. Revenues and Related Taxes

Revenues include the following taxes and duties:

	2005	2004	2003
Oil and gas sales			
Export customs duty	**$5,322**	$535	$272
Excise	**—**	—	5
Petroleum products sales and processing fees			
Export customs duty	**942**	171	134
Excise	**17**	46	25
Support services and other sales			
Export customs duty	**—**	—	—
Excise	**—**	8	—
Total	**$6,281**	$760	$436

24. Taxes

Income taxes for the years ended December 31 comprise the following:

	2005	2004	2003
Current income tax expense	**$1,688**	$309	$244
Deferred income tax benefit	**(79)**	(11)	(43)
Total	**$1,609**	$298	$201

The Company does not file a consolidated tax return, rather each legal entity files separate tax returns with various authorities, primarily in the Russian Federation.

Temporary differences between these consolidated financial statements and tax records gave rise to the following deferred income tax assets and liabilities as of December 31:

	2005	2004	2003
Deferred income tax asset arising from tax effect of:			
PSA 1 deferred deductible expenses	**$ 101**	$ —	$ —
Asset retirement obligations	**54**	36	30
Property, plant and equipment	**75**	74	54
Prepayments and other current assets	**14**	—	—
Accounts receivable	**9**	15	15
Accounts payable and accruals	**32**	8	—
Inventories	**12**	9	6
Long-term investments	**5**	6	2
Short-term investments	**3**	1	3
Other	**22**	—	—
Total	**327**	149	110
Valuation allowance for deferred income tax asset	**(271)**	(116)	(67)
Deferred income tax asset	**56**	33	43
Deferred income tax liability arising from tax effect of:			
Long-term liabilities	**—**	—	(7)
Mineral rights	**(2,172)**	(1,641)	—
Property, plant and equipment	**(1,564)**	(1,213)	(68)
Deferred income tax liability	**(3,736)**	(2,854)	(75)
Net deferred income tax liability	**$(3,680)**	$(2,821)	$ (32)

24. Taxes (Continued)

Deferred income tax liability related to mineral rights and property, plant and equipment includes the deferred tax liability assumed as a result of the purchase of OJSC Yuganskneftegaz in the amount of US$ 3,590 million and the acquisition of additional shares in OJSC Rosneft-Tuapse Refinery in the amount of US$ 38 million.

Classification of deferred taxes:

	2005	2004	2003
Current deferred tax assets	**$ 48**	$ 28	$ 23
Long-term deferred tax assets	**8**	5	20
Current deferred tax liabilities	**(40)**	—	(4)
Long-term deferred tax liabilities	**$(3,696)**	$(2,854)	$(71)

Although the Company does not pay tax on a consolidated basis, a reconciliation of expected income tax expense to the actual tax expense for the years ended December 31 is as follows:

	2005	2004	2003
Income before income taxes	**$6,214**	$1,201	$ 589
Statutory income tax rate	**24.00%**	24.00%	24.00%
Theoretical income tax expense	**1,491**	288	141
Add/(deduct) tax effect of:			
Income tax interest	**66**	—	—
Change in valuation allowance	**155**	44	8
Effect of the income tax preferences	**(128)**	—	—
Previously unrecognized deferred tax asset	**(24)**	—	—
Permanent accounting differences arising from:			
Non-deductible items, net	**45**	4	70
Foreign exchange effects, net	**(59)**	(23)	(15)
Other permanent differences	**63**	(15)	(3)
Income taxes	**$1,609**	$ 298	$ 201

OJSC Yuganskneftegaz and OJSC Rosneft-Purneftegaz paid income tax during 2005 at lower rates subject to a 3.5%–4% income tax exemption under the regional laws. These laws provide that the income tax exemptions are granted to the oil and gas producing companies, which make capital investments, agreed with regional administrations, within the respective region and participate in various social projects, therefore increasing benefits to the regional budget. These exemptions are granted on an annual basis.

In addition to income tax, the Company pays other taxes as follows:

	2005	2004	2003
Mineral extraction tax	**$4,716**	$739	$461
Excise tax	**224**	34	—
Social security	**118**	98	69
Property tax	**73**	40	42
Land tax	**14**	13	9
Transport tax	**2**	1	1
Tax interest and penalties	**64**	16	7
Other taxes and payments	**53**	16	53
Taxes, other than income tax	**$5,264**	$957	$642

25. Related Party Transactions

In the course of its usual activity, the Company regularly enters into transactions with other enterprises which are directly or indirectly controlled by the Russian Government. Such enterprises are business units of RAO UES, OJSC Gazprom, OJSC Russian Railways, OJSC Sberbank, OJSC Vnesheconombank, OJSC Vneshtorgbank, OJSC Gazprombank, OJSC Transneft and federal agencies including tax authorities. Management considers these business relations as part of regular activities in the Russian Federation and believes that they will remain unchanged in the foreseeable future.

Total amounts of transactions with companies controlled by the Government of the Russian Federation for each of the reporting periods ending December 31, as well as related party balances are provided in the table below:

	2005	2004	2003
Revenues			
Sales of petroleum products	**$ 195**	$ 78	$ 53
Sales of gas	**19**	12	7
Sales of share in CJSC Sevmorneftegaz (see Note 10)	**1,303**	—	—
Other revenues	**2**	1	—
	$1,519	$ 91	$ 60
Costs and expenses			
Transportation expenses	**$1,305**	$ 430	$361
Other expenses	**1**	—	10
	$1,306	$ 430	$371
Other operations			
Purchases of property, plant and equipment	**$ 9**	$ 1	$ 2
Purchases of investments	**38**	294	128
Sales of investments	**38**	725	128
Borrowings issued	**574**	—	214
Borrowings repaid	**574**	—	313
Loans received	**1,527**	9,479	513
Loans repaid	**3,458**	192	305
Deposits placed	**1,945**	226	82
Deposits paid	**1,762**	226	83
Interest accrued on loans	**487**	56	52
Interest accrued on deposits	**—**	1	—
Banking fees	**$ 12**	$ 2	$ 1
Assets			
Cash at bank	**$ 376**	$ 702	$ 28
Trade receivables	**23**	2	5
Prepayments	**154**	14	7
Borrowings receivable	**—**	—	1
Deposits placed	**180**	—	—
	$ 733	$ 718	$ 41
Liabilities			
Advances received	**$ 4**	$ 2	$ 3
Loans and borrowings payable (including interest)	**6,890**	10,506	858
	$6,894	$10,508	$861

25. Related Party Transactions (Continued)

Total amounts of transactions with other related parties, primarily equity investees and joint ventures, for each of the reporting periods ending December 31, as well as related party balances are provided in the table below:

	2005	2004	2003
Revenues			
Oil sales	**$ 27**	$ 2	$ 2
Sales of petroleum products	**50**	4	1
Sales of gas	**—**	—	4
Inventory sales	**1**	2	7
Sales of services	**56**	34	6
Other income	**3**	—	1
	$137	$ 42	$21
Costs and expenses			
Purchase of oil	**$ —**	$ —	$ 4
Purchase of petroleum products	**1**	6	—
Cost of services	**55**	22	12
Purchase of inventory	**1**	1	1
Other expenses	**8**	3	2
	$ 65	$ 32	$19
Other operations			
Acquisitions of property, plant and equipment	**$ 73**	$ 21	$29
Lease payments	**29**	14	8
Purchase of promissory notes	**345**	756	1
Proceeds from promissory notes	**514**	809	43
Dividends received	**19**	13	—
Borrowings issued	**61**	63	52
Borrowings repaid	**46**	52	—
Loans received	**—**	612	—
Loans repaid	**$ 8**	$664	$—

25. Related Party Transactions (Continued)

To manage its liquidity the Company purchased and sold promissory notes from and to a related finance company for the purpose of using them in settlements with suppliers and contractors.

	2005	2004	2003
Assets			
Trade receivables	**$ 12**	$ 14	$ 3
Prepayments	**—**	4	5
Promissory notes receivable	**30**	142	199
Loans and borrowings	**98**	90	36
Other accounts receivable	**1**	1	1
	$141	$251	$244
Liabilities			
Trade accounts payable	**$ 7**	$ 8	$ 3
Advances received	**1**	—	—
Promissory notes payable	**12**	15	—
Loans and borrowings payable (including interest)	**2**	23	27
Cash at Company's banks	**3**	6	3
Deposits at Company's banks	**1**	1	21
Other accounts payable	**—**	—	1
	$ 26	$ 53	$ 55

26. Commitments and Contingencies

Russian Business Environment

The Russian economy, while deemed to be of market status, continues to display certain traits of a market in transition, for example inflation is relatively high and the existence of currency controls, which cause the national currency to be illiquid outside Russia. In addition laws and regulations, including interpretations, enforcement and judicial processes, continue to evolve in Russia. Other laws and regulations and certain other restrictions producing a significant effect on the Company's industry, including, but not limited to the following issues: rights to use subsurface resources, environmental matters, site restoration, transportation and export, corporate governance, taxation, etc.

Taxation

Legislation and regulations regarding taxation in Russia continue to evolve. The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities. Instances of inconsistent opinions are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Russia's laws, decrees and related regulations is severe. Interest and penalties are levied when an understatement of a tax liability is discovered. As a result, penalties and interest can result in amounts higher than unreported taxes.

In Russia tax declarations remain open and subject to inspection for a period of up to three years. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

Russian transfer pricing rules were introduced in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions with significant (by more than 20%) price fluctuations. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and

26. Commitments and Contingencies (Continued)

Taxation (Continued)

courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the Group's prices and propose adjustments. If such price adjustments are upheld by the Russian courts and implemented, the Group's future financial results could be adversely affected. In addition, the Group could face significant losses associated with the assessment of prior tax underpaid and related interest and penalties, which could have an adverse effect on the Group's financial condition and results of operations. The Group believes that such transfer pricing related tax contingencies are remote rather than possible or probable and cannot be reasonably estimated.

During 2004 several tax audits of OJSC Yuganskneftegaz for 1999-2003 years took place and their results have been appealed in court (see the "Litigation" caption below).

During 2005 tax audits of several subsidiaries for the years 2002-2003 took place. The results of these tax audits are currently being appealed with the tax authorities. The Company believes that the resolution of these matters will not result in any material tax payments.

Overall, management believes that the Group has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and regulations are not accrued in the consolidated financial statements.

Capital Projects for Exploration and Development of Production Facilities, and Modernization of Refineries and Distribution Network

The Company and its subsidiaries are engaged in ongoing capital projects for exploration and development of production facilities and modernization of refineries and the distribution network. The budgets for these projects are generally set on an annual basis. Depending on the current market situation, actual expenditures may vary from the budgeted amounts.

Following the acquisition of the additional share of 40% in TNPZ, 100% of the refinery's crude oil supplies come from the Company. This also facilitated the launch of large-scale work aimed at the modernization of the refinery. The modernization is aimed at increasing commercial efficiency, capacity of the refinery and the petroleum product yield ratio.

It is planned that future costs will be primarily self-financed. In addition, the Company is seeking external sources of financing. Management believes that the Company will receive all the finance required to complete both existing and scheduled projects.

Environmental Matters

Due to the nature of its business, Rosneft and its subsidiaries are subject to legislation regulating environmental protection and the conservation of natural resources. The majority of its liabilities entailed through violation of this legislation arise as a result of accidental oil spills and leaks that pollute land, water and the environment in general beyond the allowable level. The Company considers fines paid and other environmental liabilities as immaterial, given the scale of its operations.

In the course of its operations, the Company seeks to comply with international environmental standards and monitors compliance therewith on a regular basis. With a view to improve environmental activities, the Company takes a number of measures to mitigate the adverse impact of its current operations on the environment. Thus, the Company has developed a Comprehensive Environmental and Production Safety Program. In 2000, Rosneft signed an agreement with the RF Ministry for Emergencies that provides for the establishment of Environment Protection Centers to reduce the risk of pollution in the regions where Rosneft operates.

26. Commitments and Contingencies (Continued)

Environmental Matters (Continued)

Legislation that regulates environmental protection in the Russian Federation is evolving, and the Company evaluates its liabilities in accordance therewith. Currently it is not possible to reasonably estimate the liabilities of the Company which may be incurred should the legislation be amended (if amended at all).

The management believes that, based on the existing legislation, the Company is unlikely to have liabilities that need to be accrued in addition to the amounts already recognized in the consolidated financial statements and that may have a material adverse effect on the operating results or financial position of the Company.

See also Note 29.

Pension Plans

The Company and its subsidiaries make contributions to the State Pension Fund of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such contributions are charged to expense as incurred.

The Company participates in a corporate pension fund to finance non-government pensions for its employees. The fund operates the defined contribution pension plan.

The Company contributed to the corporate pension fund US$ 16 million, US$ 13 million, and US$ 17 million in 2005, 2004 and 2003, respectively.

Insurance

The Company insures its assets through the insurance company SK Neftepolis LLC, a related party.

As of December 31, 2005, 2004 and 2003, the amount of coverage on assets for such insurance was US$ 1,420 million, US$ 661 million and US$ 2,264 million, respectively.

Russian insurance providers do not offer business interruption insurance. Currently, it is not common practice in Russia to obtain such insurance.

Social Commitments

The Company possesses social infrastructure assets for use by employees. In accordance with the Presidential Edict on privatization in Russia, the Company is required to transfer social infrastructure assets to the relevant local city administrations without significant consideration. Accordingly, as the Company does not have ownership of these assets, they are not recorded in the consolidated financial statements. However, the Company is required to maintain these assets.

The Company incurred US$ 66 million, US$ 81 million and US$ 81 million in social infrastructure and similar expenses in 2005, 2004 and 2003, respectively. These expenses are presented as other expenses in the consolidated statement of income and comprehensive income.

Charity and Sponsorship

During 2005, 2004 and 2003, the Company made donations of US$ 25 million, US$ 44 million and US$ 53 million, respectively, for charity and sponsorship in various regions of Russia where the Company operates. These expenses are presented as other expenses in the consolidated statement of income and comprehensive income.

Guarantees and Indemnity

As of December 31, 2005, the Company has provided guarantees for certain debt agreements. In accordance with the loan agreements, the Company is obliged to perform on the guarantee and to pay the bank all amounts of outstanding guaranteed liabilities, including interest, upon the bank's request.

26. Commitments and Contingencies (Continued)

Guarantees and Indemnity (Continued)

The Company cannot substitute guarantees issued by any novation agreement or mutual offset. The Company's obligations under guarantees issued are valid in case of any change in loan agreements.

After the full payment and settlement of all obligations under the guarantees, the Company has the right to subrogate its respective part of all bank claims against the debtor in accordance with the loan agreement. In the event the Company makes payments under guarantees issued, it has a right to claim the amounts paid from the debtor.

The Company and a group of banks led by Societe Generale S.A. entered into an agreement granting the Company the right to claim the outstanding balance due from Yukos Oil Company under the syndicated loan of US$ 1,000 million. Under the above agreement, the right to claim the debt was transferred from the banks to the Company in March 2006 upon the payment of the outstanding loan principal, accrued interest, legal and other fees in the amount totaling US$ 483 million. As of December 31, 2005 the Company's obligation to the banks under the above agreement was recorded within accounts payable as Yukos Oil Company debt acquisition liability (Note 17) in the amount of the probable loss element on the transaction. The Company estimates the acquired debt will be repaid or otherwise recovered by early 2007.

Payments were made under this agreement during March 2006. As a result, the guarantee obligations of OJSC Yuganskneftegaz with respect to the loan described above have become intercompany in nature.

The Company's other outstanding guarantees as of December 31, 2005 are as follows:

Beneficiary Bank	Loan debtor	Maturity date	Contractual principal amount	Amount of outstanding liability (principal amount) as of December 31, 2005
Societe Generale S.A (as Facility Agent)	Yukos Oil Company	May 29, 2009	**$1,600**	**$ 656**
ABN AMRO	OJSC Rosneftegaz	December 30, 2008	**$7,500**	**$7,227**

In May 2005, Moravel Investments Limited, an affiliate of Yukos Oil Company, filed an arbitral claim against OJSC Yuganskneftegaz in the London Court of International Arbitration for the recovery of US$ 662 million pertaining to the loan of US$ 1,600 million from Societe Generale S.A. The Company is contesting the claim vigorously. The case will be heard in July 2006. The Company believes that the probability of any payments under the above guarantee is remote. On March 17, 2006 the Moscow Arbitration Court ruled that the guarantee agreement signed by OJSC Yuganskneftegaz with respect to Yukos Oil Company loan received from Societe Generale S.A. in the amount of US$ 1,600 million was invalid. Though this resolution will be challenged by Yukos Oil Company in accordance with generally accepted legal practices the management believes that this ruling supports the Company's position in the London Court of International Arbitration.

The Company agreed to indemnify ONGC for losses in the event the Russian PSA Participants lose their equity interest in the project.

Litigation, Claims and Assessments

In April 2004, the Nenets Autonomous Area ("NAA") Administration filed a lawsuit in the Moscow Arbitration Court against OJSC Northern Oil for the recovery of US$ 19 million relating to an unfunded obligation to NAA (which was recorded in the financial statement as of December 31, 2004) and a US$ 11 million penalty for the late payment of contributions to the social and economic development of the NAA under the licence agreement with OJSC Northern Oil.

Following a number of court hearings and appeals the licence agreement clauses dealing with contributions to the NAA Administration were determined to be void. Based on this, all previously accrued liabilities and penalties were reversed in the consolidated financial statements.

26. Commitments and Contingencies (Continued)

Litigation, Claims and Assessments (Continued)

As of December 31, 2005, OJSC Yuganskneftegaz had unresolved disputes with the tax authorities on decisions issued as a result of tax audits for 1999-2003 in the total amount of US$ 4,676 million. As described in Note 29, as a result of court hearings the amount of such taxes claimed was subsequently reduced to US$ 760 million. These court decisions can be appealed before May 25, 2006, however the Company's management believes that the probability of the appeal (if any) being upheld is remote. Based on the above court decisions the estimated tax liabilities (including fines) accrued as of September 30, 2005 were decreased by RUR 1.3 billion (US$ 45 million at December 31, 2005 CBR rate), but the additional interest in the amount of RUR 4.6 billion (US$ 160 million at December 31, 2005 CBR rate) have been accrued. Such additional penalties include both the interest calculated based on the final amount of 1999-2003 tax liabilities and also the interest relating to 2004 tax liabilities of OJSC Yuganskneftegaz which were outstanding as of December 31, 2004. Accordingly, the total additional income tax and other tax liabilities relating to OJSC Yuganskneftegaz accrued as of December 31, 2005 amounted to US$ 922 million.

In 2002 an option agreement was entered into between Total E&P Vankor (Total) and Anglo-Siberian Oil Company Limited (ASOC) (see Note 4) under which Total had a conditional option to buy the latter's 60% stake in Taymyrneft LLC which ASOC held through Anglo-Siberian Oil Company Limited (Cyprus) (ASOC Cyprus) for US$ 1 million. ASOC and ASOC Cyprus belong to the Rosneft International Group (see Note 1). Total obtained injunctions in various jurisdictions to prevent ASOC Cyprus from trading in the shares of Taymyrneft LLC. In 2005 Total filed for arbitration under the option agreement requesting the specific performance under the option agreement or alternatively damages of US$ 430 million. The Company's management believes that the claim is without merit and the option is not exercisable. Beyond professional fees, which are not material to the Company, it is unclear whether any further liabilities will be incurred but the Company's management does not believe these will be material.

During 2004 Total E&P Vankor filed a claim against ASOC Cyprus for US$ 640 million under the sale and purchase agreement for 52% in Eniseineft LLC. Total alleged that under the terms of a sale agreement, the shareholding in Eniseineft LLC should have been sold to them. The Company has contested this on the grounds that the relevant conditions precedent to the sale had not been met. The arbitration proceedings were completed during late 2005 and a decision is expected in June 2006.

The Company is a co-defendant in the litigation in the USA in respect of the acquisition of OJSC Yuganskneftegaz. This litigation was brought by certain holders of American Depository Receipts ("ADRs") of Yukos Oil Company seeking US$ 3 million in damages due to the fall in market value of the ADRs. The Company believes that this claim is without merit.

The Company is also a co-defendant in litigation in the Moscow Arbitration Court with respect to the auction for the common shares of OJSC Yuganskneftegaz. This litigation was brought by Yukos Oil Company. The claimant is seeking to recover all the common shares of OJSC Yuganskneftegaz and also damages in the total amount of RUR 388 billion (approximately US$ 13 billion at the CBR rate as of December 31, 2005). The court hearings have been postponed for an indefinite period. The Company believes that this claim is without merit.

The Company's subsidiaries are involved in other litigations which arise from time to time in the course of their business activities. The Company's management believes that the ultimate result of these litigations will not significantly affect the operating results or financial position of the Company.

License Agreements

In accordance with certain licence agreements or separate agreements concluded from time to time with the local and regional authorities the Company is required to maintain certain levels of expenditures for health, safety and environmental protection, as well as maintain certain level of capital expenditures. Generally these expenditures are within the normal operating and capital budgets and are accounted for when incurred in accordance with existing accounting policies for respective costs and expenses.

26. Commitments and Contingencies (Continued)

Oil Supplies

In January 2005, the Company entered into a long-term contract until 2010 with China National United Oil Corporation for export supplies of crude oil in the total amount of 48.4 million tonnes to be delivered in equal annual amounts. The prices are determined based on usual commercial terms for crude oil deliveries.

27. Segment Information

Presented below is information about the Company's operating segments in accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information.* The Company determines its operating segments based on differences in the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The exploration and production segment is engaged in field exploration and development and production of crude oil and natural gas. The refinery, marketing and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as purchasing, sale and transportation of crude oil and petroleum products. The other activities segment consists of banking, finance services, drilling services, construction services and other activities. Substantially all of the Company's operations are conducted in the Russian Federation. Further, the geographical regions within the Russian Federation have substantially similar economic and regulatory conditions. Therefore, the Company has not presented any separate geographical disclosure.

The segments are combinations of subsidiaries (see Note 1). The significant accounting policies applied to each segment are consistent with those applied to the consolidated financial statements. Sales transactions for goods and services between the segments are carried out using prices agreed upon between the Company and its subsidiaries.

Operating segments in 2005:

	Exploration and production	Refining, marketing and distribution	Other activities	Total Elimination	Consolidated
Revenues from external customers	$ 378	$23,239	$ 334	$ —	$23,951
Intersegmental revenues	9,534	797	297	(10,628)	—
Total revenues	$ 9,912	$24,036	$ 631	$(10,628)	$23,951
Operating expenses and cost of purchased oil and petroleum products	$ 1,303	$ 988	$ 64	$ —	$ 2,355
Depreciation, depletion and amortization	$ 1,320	$ 143	$ 9	$ —	$ 1,472
Operating income	$ 1,781	$13,903	$ 467	$(10,628)	$ 5,523
Total other income, net					691
Income before income tax					$ 6,214
Total assets	$23,005	$ 5,841	$1,170	$ —	$30,016

27. Segment Information (Continued)

Operating segments in 2004:

	Exploration and production	Refining, marketing and distribution	Other activities	Total Elimination	Consolidated
Revenues from external customers	$ 226	$4,818	$ 231	$ —	$ 5,275
Intersegmental revenues	1,899	317	275	(2,491)	—
Total revenues	$ 2,125	$5,135	$ 506	$(2,491)	$ 5,275
Operating expenses and cost of purchased oil and petroleum products	$ 344	$ 682	$ 129	$ —	$ 1,155
Depreciation, depletion and amortization	$ 193	$ 103	$ 11	$ —	$ 307
Operating income	$ 590	$2,818	$ 289	$(2,491)	$ 1,206
Total other expenses, net					(5)
Income before income tax					$ 1,201
Total assets	$21,282	$3,653	$1,077	$ —	$26,012

Operating segments in 2003:

	Exploration and production	Refining, marketing and distribution	Other activities	Total Elimination	Consolidated
Revenues from external customers	$ 383	$3,104	$154	$ —	$3,641
Intersegmental revenues	1,069	202	218	(1,489)	—
Total revenues	$1,452	$3,306	$372	$(1,489)	$3,641
Operating expenses and cost of purchased oil and petroleum products	$ 270	$ 481	$ 59	$ —	$ 810
Depreciation, depletion and amortization	$ 225	$ 67	$ 10	$ —	$ 302
Operating income	$ 191	$1,734	$228	$(1,489)	$ 664
Total other expenses, net					(75)
Income before income tax					$ 589
Total assets	$1,880	$4,577	$311	$ —	$6,768

Below is a breakdown of revenues by domestic and export sales, with a classification of export sales based on the country of incorporation of the foreign customer.

Oil and gas sales	2005	2004	2003
Domestic sales of crude oil	**$ 600**	$ 104	$ 71
Domestic sales of gas	**175**	118	79
Export sales of crude oil—CIS	**1,491**	411	177
Export sales of crude oil—Europe	**11,539**	1,689	1,091
Export sales of crude oil—Asia	**2,303**	353	246
Export sales of crude oil—other directions	**94**	60	50
Total oil and gas sales	**$16,202**	$2,735	$1,714

Petroleum products and processing fees	2005	2004	2003
Domestic sales of petroleum products and processing fees	**$2,865**	$1,249	$ 913
Export sales of petroleum products—CIS	**64**	—	—
Export sales of petroleum products—Europe	**3,726**	506	427
Export sales of petroleum products—South-East Asia	**719**	478	384
Total petroleum products and processing fees	**$7,374**	$2,233	$1,724

27. Segment Information (Continued)

In 2005, 2004 and 2003, different single customers in each year, which are international oil traders accounted for revenues of US$ 5,041 million, US$ 831 million and US$ 543 million or 21%, 16% and 15% of gross revenues, respectively. These revenues are recognized mainly under the Refining, Marketing and Distribution segment. Management does not believe that the Company is dependent on any particular customer.

28. Fair Value of Financial Instruments and Risk Management

The Company, in connection with its current activities, is exposed to various financial risks, such as foreign currency risks, interest rate risks and credit risks.

The Company manages these risks and monitors its exposure on a regular basis. The Company does not use hedge or derivative financial instruments.

The fair value of cash and cash equivalents, accounts receivable and accounts payable, promissory notes receivable and liquid securities approximates their carrying value recognized in these financial statements. The Company's management believes that accounts receivable recorded net of allowance for doubtful accounts will be recovered in full during an acceptable time period. The fair value of long-term accounts receivable included in other non-current assets approximates the discounted amounts recognized in these financial statements and is calculated using the estimated market interest rate for similar operations. The fair value of long-term debt differs from amounts recognized in the consolidated financial statements. The estimated fair value of long-term debt discounted using the estimated market interest rate for similar financial liabilities amounted to US$ 10,026 million, US$ 10,012 million and US$ 2,153 million as of December 31, 2005, 2004 and 2003, respectively. These amounts include all future cash outflows related to the repayment of long-term loans, including their current portion and interest expenses.

A substantial portion of the Company's sales revenues is received in US dollars. In addition, substantial financing and investing activities, obligations and commitments are also undertaken in US dollars. However, some operating and investing expenditures, other obligations and commitments as well as tax liabilities are undertaken in rubles. As a result of the US dollar drop against the ruble, the Company is exposed to the corresponding currency risk, which is considerably mitigated by the recent increase in oil prices.

29. Subsequent Events

In January 2006, the Company, through one of its subsidiaries, purchased an additional share of the 39.26% of voting stock (30.24% of the share capital) of OJSC Rosneft—Tuapse Nefteproduct. The purchase price amounted to US$ 100 million. After the purchase, the Company's share in OJSC Rosneft—Tuapse Refinery amounts to 89.93% of voting shares (68.24% of the share capital).

In January 2006, a subsidiary of the Company registered in Cyprus signed a loan agreement with a major Western bank for an amount up to EUR 188 million or US$ 223 million using the CBR rate as of the balance sheet date. The loan bears an interest rate of EURIBOR plus 0.35%. The first drawdown was made during February-March 2006 in the amount of EUR 90 million or US$ 107 million using the CBR rate as of the balance sheet date. Funds borrowed are to be invested in the construction of ice-reinforced tankers for crude oil transportation purposes in north-western regions of the Russian Federation. The loan is scheduled to be repaid within the twelve years following the completion of tanker construction.

In February 2006, the Company signed a loan agreement with a syndicate of Western banks for US$ 2,000 million with a term of 5 years. The loan bears interest at LIBOR plus 0.65% p.a. In March 2006, the Company received US$ 575 million under this loan agreement and used these funds to repay loans with less favourable terms.

In March 2006, a production licence for the Vostochno-Sugdinskoe oil field located in the Irkutsk region was purchased as a result of an auction won by the Company in December 2005. The outstanding portion of the purchase consideration for this license was paid in the amount of RUR 7,170 million (US$ 249 million at the CBR rate as of December 31, 2005).

29. Subsequent Events (Continued)

In March 2006, a banking consortium led by Societe Generale S.A. filed a petition with the Moscow Arbitration Court for the bankruptcy of Yukos Oil Company. On March 28, 2006, the Moscow Arbitration Court introduced a three-month temporary external observation procedure for Yukos Oil Company and appointed an Interim Receiver. Also in March 2006 following the Company's acquisition of Yukos Oil Company's debts in the amount of US$ 483 million from the banking consortium, the Moscow Arbitration court approved the replacement of the claimant with respect to this debt. The first meeting of the creditors is currently scheduled for June, 2006.

During January-April 2006 the Company prematurely redeemed bank loans from a State owned bank in the amount of US$ 944 million and bank loans from Russian commercial and international banks in the amount of US$ 453 million.

In April 2006, the Company executed several agreements granting it a decrease in the interest rate to LIBOR plus 0.7% p.a. for outstanding loans totalling US$ 5,730 million as of December 31, 2005 and to LIBOR plus 0.65% p.a. for outstanding loans totalling US$ 3,177 million as of December 31, 2005.

In April 2006, the Moscow Arbitration Court ruled to reduce the total amount of tax claims to OJSC Yuganskneftegaz to US$ 760 million including interest and penalties. This ruling may be subject to further appeal by the tax authorities, however the Company believes that no further claims will be imposed, and amounts already accrued in the consolidated financial statements are appropriate. (See Note 26).

On May 5, 2006 the Rosneft Board of Directors recommended to shareholders' meeting to declare annual dividends for common stock in the amount of RUR 11,336 million (US$ 394 million at the CBR rate as of December 31, 2005). This amount is approximately US$ 0.04 per share at the CBR rate as of December 31, 2005.

In the first half of 2006 the Company won a number of auctions for the exploration and development of oil and gas fields in the Krasnoyarsk and Irkutsk regions. The total cost of acquisitions amounted to RUR 7.9 billion (US$ 274 million at the CBR rate as of December 31, 2005).

Supplementary Oil and Gas Disclosure (unaudited)

In accordance with SFAS 69, *Disclosures about Oil and Gas Producing Activities*, the Company makes certain supplemental disclosures about its oil and gas exploration and production operations. While this information was developed with reasonable care and disclosed in good faith, it is emphasized that the data represents management's best estimates. Accordingly, this information may not necessarily represent the current financial condition of the Company and its expected future financial results.

All of the Company's activities are conducted in Russia, which is considered as one geographic area.

Capitalized costs relating to oil and gas producing activities

	As of December 31,		
	2005	**2004**	**2003**
Oil and gas properties related to proved reserves	**$23,218**	$17,991	$ 5,546
Oil and gas properties related to unproved reserves	**1,382**	1,041	266
Total	**24,600**	19,032	5,812
Accumulated depreciation, depletion and amortization, and valuation allowances	**(3,661)**	(2,492)	(2,520)
Net capitalized costs	**$20,939**	$16,540	$ 3,292

The share of the Company in the capitalized costs of equity investees was immaterial during 2005, 2004 and 2003.

Cost incurred in oil and gas property acquisition, exploration and development activities (Continued)

	2005	**2004**	**2003**
Acquisition of proved oil and gas properties	**$3,475**	$11,877	$ 512
Acquisition of unproved oil and gas properties	**341**	775	266
Exploration costs	**194**	51	18
Development costs	**1,752**	568	577
Total costs incurred	**$5,762**	$13,271	$1,373

Acquisition costs of oil and gas properties in 2005 include the effect of the purchase price adjustment related to OJSC Yuganskneftegaz (see Note 4).

The share of the Company in acquisition, exploration and development expenditures of its equity investees was immaterial during 2005, 2004 and 2003.

Supplementary Oil and Gas Disclosure (unaudited) (Continued)

Results of operations for oil & gas producing activities

	2005	2004	2003
Revenues:			
External sales	**$ 378**	$ 226	$ 383
Transfers to other operating segments	**9,534**	1,899	1,069
Total revenues	**9,912**	2,125	1,452
Production costs (excluding production taxes)	**1,303**	344	271
Selling, general and administrative expenses	**266**	77	146
Pipeline tariffs and transportation costs	**28**	7	22
Exploration expense	**194**	51	18
Accretion expense	**35**	8	12
Depreciation, depletion and amortization	**1,320**	193	225
Taxes other than income tax	**4,985**	855	567
Income tax	**777**	68	(12)
Results of operation for producing activities	**$1,004**	$ 522	$ 203

Transfers represent crude oil transferred between the operating segments. Such amounts are valued using prices agreed upon between the Company and its subsidiaries based on domestic prices for crude oil.

The Company's share in the results of operations for oil and gas production of equity investees was immaterial during 2005, 2004 and 2003.

Reserve quantity information

For the purposes of evaluation of reserves as of December 31, 2005, 2004 and 2003 the Company used the oil and gas reserve information prepared by DeGolyer & MacNaughton, independent reservoir engineers, prepared in accordance with United States Securities and Exchange Commission definitions. Proved reserves are those estimated quantities of crude oil and gas which, by analysis of geological and engineering data, demonstrate with reasonable certainty to be recoverable in the future from existing reservoirs under the existing economic and operating conditions. In certain cases, recovery of such reserves may require considerable investments in wells and related equipment. Proved reserves also include additional oil and gas reserves that will be extracted after the expiry date of licence agreements or may be discovered as a result of secondary and tertiary extraction which have been successfully tested and checked for commercial benefit. Proved developed reserves are the quantities of crude oil and gas expected to be recovered from existing wells using existing equipment and operating methods.

Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances are estimates of proved undeveloped reserves attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless those techniques have been proved effective by actual tests in the area and in the same reservoir. Net reserves include quantities of reserves attributable to the Company's share in deposits. Due to inherent industry uncertainties and the limited nature of deposit data, estimates of reserves are subject to change as additional information becomes available.

Supplementary Oil and Gas Disclosure (unaudited) (Continued)

Reserve quantity information (Continued)

The Company included in proved reserves those reserves which the Company intends to extract after the expiry of the current licences. The licences for the development and production of hydrocarbons currently held by the Company expire between 2006 and 2026, and the licences for the most important deposits expire between 2013 and 2019. In accordance with the effective version of the law of the Russian Federation, *On Subsurface Resources* (the "Law"), licences are currently granted for a production period determined on the basis of technological and economic criteria applied to the development of a mineral deposit which guarantee rational use of subsurface resources and necessary environmental protection. In accordance with the Law and upon gradual expiration of old licences issued under the previous version of the Law, the Company extends its hydrocarbon production licences for the whole productive life of the fields. Extension of the licences depends on both current and future compliance with the terms set forth in the licence agreements. As of the date of these financial statements, the Company is generally in compliance with all the terms of the licence agreements and intends to continue complying with such terms in the future (see Note 11).

The Company's estimates of net proved oil and gas reserves and changes thereto for the years ended December 31, 2005, 2004 and 2003 are shown in the table below (oil production data was recalculated from tonnes to barrels using a ratio of 7.3 barrels per tonne, gas production data was recalculated from cubic meters to barrels of oil equivalent using a ratio of 35.3/6 cubic meters per barrel):

	2005	2004	2003
	mln. bbl.	mln. bbl.	mln. bbl.
Beginning of year reserves	**12,744**	3,346	3,399
Revisions of previous estimates	**(373)**	330	(294)
Increase and discovery of new reserves	**63**	—	—
Acquisitions of new properties	**—**	9,216	374
Production	**(621)**	(148)	(133)
End of year reserves	**11,813**	12,744	3,346
Proved developed reserves	**8,507**	8,355	2,307
Minority interest in total proved reserves	**2,393**	2,728	587
Minority interest in proved developed reserves	**1,732**	1,847	461

The minority interest in proved developed and total proved reserves mainly relates to OJSC Yuganskneftegaz.

The increase in acquisition of new properties primarily relates to proved reserves of OJSC Yuganskneftegaz.

The Company's share in the proved reserves of equity investees was immaterial during 2005, 2004 and 2003.

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

The standardized measure of discounted future net cash flows related to the above oil and gas reserves is calculated in accordance with the requirements of SFAS 69. Estimated future cash inflows from oil and gas production are computed by applying year-end prices for oil and gas to year-end quantities of estimated net proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting period. Future development and production costs are those estimated future expenditures necessary to develop and produce estimated proved reserves as of year-end based on year-end cost indices and assuming continuation of year end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future net pre-tax cash flows, net of the tax bases of related assets.

Supplementary Oil and Gas Disclosure (unaudited) (Continued)

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves (Continued)

Discounted future net cash flows are calculated using a 10% discount factor. Discounting requires a year-by-year estimates of future expenditures to be incurred in the periods when the reserves will be extracted.

The information provided in the tables below does not represent management's estimates of the Company's expected future cash flows or of the value of its proved oil and gas reserves. Estimates of proved reserves change over time as new information becomes available. Moreover, probable and possible reserves which may become proved in the future are excluded from the calculations. The arbitrary valuation prescribed under SFAS 69 requires assumptions as to the timing and the amount of future development and production costs. The calculations should not be relied upon as an indication of the Company's future cash flows or of the value of its oil and gas reserves.

	2005	2004	2003
Future cash inflows	**$274,619**	$214,887	$ 51,708
Future development costs	**(12,507)**	(22,170)	(3,767)
Future production costs	**(80,564)**	(79,302)	(25,180)
Future income tax expenses	**(43,291)**	(27,740)	(5,673)
Future net cash flows	**138,257**	85,675	17,088
Discount of estimated timing of cash flows	**(87,100)**	(56,499)	(10,020)
Discounted value of future cash flows as of the end of year	**$ 51,157**	$ 29,176	$ 7,068

	2005	2004	2003
Discounted value of future cash flows as of the beginning of year	**$29,176**	$ 7,068	$ 6,661
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	**(8,131)**	(1,536)	(1,261)
Changes in price estimates, net	**26,798**	3,808	(1,313)
Changes in future development costs	**3,471**	(2,751)	(825)
Development costs incurred during the period	**1,752**	568	577
Revisions of previous reserves estimates	**953**	415	(436)
Discovery of new reserves, less respective expenses	**115**	—	—
Net change in income taxes	**(5,224)**	(389)	138
Accretion of discount	**2,918**	707	666
Purchase of new oil and gas fields	**—**	22,143	873
Other	**(671)**	(857)	1,988
Discounted value of future cash flows as of the end of year	**$51,157**	$29,176	$ 7,068

Discounted value of future cash flows as of December 31, 2005, 2004 and 2003 includes the interest of other (minority) shareholders in the amount of US$ 10,574 million, US$ 6,431 million and US$ 1,375 million, respectively.

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APPENDIX I:

CLASSIFICATION OF RESERVES AND RESOURCES

Cautionary note: the SEC permits oil and gas companies, in their filings with the SEC, to disclose only proved reserves that the company has demonstrated by actual production or conclusive formation tests to be economically and legally producible under existing economic and operating conditions. In this Prospectus, Rosneft sets forth certain data, such as reserves and resources data presented in accordance with SPE standards and reserves data presented in accordance with Russian standards, that the SEC's guidelines would prohibit Rosneft from including in filings with the SEC.

SPE Standards

SPE standards classify reserves as "proved," "probable" or "possible," and resources as "prospective" or "contingent," based on the physical presence of hydrocarbons *and* the economic viability of their recovery, including such factors as exploration and drilling costs, ongoing production costs, transportation costs, taxes, prevailing prices for the products, and others. Changes in the price of crude oil or gas may affect estimates of proved, probable and possible reserves, as can estimates of the owner's future net revenues and present worth, because the reserves are evaluated, and their future net revenues and present worth are estimated, based on prices and costs as of the appraisal date.

An evaluation of proved, probable and possible crude oil and gas reserves inherently involves uncertainty. The accuracy of any reserves evaluation depends on the quality of available information and engineering and geological interpretation. The results of drilling, testing and production after an appraisal can cause the significant upwards or downwards restatement of reserves.

Reserves

Proved Reserves

Proved reserves are reserves that have been proved to a high degree of certainty by analysis of the producing history of a reservoir and/or by volumetric analysis of adequate geological and engineering data. Commercial productivity has been established by actual production, successful testing, or in certain cases by favorable core analyses and electrical-log interpretation when the producing characteristics of the formation are known from nearby fields. Volumetrically, the structure, areal extent, volume, and characteristics of the reservoir are well defined by a reasonable interpretation of adequate subsurface well control and by known continuity of hydrocarbon-saturated material above known fluid contacts, if any, or above the lowest known structural occurrence of hydrocarbons.

Proved Developed Reserves

Proved developed reserves are proved reserves that are recoverable from existing wells with current operating methods and expenses.

Developed reserves include both producing and nonproducing reserves. Estimates of producing reserves assume recovery by existing wells producing from present completion intervals with normal operating methods and expenses. Developed nonproducing reserves are in reservoirs behind the casing or at minor depths below the producing zone and are consider proved by production from other wells in the field, by successful drill-stem tests, or by core analyses from the particular zones. Nonproducing reserves require only moderate expense to be brought into production.

Proved Undeveloped Reserves

Proved undeveloped reserves are proved reserves that are recoverable from additional wells yet to be drilled.

Undeveloped reserves are those considered proved for production by reasonable geological interpretation of adequate subsurface control in reservoirs that are producing or proved by other wells but are not recoverable from existing wells. This classification of reserves requires drilling of additional wells, major deepening of existing wells, or installation of enhanced recovery or other facilities.

Reserves recoverable by enhanced recovery methods, such as injection of external fluids to provide energy not inherent in the reservoirs, may be classified as proved developed or proved undeveloped reserves depending upon the extent to which such enhanced recovery methods are in operation. These reserves are considered to be proved only in cases where a successful fluid-injection program is in operation, a pilot program indicates successful fluid injection, or information is available concerning the successful application of such methods in the same reservoir and it is reasonably certain that the program will be implemented.

Probable Reserves

Probable reserves are reserves susceptible of being proved that are based on reasonable evidence of producible hydrocarbons within the limits of a structure or reservoir above known or inferred fluid contacts but are defined to a lesser degree of certainty because of more limited well control and/or the lack of definitive production tests. Probable reserves may include extensions of proved reservoirs or other reservoirs that have not been tested at commercial rates of flow or reserves recoverable by enhanced recovery methods that have not yet been tested in the same reservoir or where there is reasonable uncertainty that the program will be implemented.

Possible Reserves

Proved reserves are reserves that may exist but are less well defined by well control than probable reserves. Possible reserves include those based largely on log interpretation and other evidence of hydrocarbon saturation in zones behind the pipe in existing wells, possible extensions to proved and probable reserves areas where indicated by geophysical or geological studies, and those to be recovered by enhanced recovery methods where the data are insufficient to classify the reserves as proved or probable.

Prospective and Contingent Resources

Generally

Under SPE standards, prospective resources are those deposits that are estimated, on a given date, to be potentially recoverable from undiscovered accumulations. By contrast, contingent resources are those deposits that are estimated, on a given date, to be potentially recoverable from known accumulations, but that are not currently considered commercially recoverable. Rosneft has immaterial amounts of contingent resources.

Standard Petroleum Industry Terms for Probabilistic Resource Quantities

Low Estimate

In accordance with SPE definitions, the low estimate is the P_{90} quantity. P_{90} means there is a 90-percent chance that an estimated quantity, such as a prospective resources volume or associated value, will be equaled or exceeded.

Median Estimate

In accordance with SPE definitions, the median estimate is the P_{50} quantity. P_{50} means there is a 50-percent chance that an estimated quantity, such as a prospective resources volume or associated value, will be equaled or exceeded.

High Estimate

In accordance with SPE definitions, the low estimate is the P_{10} quantity. P_{10} means there is a 10-percent chance that an estimated quantity, such as a prospective resources volume or associated value, will be equaled or exceeded.

Best Estimate

In accordance with SPE definitions, the best estimate is the probability-weighted average, which typically has a probability in the P_{45} to P_{15} range, depending on the variance of prospective resources volume or associated value. Therefore, the probability of a prospect or accumulation containing the probability weighted average volume or greater is usually between 45% and 15%. The best estimate is the preferred probabilistic estimate of prospective resources.

Probability of Geologic Success (P_g)

The probability of geologic success is defined as the probability of discovering reservoirs that flow hydrocarbons at a measurable rate. P_g is estimated by quantifying with a probability each of the following individual geologic chance factors: trap, source, reservoir, and migration. The product of the probabilities of these four chance factors is P_g.

P_g-Adjusted Best Estimate

The P_g-adjusted best estimate, or "geologic risk-adjusted best estimate," is a probability-weighted average of the hydrocarbon quantities potentially recoverable if a prospect portfolio were drilled, or if a family of similar prospects were drilled. The P_g-adjusted best estimate is a "blended" quantity. It is a mean estimation of both volumetric uncertainty and geological risk (chance). This statistical measure considers and quantifies the geological success and geological failure outcomes. Consequently, it represents the average or mean "geologic" outcome of a drilling and exploration program. The P_g-adjusted best estimate is calculated as follows:

$$P_g\text{-adjusted best estimate} = P_g \times \text{best estimate}$$

Probability of Economic Success (P_e)

The probability of economic success is defined as the probability that a given discovery will be economically viable. It takes into account capital costs, operating expenses, the proposed development plan, the economic model (discounted cash flow analyses), and other business and economic factors.

P_e-Adjusted Best Estimate

The P_e-adjusted best estimate, or "economic risk-adjusted best estimate," is a probability-weighted average of the hydrocarbon quantities potentially recoverable if a prospect portfolio were drilled, or if a family of similar prospects were drilled. The P_e-adjusted best estimate is a "blended" quantity. It is a mean estimation of volumetric uncertainty, geologic (P_g), and economic risk (chance). This statistical measure considers and quantifies the economic success and economic failure outcomes. Consequently, it represents the average or mean "economic" volumes resulting from economically viable drilling and exploration. The P_e-adjusted best estimate is calculated as follows:

$$P_e\text{-adjusted best estimate} = P_e \times \text{best estimate}$$

Probabilistic Valuation of Prospective Resources

The probabilistic valuation of prospective resources is a six step process, which is described in greater detail below.

Step 1: Volumes Uncertainty

Probabilistic estimation of the resources is carried out using volumetric distributions to address the uncertainty associated with each parameter, such as porosity or net hydrocarbon thickness. The probabilistic results are P_{90}, P_{50}, P_{10}, and best estimate gross prospective resource volumes.

Step 2: Geologic Risk

Geologic risk is assessed using four chance factors (trap, reservoir, migration, and source). The estimated chance factor is referred to as the probability of geologic success (P_g). The P_g represents the probability of discovering measurable hydrocarbons.

Step 3: Potential Profitability per Barrel

The distribution for potential present worth per barrel of oil (PW/BO) is derived by using deterministic economic models. Numerous scenarios are simulated to develop a series of potential present worth values with their corresponding potential recoverable volumes. These scenarios include modifying the typical inputs to a discounted cash flow model, such as the potential gross ultimate recoverable resources volumes, CAPEX, OPEX, and drilling costs. Potential present worth for each simulated scenario is then divided by the potential gross recoverable volume to calculate a PW/BO. This process should search for reasonable endpoints of the potential PW/BO distribution. This means that the cases should include lowest case and highest case scenarios. The discounted cash flow model includes all of the pertinent tax laws, a production profile, license terms, and costs associated with producing, transporting, and selling the hydrocarbons. By running the discounted cash flow model, varying many of the parameters, and exploring for the endpoints, a reasonable distribution can be built that will encompass the lowest and highest possible cases. This distribution will always be lognormal (due to the Central Limit Theorem).

Step 4: Threshold Economic Field Size

Threshold economic field size (TEFS) is then estimated. The definition and equation are as follows:

- *Threshold Economic Field Size (TEFS).* The threshold economic field size is the minimum amount of producible petroleum required to recover the total capital expenditure used to establish the prospect as having a positive potential present worth at 10 percent. Exploration costs and investments used to estimate TEFS include expenditures required to establish and prove profitable production and to conduct delineation or confirmation drilling. All geologic, geophysical, lease and/or contract-area acquisition costs and other anticipated field delineation costs are included in the estimation of TEFS as well. The present worth per resources volume methodology is a standard industry practice used to estimate resources value. This methodology is directly formulated from the discounted cash flow analysis, which is fundamental to the potential present worth estimation. Accordingly, where the potential present worth per barrel methodology is being employed to estimate TEFS, no additional provision should be made for full field development costs.

$$\text{TEFS} = \frac{\text{Geology} + \text{Geophysics} + \text{Drilling} + \text{Land Transportation} + \text{Overhead}}{\text{Potential Present Worth per Barrel}}$$

Step 5: Probability of Economic Success

The probability of economic success is estimated next. The definition and equation are as follows:

- *Probability of Economic Success (P_e).* The probability of economic success is defined as the probability that a given discovery will be economically viable. It takes into account P_g, P_{TEFS}, TEFS, capital costs, operating expenses, the proposed development plan, the economic model (discounted cash flow analyses), and other business and economic factors.

$$P_e = P_g \times P_{TEFS}$$

The P_{TEFS} presented above is defined as follows:

- *Probability of TEFS (P_{TEFS})*—The probability of threshold economic field size is defined as the probability of discovering an accumulation that is large enough to be economically viable. PTEFS is estimated by using the prospective resources recoverable volumes distribution in conjunction with the TEFS. The probability associated with the TEFS can be determined graphically from the prospective gross recoverable volumes distribution.

Step 6: Valuation of Potential Prospective Resources

The next step in the valuation is performed stochastically. The inputs to the potential present worth are distributions (except for NRI, a constant) in the following equation:

$$PPW_{10} = [\ (\ P_e \bullet EV_T \bullet NRI \bullet \frac{PW}{BO}\ ) - P_e \bullet CWCE \bullet NRI\ ] - (\ P_F \bullet DHC \bullet NRI\ )$$

where:	PPW_{10} (USD)	=	potential present worth at 10%
	P_e (%)	=	probability of economic success
	EV_T (bbl)	=	truncated potential gross recoverable oil
	NRI (%)	=	net revenue interest
	PW/BO (USD/bbl)	=	present worth at 10% per barrel of oil
	CWCE (USD)	=	completed well cost estimate
	P_F (%)	=	probability of economic failure
	DHC (USD)	=	dry hole cost estimate

The potential PW/BO distribution is probabilistically multiplied by the potential gross recoverable oil volumes distribution, and is probabilistically blended with the P_e. In other words, the economics are "risked." The product of probabilistic volumes and probabilistic dollars per barrel is potential present worth stochastically derived. Deterministic estimations or mathematical operations are not comparable to this stochastic process. Any deterministic mathematical operation such as multiplication or addition of these metrics will not be comparable to the probabilistic outcome. The process and approach of the two methodologies is fundamentally different. The probabilistic outcome derived involves thousands of iterations using distributions, and the results cannot be quantitatively compared with a deterministic single answer computation, such as by using a calculator.

SEC Standards

Generally

SEC standards permit the presentation of proved reserves only and do not permit the presentation of other kinds of reserves. Under Rule 210.4-10 of Regulation S-X, "proved reserves" are the estimated quantities of crude oil, natural gas and natural gas liquids that geological and engineering data demonstrate with "reasonable certainty" to be recoverable in future years from known reservoirs under existing economic and operating conditions.

In addition, SEC guidance has indicated that proved reserves should generally include only those reserves that can be produced through the license expiration date, unless there is a "long and clear track record of license renewal…as a matter of course." That is, only if the licensee has the right to renew the license *and* there is a "long and clear track record of license renewal as a matter of course" will SEC standards permit the classification of deposits that will be recovered after the expiration of the applicable license as proved reserves.

Under Russian law, Rosneft may renew its licenses to the end of the economic lives of the fields so long as it meets certain conditions. Under Article 10 of the Subsoil Resources Law, a license to use a field "shall be" extended, at the request of the licensee, at its scheduled termination if necessary to complete production at the field, so long as the licensee has not violated the conditions of the license. The legislative history of Article 10 indicates that the term "shall" replaced the term "may" in August 2004, theoretically giving the licensee a right to extend the license term so long as it complies with the material conditions of the license.

In addition, Rosneft has experienced success to date in extending various licenses. In 2005, the Company extended the terms of 39 of its production licenses for the period equivalent to the expected life of the fields. There were no unsuccessful license renewal applications. Furthermore, Rosneft has received a letter, dated 19 May 2006, from the Subsoil Agency confirming that, to date, it has not identified any violations of the terms of Rosneft's licenses that could prevent their extension and that, based on approved development plans and in accordance with the Subsoil Law, the licenses will be extended at Rosneft's request. Rosneft plans to request the extension of all of its licenses and is "reasonably certain" that the Subsoil Agency will grant the extension. (Rosneft's right to extend its licenses depends on its continued compliance with the terms of those licenses.) Accordingly, Rosneft's current production plans assume the extension of the license and that Rosneft will produce crude oil and gas through the economic lives of its fields.

In light of the above, D&M believes that Rosneft's view on the probability of license extensions is reasonable, although such view may not be confirmed by the SEC. Rosneft understands that the SEC has not provided definitive guidance on whether, in these circumstances, such extractable reserves could be considered proved reserves under SEC standards. Accordingly, Rosneft presents proved reserves to SEC standards both through the economic lives of its fields and through the dates of expiration of its licenses. See "Business—Overview—Upstream Operations—Reserves and Resources."

Proved Oil and Gas Reserves

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

- Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

- Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved" classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.
- Estimates of proved reserves do not include the following: (A) oil that may become available from known reservoirs but is classified separately as "indicated additional reserves"; (B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (C) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and (D) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite, and other such sources.

Proved Developed Oil and Gas Reserves

Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

Proved Undeveloped Reserves

Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

Summary of Key Differences between SPE and SEC Standards

The following table summarizes key distinctions between SPE and SEC standards:

Classification		SPE Standards: Determininistic Methods	SPE Standards: Probablistic Methods	SEC Standards
Reserves	**Proved**	Presentation permitted if there is "reasonable certainty" that reserves are commercially recoverable.	Presentation permitted if there is at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.	In general, presentation permitted if recoverability demonstrated with "reasonable certainty" under existing economic and operating conditions. For most undrilled areas, presentation of undeveloped reserves permitted only if such recoverability "demonstrated with certainty."
	Probable	Presentation permitted if reserves are more likely than not to be recoverable.	Presentation permitted if there is at least a 50% probability that the quantities actually recovered will equal or exceed the estimate.	N/A.
	Possible	Presentation permitted if reserves are less likely to be recoverable than probable reserves.	Presentation permitted if there is at least a 10% probability that the quantities actually recovered will equal or exceed the estimate.	N/A.
Resources	**Contingent**	Deposits that are estimated, on a given date, to be potentially recoverable from known accumulations, but that are not currently considered commercially recoverable.		N/A.
	Prospective	Deposits that are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.		N/A.
License expiration	Reserves must be recoverable within the economic production life of the field.			Proved reserves must be recoverable before the expiration of the applicable license. Exception: licensee has the right to renew the license and there is a "long and clear track record of license renewal as a matter of course."

Russian Standards

Most reserve systems break down crude oil and gas reserves into two components:

- *Geological reserves*, or the quantities of crude oil and gas in the subsoil; and
- *Extractable reserves*, or the portion of geological reserves whose extraction from the subsoil as of the date on which the reserves are calculated is economically efficient given market conditions and the use of modern extraction equipment and technologies and taking into account compliance with the requirements of subsoil and environmental protection.

Unlike most such systems, however, Russian reserves methodology is based solely on geological reserves. Under the Russian system:

- *Categories A, B and C1* consist of explored reserves; and
- *Category C2* consists of preliminary estimated reserves.

Russian reserves methodology considers gas reserves in categories A, B and C1 to be fully extractable; for reserves of crude oil, Russian reserves methodolgy calculates a "coefficient of extraction" (also called the "reserve recovery rate") based on certain geological and technical factors to quantify extractability.

Category A

Category A reserves are calculated on the part of a deposit drilled in accordance with an approved development project for the crude oil or gas field. They represent reserves that have been analyzed in sufficient detail to define comprehensively the type, shape and size of the deposit; the level of hydrocarbon saturation; depth and type of the reservoir; the nature of changes in the reservoir characteristics; the hydrocarbon saturation of the productive strata of the deposit; the content and characteristics of the hydrocarbons; and the major features of the deposit that determine the conditions of its development (mode of operations, well productivity, strata pressure, crude oil, condensate and gas balance, hydro and piezo-conductivity and other features).

Category B

Category B represents the reserves of a deposit (or portion thereof), the oil or gas content of which has been determined on the basis of commercial flows of oil or gas obtained in wells at various hypsometric depths. The type, shape and size of the deposit; the effective oil and gas saturation; depth and type of the reservoir; the nature of changes in the reservoir characteristics; the oil and gas saturation of the productive strata of the deposit; the composition and characteristics of oil, gas and gas condensate under in-situ and standard conditions and other parameters; and the major features of the deposit that determine the conditions of its development have been studied in sufficient detail to draw up a project to develop the deposit. Category B reserves are computed for a deposit (or a portion thereof) that has been drilled in accordance with either a trial industrial development project in the case of a gas field or an approved technological development scheme in the case of a crude oil field.

Category C1

Category C1 represents the reserves of a deposit (or of a portion thereof), the crude oil or gas content of which has been determined on the basis of commercial flows of oil or gas obtained in wells (with some of the wells having been probed by a formation tester) and positive results of geological and geophysical exploration of non-probed wells. The type, shape and size of the deposit and the formation structure of the oil- and gas-bearing reservoirs have been determined from the results of drilling exploration and production wells and by those geological and geophysical exploration techniques that have been field-tested for the applicable area. The lithological content, reservoir type and characteristics, crude oil and gas saturation, oil displacement ratio and effective oil and gas saturation depth of the productive strata have been studied based on drill cores and geological and geophysical exploration techniques. The composition and characteristics of oil, gas and gas condensate under in-situ and standard conditions have been studied on the basis of well testing data. In the case of an oil and gas deposit, the commercial potential of its oil-bearing fringe has been determined. Well productivity, hydro- and piezo-conductivity of the stratum, stratum pressures and oil, gas and gas condensate temperatures and yields have been studied on the basis of well testing and well exploration results. The hydro-geological and geocryological conditions have been determined on the basis of well drilling results and comparisons with neighboring explored fields. Category C1 reserves are computed on the basis of results of geological exploration work and production drilling and must have been studied in sufficient detail to yield data from which to draw up either a trial industrial development project, in the case of a gas field, or a technological development scheme, in the case of an oil field.

Category C2

Category C2 reserves are preliminary estimated reserves of a deposit calculated on the basis of geological and geophysical research of unexplored sections of deposits adjoining sections of a field containing reserves of higher categories and of untested deposits of explored fields. The shape, size, structure, level, reservoir types, content and characteristics of the hydrocarbon deposit are determined in general terms based on the results of the geological and geophysical exploration and information on the more fully explored portions of a deposit. Category C2 reserves are used to determine the development potential of a field and to plan geological, exploration and production activities.

APPENDIX II:
GLOSSARY

Certain Abbreviations and Related Terms

Bbl	Barrel.
Boe	Barrels of oil equivalent.
Mcm	Thousand cubic meters.
Mmcm	Million cubic meters.
Bcm	Billion cubic meters.
Km	Kilometer.
One billion	One thousand million.

Certain Conversion Ratios

One tonne (crude oil)	7.315 barrels, reflecting the weighted average density of Rosneft's crude oil reserves, calculated as of 31 March 2006.
One bcm	Gas volumes have been converted from cubic meters to cubic feet at a rate of 35.315 cubic feet per cubic meter, except where D&M has originally reported volumes in cubic feet. Certain amounts of gas volumes have been converted from cubic feet to barrels of oil equivalent at a rate of 6,000 cubic feet per barrel of oil equivalent.

Certain Terminology

2-D seismic	Geophysical data that depicts the subsurface strata in two dimensions.
3-D seismic	Geophysical data that depict the subsurface strata in three dimensions. 3-D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2-D seismic.
Associated gas	Gas initially held in solution in the reservoir crude oil which is released from solution when the extracted reservoir crude oil is processed at the extraction stage.
Barrel	A stock tank barrel, a standard measure of volume for oil, condensate and natural gas liquids, which equals 42 U.S. gallons.
Best estimate	A statistical estimate of expected value.
Catalytic reforming	A refining process using controlled heat and pressure with catalysts to rearrange certain hydrocarbon molecules, thereby converting low-octane gasoline boiling range fractions into petrochemical feedstocks and higher octane stocks suitable for blending into finished gasoline.
Conversion ratio (depth of refining)	The volume of all light petroleum products (gasoline, diesel, naphta and kerosene), lubricants and petrochemicals produced *divided by* the volume of all petroleum products produced. The conversion ratio is expressed as a percentage.
Development well	A well drilled to obtain production from a proven oil or gas field. Development wells may be used either to extract hydrocarbons from a field or to inject water or gas into a reservoir in order to improve production.
Downstream	Activities that take place after the extraction of crude oil and gas, including the transportation of such crude oil and gas, the refining of crude oil and the marketing of petroleum products.

Enhanced oil recovery	A generic term for several techniques, such as water flooding, that are applied to a reservoir to increase total recovery.
Exploratory well	A well drilled to find hydrocarbons in an unproved area or to extend significantly a known oil or natural gas reservoir.
Field	An area consisting of either a single reservoir or multiple reservoirs, all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.
Finding and development costs	Capital costs incurred in the acquisition, exploitation and exploration of proved oil and natural gas reserves divided by proved reserve additions and revisions to proved reserves.
Gas condensate	The heavier hydrocarbon fractions in a natural gas reservoir that condense into a liquid as they are produced. They are used as a chemical feedstock or for blending into gasoline.
Hydraulic fracturing	A treatment to increase production from a well by using a fluid to fracture or split the reservoir formation.
Hydrocarbons	Compounds formed from the elements hydrogen (H) and carbon (C) and existing in solid, liquid or gaseous forms.
Isomerization	A refining process that alters the fundamental arrangement of atoms in the molecule without adding or removing anything from the original material.
License area	The particular subsoil plot specified in the subsoil license issued by the applicable Russian federal authority, which the license holder has the right to use for the purpose and on the terms specified in the subsoil license. A license area may contain one or more fields or may encompass only a portion of a field.
Mazut	A term used in Russia to denote fuel oil.
Natural gas	Hydrocarbons that are gaseous at one atmosphere of pressure at 20°C. It can be divided into lean gas, primarily methane but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas, primarily ethane, propane and butane as well as smaller amounts of heavier hydrocarbons; partially liquid under atmospheric pressure.
Netback	A netback is the crude oil distribution price (*i.e.*, the price excluding VAT, export duty, excise duty and commercial expenses) calculated at the enterprise's metering station. With respect to the following methods of distribution, "**netback**" means: • *Exports of crude oil outside the CIS.* Sales proceeds *minus* export duty and transportation costs from the metering station to the distribution point (including railway and pipeline transit, dispatching, transshipment, customs procedures, interest accrued in the period between billing and receipt of payment, demurrage, etc.); • *Sales of crude oil in Russia.* Sales proceeds minus VAT and transportation costs from the metering station to the distribution point;

- *Sales of crude oil in CIS (excluding Russia).* Sales proceeds *minus* export duty (except in the case of sales to members of the Customs Union) and transportation costs from the metering station to the distribution point (including railway and pipeline transit, dispatching, transshipment, customs procedures, interest accrued in the period between billing and receipt of payment, demurrage, etc.);
- *Sales of petroleum products produced by refineries controlled by the Company.* Sales proceeds *minus* export duty on petroleum products, domestic excise duty on petroleum products, costs of transportation associated with the sale of petroleum products (including railway and pipeline transit, dispatching, transshipment, customs procedures, interest accrued in the period between billing and receipt of payment, demurrage, etc.), transportation costs from the metering station to refineries and processing costs; and
- *Sales of petroleum products produced by refineries controlled by third parties.* Sales proceeds minus export duty on petroleum products, domestic excise duty on petroleum products, costs of transportation associated with the sale of petroleum products (including railway and pipeline transit, dispatching, transshipment, customs procedures, interest accrued in the period between billing and receipt of payment, demurrage, etc.), transportation costs from the metering station to refineries and processing fees.

Quality bank . . . . An arrangement whereby oil companies that supply lower-quality (heavy and sour) crude oil to a pipeline system pay more for the use of pipelines than those who supply higher-quality crude oil. (Alternatively, suppliers of lower-quality crude oil might directly compensate suppliers of higher-quality crude oil for the deterioration in crude quality due to blending.)

Recovery efficiency . . . . The ratio of reserves extracted as of a certain date to total initial reserves as of such date.

Reserves life . . . . The number of years an oil and gas company can sustain production at the same rate as during the current year, assuming the size of proved reserves in the current year stays constant. Reserves life is calculated by dividing proved reserves as of the end of a year by production in that year.

Reserves replacement ratio . . . . The ratio of net additions of new proved reserves to yearly production. The Company calculates its reserves replacement ratio for crude oil by comparing net new proved reserves additions in tonnes to yearly production in tonnes as well as by comparing net new proved reserves additions in barrels to yearly production in barrels. The reserves replacement ratio for crude oil varies when calculated in tonnes or in barrels, depending, among other things, on the specific density of the crude oil added compared to that of the crude oil produced.

Reservoir . . . . A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water-filled rock layers.

Seismic survey . . . . A method by which an image of the earth's subsurface is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can be done in two- or three-dimensional form.

SPE standards . . . . Reserves definitions consistent with those approved in March 1997 by the Society of Petroleum Engineers and the World Petroleum Congresses.

Throughput . . . . Amount of crude oil processed by a refinery in a given period.

Upstream . . . . Activities related to the exploration, appraisal, development and extraction of crude oil, condensate and gas.

Upstream operating expenses . . . . Upstream operating expenses are costs incurred to operate and maintain wells and related equipment and facilities. Upstream operating expenses include:

- Lifting costs;
- The cost of gathering, treatment, processing and storage of crude oil and gas in the fields;
- The cost of delivering the crude oil and gas to a main pipeline, such as a Transneft trunk pipeline checkpoint;
- The cost of labor to operate the wells and related equipment and facilities;
- The cost of repairs and maintenance; and
- The cost of materials, supplies, fuel consumed and service utilized in operating the wells and related equipment and facilities.

Vacuum distillation . . . . Distillation under reduced pressure (less than atmospheric), which lowers the boiling temperature of the liquid being distilled. This technique with its relatively low temperatures prevents cracking or decomposition of the charge stock.

Watercut . . . . The proportion of water produced, along with crude oil, from extracted reservoir liquids, usually expressed as a percentage.

Workover . . . . A maintenance or repair operation on a well after it has commenced production. Usually undertaken to maintain or increase production from the well.

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

APPRAISAL REPORT
as of
DECEMBER 31,2005
on
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owned by
OAO NK ROSNEFT
in
CERTAIN FIELDS
in
RUSSIA

SUMMARY

SPE CASE

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FOREWORD

Scope of Investigation This report presents an appraisal, as of December 31, 2005, of the extent of the proved, probable, and possible crude oil, condensate, and natural gas reserves of certain fields owned by OAO NK Rosneft (Rosneft). Also included are estimates of the value of the proved, proved-plus-probable, and proved-plus-probable-plus-possible oil, condensate, and gas reserves attributable to Rosneft's ownership of these properties.

Rosneft owns interests in these fields through various subsidiary enterprises. The Rosneft subsidiary enterprises included in this report are OAO NK Rosneft—Dagneft (Dagneft), OAO Dagneftegaz (Dagneftegaz), OAO NK Rosneft—Krasnodarneftegaz (Krasnodarneftegaz), OOO Polar Light Company (Polar Light), OAO NK Rosneft—Purneftegaz (Purneftegaz), OAO NK Rosneft—Sakhalinmorneftegaz (Sakhalinmorneftegaz), OAO Selkupneftegaz (Selkupneftegaz), OAO Severnaya Neft (Severnaya Neft), OAO NK Rosneft—Stavropolneftegaz (Stavropolneftegaz), OAO Verkhnechonskneftegaz (Verkhnechonskneftegaz) and OAO Yuganskneftegaz (Yuganskneftegaz). Additionally, ZAO Vankorneft and LLC Taymirneft hold licenses to different portions of the Vankorskoye field. Rosneft owns 99.99 percent of ZAO Vankorneft and 60 percent of LLC Taymirneft. The majority of the estimated reserves are in the southern portion of the field owned by ZAO Vankorneft. In this report, reserves and values for both license areas are reported for the entire field. Also included in the evaluation are fields held directly by Rosneft in the Chechen Republic (Chechnya) and the Sakhalin-1 Project (Sakhalin-1) in which Rosneft holds an interest through a production sharing agreement (PSA). These subsidiary enterprises, the Rosneft holdings in the Chechen Republic and the Sakhalin-1 project are collectively referred to hereinafter as "Rosneft Holdings." All fields are held at 100 percent by the respective subsidiary enterprise. Rosneft's ownership in the subsidiary enterprises ranges between 15 and 100 percent. The estimated reserves and associated values are reported herein at 100 percent for those subsidiaries of which Rosneft has majority control, either through direct ownership or through voting rights. The estimated reserves and values for subsidiary enterprises which Rosneft does not control are reported at Rosneft's ownership interest. Table 1 shows the ownership interest and the reported interest for each of the Rosneft Holdings reported herein. All of the fields evaluated are located in the Russian Federation.

Rosneft has represented that the Russian Law on Subsoil provides for the extension of production licenses at the request of the license holder if there exists economic reserves upon the expiration of the primary term, provided the license holder is in material compliance with the terms of the existing license. Furthermore, we have been advised that the Law on Subsoil was amended in 2000 to provide that new production or combined production and exploration licenses for new fields or upon the expiration of the term of existing licenses will no longer be limited to a specified number of years and may now be issued for the full useful life of the fields associated with such license. We understand that the principal requirements are that the license holder complies with the material terms of the license and that mineral extraction has not been completed. As in the past, Rosneft is required to submit to the appropriate government agency for approval, prior to production, individual field development plans based on the economic life of the field and not based on the term of the associated license. Rosneft has already extended the licenses for all the fields in the Dagneft subsidiary to or beyond the economic life. Furthermore Rosneft has represented that upon completion of the primary term of its current licenses each of the other subsidiary enterprises intends to extend these licenses to the end of the economic life of the associated fields, and that they intend to proceed accordingly with development and operation of these fields. Based on these representations we have included as proved, probable, and possible reserves those volumes that are estimated to be economically producible from the fields evaluated after the expiration of the primary term of their licenses.

In June 1996, the PSA for the Sakhalin-1 project was approved. In December 2001, the Sakhalin-1 project was declared commercial by the Russian Government, at which time the initial 20-year development period specified by the PSA commenced. ExxonMobil Neftegaz Limited (the Operator) operates the Sakhalin-1 project on behalf of the Sakhalin-1 Consortium. The Operator has represented that although the initial development period will expire in December 2021, the PSA contains provisions for the extension of the development period upon request of the Sakhalin-1 Consortium. The Operator has also represented that the terms of the PSA contain provisions whereby the Russian Government is obligated to grant the requested extensions of the PSA, provided that the Sakhalin-1 Consortium is not in breach of its obligations under the PSA. All of the proved reserves estimated in this report attributable to the Sakhalin-1 license project are estimated to be produced before the end of the primary development period in December 2021. Certain of the reserves estimated in this report for the Sakhalin-1 license project that are estimated to be produced beyond the expiration date of the currently approved development period have been classified as probable and possible based on the Operator's representation that it will apply as necessary for extensions of the development period and that the Sakhalin-1 Consortium will be in material compliance with its obligations under the PSA.

Reserves estimated in this report are expressed as gross reserves and net reserves owned by Rosneft (Rosneft net). Gross reserves are defined as the total estimated oil, condensate, and gas to be produced from the fields after December 31, 2005. Rosneft net reserves are defined as that portion of the gross reserves attributable to Rosneft after deducting interests owned by others. For the Sakhalin-1 PSA, these reserves are expressed in terms of the barrel equivalent of the cost recovery and profit share (entitlement) after deducting interests owned by others. The product prices on which the cost recovery and profit share are based are summarized in Table 2. The estimated proved, probable, and possible oil, condensate, and gas reserves, expressed in English and metric units, are summarized in Tables 3 through 8 for the Rosneft Holdings.

The proved, probable, and possible reserves presented in this report have been prepared in accordance with reserves definitions consistent with those approved in March 1997 by the Society of Petroleum Engineers (SPE) and the World Petroleum Congresses (WPC) and are discussed in detail in the Classification of Reserves section of this report.

This report presents values for proved, proved-plus-probable, and proved-plus-probable-plus-possible reserves that were estimated using prices and costs, as of December 31, 2005, unless otherwise stated herein without consideration of escalations based on future conditions. Current estimates of prices, operating expenses, and capital costs were used for the life of the properties. Prices and costs were provided in Russian rubles (R) or United States dollars (U.S.$). The exchange rate effective December 31, 2005, was R28.7825 per U.S.$1.00. All values were estimated in U.S. dollars, and all prices, costs, and revenue shown in this report are expressed in U.S. dollars. A detailed explanation of future price and costs assumptions is included in the Valuation of Reserves section of this report. The estimated value of the proved, proved-plus-probable, and proved-plus-probable-plus-possible reserves for the Rosneft Holdings is summarized in Tables 9 through 20. Additionally, the estimated value of the proved, proved-plus-probable, and proved-plus-probable-plus-possible reserves for the Yuganskneftegaz, Purneftegaz, Severnaya Neft, Vankorskoye Field, Sakhalin-1, Polar Light, and Verkhnechonskneftegaz subsidiaries is summarized in Tables 21 through 41.

In this report, values for proved, proved-plus-probable, and proved-plus-probable-plus-possible reserves are expressed in terms of future gross revenue, future net revenue, present worth, and Rosneft future net revenue and Rosneft present worth. In all subsidiary enterprises except Sakhalin-1, future gross revenue is defined as that revenue to be realized from the production and sale of the estimated gross reserves. In Sakhalin-1, future gross revenue is defined as that revenue to be realized from the sale of the PSA contractor entitlement. Future net revenue is calculated by deducting estimated transportation costs, operating expenses, abandonment costs, capital costs, royalty where applicable, estimated local profit taxes, and other taxes as specified by Rosneft, from future gross revenue. Present worth is defined as future net revenue discounted at an arbitrary rate over the expected period of realization. Rosneft future net revenue is defined as Rosneft's share of future net revenue after the deduction of revenue attributable to others. Rosneft present worth is defined as Rosneft future net revenue discounted at an arbitrary rate over the expected period of realization. Present worth and Rosneft present worth values using a discount rate of 10 percent are reported in detail. Rosneft present worth values using discount rates of 8, 9, and 11 percent are reported as totals. All values presented in this report are expressed in thousands of United States dollars (10^3 U.S.$).

Estimates of oil, condensate, and gas reserves and future net revenue should be regarded only as estimates that may change as further production history and additional information become available. Not only are such reserves and revenue estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Authority This report was authorized by Mr. Sergei M. Bogdanchikov, President of Rosneft.

Source of Information Information used in the preparation of this report was obtained from Rosneft. In the preparation of this report we have relied, without independent verification, upon information furnished by Rosneft with respect to ownership, production, current costs of operation and development, current prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. A field examination of the properties was not considered necessary for the purposes of this report.

CLASSIFICATION of RESERVES

Petroleum reserves included in this report are classified by degree of proof as proved, probable, or possible. Proved reserves are judged to be economically producible in future years from known reservoirs under existing economic and operating conditions and assuming continuation of current regulatory practices using conventional production methods and equipment. In the analyses of production-decline curves, reserves were estimated only to the limit of economic rates of production under existing economic and operating conditions using prices and costs as of the date the estimate is made, including consideration of changes in existing prices provided only by contractual arrangements but not including escalations based upon future conditions. The petroleum reserves are classified as follows:

Proved—Reserves that have been proved to a high degree of certainty by analysis of the producing history of a reservoir and/or by volumetric analysis of adequate geological and engineering data. Commercial productivity has been established by actual production, successful testing, or in certain cases by favorable core analyses and electrical-log interpretation when the producing characteristics of the formation are known from nearby fields. Volumetrically, the structure, areal extent, volume, and characteristics of the reservoir are well defined by a reasonable interpretation of adequate subsurface well control and by known continuity of hydrocarbon-saturated material above known fluid contacts, if any, or above the lowest known structural occurrence of hydrocarbons.

Developed—Reserves that are recoverable from existing wells with current operating methods and expenses.

Developed reserves include both producing and nonproducing reserves. Estimates of producing reserves assume recovery by existing wells producing from present completion intervals with normal operating methods and expenses. Developed nonproducing reserves are in reservoirs behind the casing or at minor depths below the producing zone and are considered proved by production from other wells in the field, by successful drill-stem tests, or by core analyses from the particular zones.

Nonproducing reserves require only moderate expense to be brought into production.

Undeveloped—Reserves that are recoverable from additional wells yet to be drilled.

Undeveloped reserves are those considered proved for production by reasonable geological interpretation of adequate subsurface control in reservoirs that are producing or proved by other wells but are not recoverable from existing wells. This classification of reserves requires drilling of additional wells, major deepening of existing wells, or installation of enhanced recovery or other facilities.

Reserves recoverable by enhanced recovery methods, such as injection of external fluids to provide energy not inherent in the reservoirs, may be classified as proved developed or proved undeveloped reserves depending upon the extent to which such enhanced recovery methods are in operation. These reserves are considered to be proved only in cases where a successful fluid-injection program is in operation, a pilot program indicates successful fluid injection, or information is available concerning the successful application of such methods in the same reservoir and it is reasonably certain that the program will be implemented.

Probable—Reserves susceptible of being proved that are based on reasonable evidence of producible hydrocarbons within the limits of a structure or reservoir above known or inferred fluid contacts but are defined to a lesser degree of certainty because of more limited well control and/or the lack of definitive production tests. Probable reserves may include extensions of proved reservoirs or other reservoirs that have not been tested at commercial rates of flow or reserves recoverable by enhanced recovery methods that have not yet been tested in the same reservoir or where there is reasonable uncertainty that the program will be implemented.

Possible—Reserves that may exist but are less well defined by well control than probable reserves. Possible reserves include those based largely on log interpretation and other evidence of hydrocarbon saturation in zones behind the pipe in existing wells, possible extensions to proved and probable reserves areas where indicated by geophysical or geological studies, and those to be recovered by enhanced recovery methods where the data are insufficient to classify the reserves as proved or probable.

The extent to which probable and possible reserves ultimately may be reclassified as proved reserves is dependent upon future drilling, testing, and well performance. The degree of risk to be applied in evaluating probable and possible reserves is influenced by economic and technological factors as well as the time element. Probable and possible reserves in this report have not been adjusted in consideration of these additional risks and therefore are not comparable with proved reserves.

ESTIMATION of RESERVES

Estimates of reserves were prepared by the use of standard geological and engineering methods generally accepted by the petroleum industry and in accordance with definitions consistent with those established by the SPE and the WPC. The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data, and production history.

When applicable, the volumetric method was used to estimate the original oil in place (OOIP) and original gas in place (OGIP). Structure maps were prepared to delineate each reservoir and isopach maps were constructed to estimate reservoir volume. Electrical logs, radioactivity logs, core analyses, and other available data were used to prepare these maps as well as to estimate representative values for porosity and water saturation. When adequate data were available and when circumstances justified, material-balance and other engineering methods were used to estimate OOIP or OGIP.

Estimates of ultimate recovery were obtained after applying recovery factors to OOIP or OGIP. These recovery factors were based on consideration of the type of energy inherent in the reservoirs, analyses of the petroleum, the structural positions of the properties, and the production histories. When applicable, material-balance and other engineering methods were used to estimate recovery factors. In such cases, an analysis of reservoir performance, including production rate, reservoir pressure, and gas-oil ratio behavior, was used in the estimation of reserves.

For depletion-type reservoirs or those whose performance disclosed a reliable decline in producing-rate trends or other diagnostic characteristics, reserves were estimated by the application of appropriate decline curves or other performance relationships. In the analyses of production-decline curves, reserves were estimated only to the limits of economic production based on current economic conditions.

In certain cases, when the previously named methods could not be used, reserves were estimated by analogy with similar wells or reservoirs for which more complete data were available.

Data available from wells drilled through December 31, 2005, have been used to prepare the estimates shown herein. Gross production through December 2005 was deducted from the gross ultimate recovery to determine the estimated gross reserves. Estimates of prices, as of December 31, 2005, were used in calculations to estimate the entitlement reserves for properties in the Sakhalin-1 PSA only to the limits of economic production.

Gas reserves estimated herein are reported as sales-gas volumes. Sales gas is defined as the total volume of gas to be produced from the reservoirs, measured at the point of delivery, after reduction for field separation, usage, and losses. Sales gas is made up of associated gas, including gas-cap and solution gas, from certain oil fields and nonassociated gas from certain gas reservoirs. Gas reserves estimated herein are expressed at a temperature base of 20 degrees Centigrade (°C) and a pressure base of 1 atmosphere. Estimates of gas reserves are expressed in millions of cubic feet (10^6ft^3) and in millions of cubic meters (10^6m^3).

Oil and condensate reserves estimated are to be recovered by normal separation in the field. Estimates of oil and condensate are expressed in thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt). In these estimates, 1 barrel equals 42 U.S. gallons.

Major Proiects

Included in this report is the evaluation of certain major projects currently being developed or planned to be developed by Rosneft. A brief description of these major projects follows.

Sakhalin-1

The Sakhalin-1 project area is located offshore eastern Russia, approximately 10 kilometers off the eastern coast of Sakhalin-lsland in approximately 15 meters of water. The project consists of multiple oil and gas reservoirs in the Chayvo, Odoptu, and Arkutun-Dagi fields.

The project is operated by Exxon Neftegaz Limited (the Operator) on behalf of the Sakhalin-1 Consortium.

The Operator has provided information on the current development plan for the Sakhalin-1 project, and this development plan has been used as the basis for the projection of future reserves, revenue, and costs included in this report for the Sakhalin-1 project. The development plan supplied by the Operator includes a series of development phases, whereby each field is scheduled for development over time.

Development of certain reservoirs in the Chayvo field under Phase 1 is currently underway and as of year-end 2005, nine extended-reach deviated wells had been drilled from the shore into the target reservoirs of the Chayvo field. First oil production began in October 2005.

The Sakhalin-1 project area will require considerable capital and other costs in order to fully develop the reserves of all of the reservoirs within the project area. Beyond the Phase 1 development plan, the exact timing and project costs are uncertain and will most likely change from the currently anticipated schedule as Phases 2 through 5 are implemented. In our estimates of the future production for the Sakhalin-1 project, however, we have incorporated the Operator's current development plan in the phased development of the Sakhalin-1 fields. We have adjusted the Operator's projected oil and gas producing rates as necessary to account for differences in reserves in the fields and reservoirs to be developed in each phase, and have adjusted the anticipated capital costs and operating expenses as appropriate for the anticipated level of production. Based on the operator's representation that development of the entire project area will proceed as currently planned, appropriate costs have been included for the planned development of each classification of reserves.

Vankorskoye Field

The Vankorskoye field is located in the Turukhansky district of the Krasnoyarsk region, Western Siberian basin of the Russian federation. The field is located about 430 kilometers northeast of the city of Urengoy. Nearby known oil accumulations include the Suzunskoye and Lodochnoye oil deposits, which are 40 kilometers to the north and 10 kilometers to the south, respectively, from the Vankorskoye field. The area is accessible for cargo deliveries by the Yenisey River during the spring period and by winter roads.

The Vankorskoye field covers approximately 264 square kilometers. ZAO Vankorneft and LLC Taymirneft hold licenses to different portions of the Vankorskoye field. Rosneft owns 99.99 percent of ZAO Vankorneft and 60 percent of LLC Taymirneft. The majority of the estimated reserves are in the southern portion of the field owned by ZAO Vankorneft. The field was discovered in 1988. The main oil and gas targets are the Lower Cretaceous Nizhnekhetsky and Yakolevsky horizons, with additional potential in the Lower Cretaceous Sukhodudinsky oil horizon and the Upper Cretaceous Dolgansky gas horizon. To date, the field limits have been defined by more than 11 appraisal wells, with oil test rates of over 400 cubic meters per day (m^3/d) being observed in some wells.

Rosneft has represented that it is committed to full-field development with first oil production expected in 2008. Therefore, appropriate capital expenditures have been included to develop and produce the reserves of the field. These capital costs include drilling and facilities costs, amounting to U.S.$3.5 billion, which includes drilling costs associated with the estimated 278 proved, 102 probable, and 16 possible well locations. Based on cost information provided by Rosneft, U.S.$1.7 billion will be required to develop the proved reserves of the field. Rosneft plans to transport production from the Vankorskoye field to the sales point via the Vankor-Pur-Pe, Pur-Pe-Thayshet, and Thayshet-Nakhodka pipelines. The Pur-Pe-Thayshet pipeline currently exists and is owned by OAO AK Transneft. OAO AK Transneft has also begun construction of the Thayshet-Nakhodka pipeline. Rosneft plans to construct the Vankor-Pur-Pe pipeline in conjunction with the Vankorskoye field development. The economic evaluation of the Vankorskoye field does not include any capital costs associated with the construction or maintenance of these pipelines. In lieu of these capital costs, the economic evaluation includes a U.S.$64.40 per metric ton pipeline tarriff to use this transportation option.

Verkhnechonskoye Field (Verkhnechonskneftegaz)

The Verkhnechonskoye license area is located in the Katanga area of the Irktusk region, Eastern Siberian basin of the Russian federation. Nearby known oil and gas-condensate accumulations include the Talakan oil deposit and the Kovykta gas-condensate deposit, which are 100 kilometers and 700 kilometers, respectively from the Verkhnechonskoye license area. The area is only accessible by helicopter or winter roads.

The Verkhnechonskoye license area covers approximately 1,500 square kilometers and the license is valid until 2017. The field was discovered in 1978. The main oil and gas-condensate target is the Upper Chona horizon, with lesser oil and gas-condensate potential in the Prieobrazhensky and Ossinsky horizons. To date, the field limits have been defined by over 60 appraisal wells exhibiting oil rates over 100 m^3/d in numerous wells. The operator of the project, Verkhnechonskneftegaz, embarked on a pilot development program in 2005. The objective of the pilot program is to evaluate the uncertainties in the reservoir characteristics and productive performance of the Verkhnechonskoye accumulation prior to committing to major capital expenditures associated with full-field development and export pipeline construction. Rosneft has represented that it is committed to full-field development regardless of the pilot development results and will sole source the full-field development in the event that the other shareholders decline to proceed.

Therefore, appropriate capital expenditures have been included to develop and produce the reserves of the field. These capital costs include drilling and facility costs totaling U.S.$3.0 billion which includes drilling and facility costs associated with the estimated 730 proved, 97 probable and 97 possible well locations. Based on cost information provided by Rosneft, U.S.$1.9 will be required to develop the proved reserves of the field.

The economic evaluation of the Verkhnechonskoye field does not include any capital costs associated with the construction of the main export pipeline currently planned to connect the field to eastern Asia. Rosneft has indicated that construction of the main pipeline will be funded independent of the development of the Verkhne Chonskoye field. A pipeline tariff of U.S.$7.4 per barrel, as specifiied by Rosneft, has been included in the economic evaluations of this field.

North Komsomolsk Field (Purneftegaz)

The North Komsomolsk field currently produces gas and condensate. However, the PK1 reservoir contains substantial volumes of heavy and viscous oil. Rosneft plans to develop this reservoir within the next 6 years by drilling a large number of wells throughout the field, installing a separate pipeline for the heavy oil, and increasing production up to a peak of at least 8,000 metric tons per day. Well production rates will be enhanced by heated fluid injection, solvent treatment with produced condensate, and other methods to overcome the natural low productivity of the wells.

Maior Gas Sales (Purneftegaz, Selkupneftegaz, and Yuganskneftegaz)

Rosneft represented it is currently in the final stages of negotiation with OAO Gazprom (Gazprom) to define the terms of a long-term gas sales agreement between Rosneft and Gazprom. The proposed plan calls for gas sales from Purneftegaz and Selkupneftegaz ramping up from 2 10^9m^3 per year in 2007 to 21 10^9m^3 per year in 2012. Rosneft has confirmed that sales beyond 2012 will not be less than 21 10^9m^3 per year.

In order to meet the planned gas demand, Rosneft will develop the PK1, Turonian, and Jurassic gas reservoirs in certain fields. Additionally, Rosneft will add the compression and transportation systems required to more fully utilize their associated gas production. Rosneft has also represented that Gazprom will expand pipelines in the area as appropriate to handle the ten-fold increase in volume.

In addition to the developments in the Purneftegaz and Selkupneftegaz subsidiaries, Rosneft plans to increase gas utilization from the Yuganskneftegaz subsidiary by adding sufficient surface facilities to allow sales of 95 percent of the associated gas production from the fields in that subsidiary by 2010. Gas sales from the Yuganskneftegaz subsidiary is in addition to the 21 10^9m^3 sales gas per year referenced above.

The estimation of the proved, probable and possible gas reserves and the associated revenues from the sale of those gas reserves reported herein is based on the aforementioned provisions.

VALUATION of RESERVES

Revenue values in this report were estimated using initial prices and costs provided by Rosneft. The prices used in this report have been reviewed by Rosneft, which has represented that the prices are those that Rosneft received on December 31, 2005, or anticipate to receive based on current negotiations. Values presented herein were estimated in US. dollars (US.$) using the December 31, 2005 Central Moscow Bank exchange rate of R28.7825 per U.S.$1.00. In this report, values for proved, proved-plus-probable and proved-plus-probable-plus-possible reserves are based on projections of estimated future production and revenue prepared for these properties with no risk adjustment applied to the probable or possible reserves. Probable and possible reserves involve substantially higher risk than proved reserves. Revenue values for probable and possible reserves have not been adjusted to account for such risks; this adjustment would be necessary in order to make probable or possible reserves values comparable with values for proved reserves. The following assumptions were supplied by Rosneft and used for estimating future prices and costs in this report.

Prices—Sales prices of oil, condensate, and gas were based on December 2005 information provided by Rosneft and are presented in Table 2.

Expenses and Costs—Current expenses and costs and forecasts provided by Rosneft were used in estimating future values required to operate the fields. In certain cases, future values, either higher or lower than current values, were used because of anticipated changes in operating conditions, but no general escalation that might result from inflation was applied.

Operating Expenses

Operating expenses consist of fixed and variable components that are projected to facilitate production and sale of the estimated reserves.

Capital Costs

Capital costs for drilling wells, facilities, and other significant development programs in the fields evaluated were based on actual area historical costs and forecasted costs from Rosneft.

Transportation Costs

Transportation costs for sales of crude oil, condensate, and gas were provided by Rosneft and are presented in Table 2.

Depreciation

Future capital expenditures were amortized over a period from 5 to 16 years, depending on the type of capital expenditures. Depreciation was applied from the first year of the expenditure.

Abandonment Costs

Abandonment costs were provided by Rosneft.

Fiscal Terms—A continuation of all regulatory practices in place, or approved, as of December 31, 2005, was maintained in this analysis. Although most fields developed in Russia are done so under concessionary terms, the Sakhalin-1 project has been approved to be developed under a PSA. A separate discussion of the major components of each fiscal regime follows:

Concessionary Agreements

Russian concessionary terms were used in the evaluation of all the fields for Dagneft, Dagneftegaz, Chechnya, Krasnodarneftegaz, Polar Light, Purneftegaz, Sakhalinmorneftegaz, Selkupneftegaz, Severnaya Neft, Stavropolneftegaz, Vankorskoye field, Verhnechonskneftegaz, and Yuganskneftegaz. The most prominent taxes are discussed as follows:

Value-Added Tax (VAT)

VAT was estimated using a rate of 18 percent applied to the sales price for oil and condensate and gas sold domestically.

Asset Tax

Asset taxes were estimated annually using a rate of 2.2 percent applied to the undepreciated book value of the properties.

Social Obligation Tax

Social obligation taxes were estimated using a rate between 13 and 26 percent, depending on the subsidiary, applied to labor costs.

Production Tax

The production tax was estimated for oil, condensate, and nonassociated gas as follows:

Oil—For 2006, the oil production tax was estimated using a reference rate of R419 per metric ton with an adjustment for the market price of oil. After 2006, oil production tax was estimated using a rate of 16.5 percent applied to the future gross revenue from oil sales less transportation costs.

Condensate—The condensate production tax was estimated using a rate of 17.5 percent applied to the future gross revenue from condensate sales less transportation costs.

Gas—The gas production tax was applied only to the nonassociated sales gas at a reference rate at R147 per thousand cubic meters.

Profit Tax

Local tax on profit was estimated using a rate of 24 percent applied to taxable income. Taxable income was calculated by deducting taxes, transportation, operating expenses, and depreciation from future gross revenue.

PSA Terms

Presented as follows are the main PSA terms that were applied to the evaluation of the Sakhalin-1 project.

Royalty

Royalty for the Sakhalin-1 project was calculated as 8 percent of the gross revenue. Royalty is paid in-kind and thus reduces Rosneft's entitlement.

Revenue Available for Sharing

The revenue available for sharing is the total project future gross revenue less the royalty.

Cost Recovery

Operating expenses, capital costs, and abandonment costs are fully recoverable from a percentage of gross revenue less royalty. The maximum cost recovery limit for the Sakhalin-1 project is 85 percent. Revenue allocated for cost recovery, which is in excess of the recoverable costs, is divided between the nongovernmental participants (or collectively, the contractor) and the government in the same proportion as the profit share.

Profit Share

Profit share is defined as gross revenue less royalty less cost recovery. The contractor's portion of profit share varies with the real rate of return (RROR) of the project as follows.

RROR	Contractor's Profit Share (Percent)
Less than 17.5 percent	85
Greater than or equal to 17.5 percent and less than 28 percent	50
Greater than or equal to 28 percent	30

Profit Taxes

A 35-percent profit tax is based on the contractor's taxable income, which is the contractor's profit share less certain expenses not eligible for cost recovery.

SUMMARY and CONCLUSIONS

Rosneft owns interests in certain fields located in the Russian Federation through its Dagneft, Dagneftegaz, Krasnodarneftegaz, Polar Light, Purneftegaz, Sakhalinmorneftegaz, Selkupneftegaz, Severnaya Neft, Stavropolneftegaz, Vankorskoye field, Verkhnechonskneftegaz, and Yuganskneftegaz subsidiary enterprises, through its direct ownership of fields in the Chechen Republic, and through its participation in the Sakhalin-1 project. The estimated reserves and associated values are reported herein at 100 percent for those subsidiaries of which Rosneft has majority control, either through direct ownership or through voting rights. The estimated Rosneft net total proved, probable, and possible oil, condensate, and gas reserves, as of December 31, 2005, have been estimated in accordance with definitions consistent with those established by the SPE and the WPC and are summarized as follows, expressed in English and metric units. Oil and condensate volumes are expressed in thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt). Gas volumes are expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3):

		Rosneft Net Reserves			
		English Units		Metric Units	
Subsidiary	Reserves Classification	Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)
Dagneft[1]	Proved Developed	14,488	0	1,904	0
	Proved Undeveloped	0	0	0	0
	Total Proved	**14,488**	**0**	**1,904**	**0**
	Probable	3,964	0	520	0
	Possible	3,561	0	476	0
Dagneftegaz[2]	Proved Developed	3,128	226,371	417	6,410
	Proved Undeveloped	0	0	0	0
	Total Proved	**3,128**	**226,371**	**417**	**6,410**
	Probable	1,225	81,836	162	2,318
	Possible	2,069	120,878	277	3,423
Chechnya[3]	Proved Developed	161,424	153,351	21,210	4,343
	Proved Undeveloped	0	0	0	0
	Total Proved	**161,424**	**153,351**	**21,210**	**4,343**
	Probable	54,777	52,961	7,195	1,501
	Possible	138,335	131,850	18,165	3,730
Krasnodarneftegaz[4]	Proved Developed	93,165	1,195,751	12,865	33,859
	Proved Undeveloped	33	39,090	4	1,107
	Total Proved	**93,198**	**1,234,841**	**12,869**	**34,966**
	Probable	38,288	282,886	5,260	8,008
	Possible	85,502	453,983	11,786	12,858

Subsidiary	Reserves Classification	Rosneft Net Reserves — English Units — Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)	Metric Units — Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)
Polar Light(5)	Proved Developed	17,271	0	2,345	0
	Proved Undeveloped	1,857	0	252	0
	Total Proved	**19,128**	**0**	**2,597**	**0**
	Probable	10,918	0	1,490	0
	Possible	12,335	0	1,685	0
Purneftegaz(6)	Proved Developed	1,229,552	2,855,975	168,165	80,872
	Proved Undeveloped	627,074	14,899,636	86,949	421,913
	Total Proved	**1,856,626**	**17,755,611**	**255,114**	**502,785**
	Probable	1,394,764	10,480,886	192,335	296,788
	Possible	2,046,717	10,261,002	283,174	290,559
Sakhalin-1(7)	Proved Developed	15,144	73,352	2,044	2,077
	Proved Undeveloped	0	0	0	0
	Total Proved	**15,144**	**73,352**	**2,044**	**2,077**
	Probable	238,136	1,723,781	32,144	48,812
	Possible	148,014	472,650	19,979	13,384
Sakhalinmorneftegaz(8)	Proved Developed	103,539	253,917	14,356	7,191
	Proved Undeveloped	19,028	24,915	2,541	705
	Total Proved	**122,567**	**278,832**	**16,897**	**7,896**
	Probable	73,714	121,218	10,057	3,431
	Possible	67,302	204,949	9,362	5,804
Selkupneftegaz(9)	Proved Developed	47,212	283,454	5,250	8,027
	Proved Undeveloped	68,941	1,488,370	8,292	42,147
	Total Proved	**116,153**	**1,771,824**	**13,542**	**50,174**
	Probable	109,435	1,602,852	14,415	45,387
	Possible	259,684	2,825,961	32,947	80,022
Severnaya Neft(10)	Proved Developed	161,507	0	21,919	0
	Proved Undeveloped	292,284	0	40,102	0
	Total Proved	**453,791**	**0**	**62,021**	**0**
	Probable	218,061	0	29,986	0
	Possible	279,682	0	38,158	0
Stavropolneftegaz(11)	Proved Developed	69,804	16,544	9,234	467
	Proved Undeveloped	0	0	0	0
	Total Proved	**69,804**	**16,544**	**9,234**	**467**
	Probable	23,381	5,986	3,088	170
	Possible	52,674	11,659	6,981	329
Vankorskoye Field(12)	Proved Developed	0	0	0	0
	Proved Undeveloped	945,896	0	135,454	0
	Total Proved	**945,896**	**0**	**135,454**	**0**
	Probable	956,866	0	133,398	0
	Possible	394,775	0	54,984	0
Verkhnechonskneftegaz(13)	Proved Developed	0	0	0	0
	Proved Undeveloped	81,785	0	11,063	0
	Total Proved	**81,785**	**0**	**11,063**	**0**
	Probable	130,735	0	17,684	0
	Possible	152,383	0	20,612	0

Subsidiary	Reserves Classification	Rosneft Net Reserves: English Units: Oil and Condensate (10^3bbl)	Rosneft Net Reserves: English Units: Sales Gas (10^6ft^3)	Rosneft Net Reserves: Metric Units: Oil and Condensate (10^3mt)	Rosneft Net Reserves: Metric Units: Sales Gas (10^6m^3)
Yuganskneftegaz[14]	Proved Developed	5,651,459	678,979	778,974	19,222
	Proved Undeveloped	5,272,748	2,195,912	723,617	62,181
	Total Proved	**10,924,207**	**2,874,891**	**1,502,591**	**81,403**
	Probable	5,050,413	1,338,998	695,196	37,921
	Possible	3,576,356	868,430	488,449	24,589
	Total				
	Proved Developed	**7,567,693**	**5,737,694**	**1,038,683**	**162,468**
	Proved Undeveloped	**7,309,646**	**18,647,923**	**1,008,274**	**528,053**
	Total Proved	**14,877,339**	**24,385,617**	**2,046,957**	**690,521**
	Probable	**8,304,677**	**15,691,404**	**1,142,930**	**444,336**
	Possible	**7,219,389**	**15,351,362**	**987,035**	**434,698**

(1) Includes those reserves attributable to the 31.30 percent interest in Dagneft not owned by Rosneft.

(2) Includes those reserves attributable to the 18.78 percent interest in Dagneftegaz not owned by Rosneft.

(3) Represents Rosneft's 100 percent ownership of the fields in the Chechen Republic.

(4) Includes those reserves attributable to the 4.54 percent interest in Krasnodarneftegaz not owned by Rosneft.

(5) Represents Rosneft's 50 percent ownership in Polar Light.

(6) Includes those reserves attributable to the 16.91 percent interest in Purneftegaz not owned by Rosneft.

(7) Rosneft's share of the contractor's entitlement in Sakhalin-1, reported herein as 20 percent, represents Rosneft's direct ownership of 8.5 percent plus a consolidation of the 11.5 percent of Sakhalin-1 owned by Sakhalinmoreneftegaz, which includes the 35.38 percent of Sakhalinmoreneftegaz not owned by Rosneft.

(8) Includes those reserves attributable to the 35.38 percent interest in Sakhalinmorneftegaz not owned by Rosneft.

(9) Represents Rosneft's 100 percent ownership of Selkupneftegaz.

(10) Represents Rosneft's 100 percent ownership of Severnaya Neft.

(11) Includes those reserves attributable to the 24.82 percent interest in Stavropolneftegaz not owned by Rosneft.

(12) Includes those reserves attributable to the 40-percent interest in the northern portion of the field and the 0.01-percent interest in the southern portion of the field not owned by Rosneft. The oil and condensate reserves not owned by Rosneft include 9,609 10^3mt proved, 8,826 10^3mt probable, and 3,824 10^3mt possible.

(13) Represents Rosneft's 25.94 percent ownership of Verhnechonskneftegaz.

(14) Includes those reserves attributable to the 23.21 percent interest in Yuganskneftegaz not owned by Rosneft.

The Rosneft future net revenue and Rosneft present worth to be derived from the production and sale of the estimated total proved, proved-plus-probable, and proved-plus-probable-plus-possible Rosneft net reserves, as of December 31, 2005, under the aforementioned assumptions concerning future prices and costs are summarized as follows, expressed in thousands of U.S. dollars (10^3U.S.$):

Subsidiary	Reserves Classification	Rosneft Future Net Revenue (10^3U.S.$)	Rosneft Present Worth at 10 Percent (10^3U.S.$)
Dagneft[1]	Proved Developed	111,980	59,697
	Proved Undeveloped	0	0
	Total Proved	**111,980**	**59,697**
	Proved plus Probable	144,008	70,255
	Proved plus Probable plus Possible	176,071	81,847
Dagneftegaz[2]	Proved Developed	104,667	55,310
	Proved Undeveloped	0	0
	Total Proved	**104,667**	**55,310**
	Proved plus Probable	143,954	66,878
	Proved plus Probable plus Possible	202,323	78,758

Subsidiary	Reserves Classification	Rosneft Future Net Revenue (10^3U.S.$)	Rosneft Present Worth at 10 Percent (10^3U.S.$)
Chechnya[3]	Proved Developed	1,883,289	1,067,584
	Proved Undeveloped	0	0
	Total Proved	**1,883,289**	**1,067,584**
	Proved plus Probable	2,606,917	1,294,730
	Proved plus Probable plus Possible	4,401,221	1,631,014
Krasnodarneftegaz[4]	Proved Developed	1,594,740	912,958
	Proved Undeveloped	23,022	6,938
	Total Proved	**1,617,762**	**919,896**
	Proved plus Probable	2,152,404	1,054,240
	Proved plus Probable plus Possible	3,614,736	1,336,254
Polar Light[5]	Proved Developed	165,813	126,059
	Proved Undeveloped	13,054	7,902
	Total Proved	**178,867**	**133,961**
	Proved plus Probable	282,262	187,826
	Proved plus Probable plus Possible	411,898	246,296
Purneftegaz[6]	Proved Developed	17,694,884	6,049,184
	Proved Undeveloped	28,881,414	4,711,078
	Total Proved	**46,576,298**	**10,760,262**
	Proved plus Probable	73,987,460	13,540,214
	Proved plus Probable plus Possible	109,251,113	15,516,677
Sakhalin-1[7]	Proved Developed	550,397	414,787
	Proved Undeveloped	0	0
	Total Proved	**550,397**	**414,787**
	Proved plus Probable	9,668,106	3,190,990
	Proved plus Probable plus Possible	15,074,657	3,693,087
Sakhalinmorneftegaz[8]	Proved Developed	1,427,635	858,779
	Proved Undeveloped	298,923	167,692
	Total Proved	**1,726,558**	**1,026,471**
	Proved plus Probable	2,733,623	1,425,112
	Proved plus Probable plus Possible	3,759,265	1,721,416
Selkupneftegaz[9]	Proved Developed	478,454	262,703
	Proved Undeveloped	2,041,967	58,083
	Total Proved	**2,520,421**	**320,786**
	Proved plus Probable	5,365,774	525,606
	Proved plus Probable plus Possible	11,275,387	1,044,567
Severnaya Neft[10]	Proved Developed	1,500,333	1,128,176
	Proved Undeveloped	2,509,559	988,325
	Total Proved	**4,009,892**	**2,116,501**
	Proved plus Probable	6,043,983	2,471,067
	Proved plus Probable plus Possible	8,645,928	2,859,326
Stavropolneftegaz[11]	Proved Developed	895,261	512,730
	Proved Undeveloped	0	0
	Total Proved	**895,261**	**512,730**
	Proved plus Probable	1,176,083	592,243
	Proved plus Probable plus Possible	1,825,864	676,262

Subsidiary	Reserves Classification	Rosneft Future Net Revenue (10^3U.S.$)	Rosneft Present Worth at 10 Percent (10^3U.S.$)
Vankorskoye Field(12)	Proved Developed	(1,258)	(1,192)
	Proved Undeveloped	11,573,575	4,004,212
	Total Proved	**11,572,317**	**4,003,020**
	Proved plus Probable	23,645,419	7,619,952
	Proved plus Probable plus Possible	29,250,759	9,340,086
Verhnechonskneftegaz(13)	Proved Developed	0	0
	Proved Undeveloped	585,940	100,809
	Total Proved	**585,940**	**100,809**
	Proved plus Probable	1,965,111	315,175
	Proved plus Probable plus Possible	3,772,476	558,129
Yuganskneftegaz(14)	Proved Developed	71,106,814	24,857,538
	Proved Undeveloped	74,922,788	24,547,251
	Total Proved	**146,029,602**	**49,404,789**
	Proved plus Probable	204,868,934	55,771,078
	Proved plus Probable plus Possible	231,864,469	57,721,449
	Total		
	Proved Developed	**97,513,009**	**36,304,313**
	Proved Undeveloped	**120,850,242**	**34,592,290**
	Total Proved	**218,363,251**	**70,896,603**
	Proved plus Probable	**334,784,038**	**88,125,366**
	Proved plus Probable plus Possible	**423,526,167**	**96,505,168**

(1) Includes future net revenue and present worth attributable to the 31.30 percent interest in Dagneft not owned by Rosneft.

(2) Includes future net revenue and present worth attributable to the 18.78 percent interest in Dagneftegaz not owned by Rosneft.

(3) Represents Rosneft's 100 percent ownership of the fields in the Chechen Republic.

(4) Includes future net revenue and present worth attributable to the 4.54 percent interest in Krasnodarneftegaz not owned by Rosneft.

(5) Represents Rosneft's 50 percent ownership of the fields in Polar Light.

(6) Includes future net revenue and present worth attributable to the 16.91 percent interest in Purneftegaz not owned by Rosneft.

(7) Rosneft's share of the contractor's entitlement in Sakhalin-1, reported herein as 20 percent, represents Rosneft's direct ownership of 8.5 percent plus a consolidation of the 11.5 percent of Sakhalin-1 owned by Sakhalinmoreneftegaz, which includes the 35.38 percent of Sakhalinmoreneftegaz not owned by Rosneft.

(8) Includes future net revenue and present worth attributable to the 35.38 percent interest in Sakhalinmorneftegaz not owned by Rosneft.

(9) Represents Rosneft's 100 percent ownership of Selkupneftegaz.

(10) Represents Rosneft's 100 percent ownership of Severnaya Neft.

(11) Includes future net revenue and present worth attributable to the 24.82 percent interest in Stavropolneftegaz not owned by Rosneft.

(12) Includes future net revenue and present worth attributable to the 40-percent interest in the northern portion of the field and the 0.01-percent interest in the southern portion of the field not owned by Rosneft.

(13) Represents Rosneft's 25.94 percent ownership of Verhnechonskneftegaz.

(14) Includes future net revenue and present worth attributable to the 23.21 percent interest in Yuganskneftegaz not owned by Rosneft.

Gas reserves estimated herein are sales gas volumes expressed at a temperature base of 20 °C and a pressure base of 1 atmosphere.

The separately bound appendices which accompany this report contain tables summarizing Rosneft's reserves and revenue by subsidiary enterprise.

Submitted,

/s/ DeGolyer and MacNaughton

DeGOLYER and MacNAUGHTON

SIGNED: May 17, 2006

[STATE OF TEXAS SEAL] /s/ Thomas A. Schob, P.E.

Thomas A. Schob, P.E.
Senior Vice President
DeGolyer and MacNaughton

TABLE 1
ROSNEFT HOLDINGS EVALUATED
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

Rosneft Subsidiaries	Rosneft Ownership (%)	Reported Net Interest (%)
Dagneft	68.70	100.00
Dagneftegaz	81.22	100.00
Chechnya	100.00	100.00
Krasnodarneftegaz	95.46	100.00
Polar Light	50.00	50.00
Purneftegaz	83.09	100.00
Sakhalin-1	15.93	20.00
Sakhalinmorneftegaz	64.62	100.00
Selkupneftegaz	100.00	100.00
Severnaya Neft	100.00	100.00
Stavropolneftegaz	75.18	100.00
Vankorskoye Field		100.00
Verhnechonskneftegaz	25.94	25.94
Yuganskneftegaz	76.79	100.00

Notes:

1. Rosneft has represented that it controls the management of the Rosneft Holdings listed above, except for Polar Light, Verhnechonskneftegaz and Sakhalin-1. For those Rosneft Holdings controlled by Rosneft, 100 percent of the reserves associated with the subsidiary enterprise are reported here in as Rosneft Net Reserves. Rosneft future net revenue and Rosneft present worth are attributed to Rosneft Net Reserves.

2. Rosneft's share of the contractor's entitlement in Sakhalin-1, reported herein as 20 percent, represents Rosneft's direct ownership of 8.5 percent plus a consolidation of the 11.5 percent of Sakhalin-1 owned by Sakhalinmorneftegaz, which includes the 35.38 percent of Sakhalinmorneftegaz not owned by Rosneft.

3. Rosneft net reserves reported herein for Sakhalin-1 represent 20 percent of the contractor's entitlement which varies depending on the contractor's share of cost oil and profit oil.

4. ZAO Vankorneft and LLC Taymirneft hold licenses to different portions of the Vankorskoye field. Rosneft owns 99.99-percent of ZAO Vankorneft and 60-percent of LLC Taymirneft. The majority of the estimated reserves are in the southern portion of the field owned by ZAO Vankorneft. In this report, reserves and values for both license areas are reported at 100-percent for the entire field.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 2
ECONOMIC PARAMETERS
as of
DECEMBER 31, 2005
of
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

Exchange Rate, Ruble/U.S. $28.7825

Oil Sales Allocation	**Dagneft**		**Dagneftegaz**		**Chechnya**	
Far Abroad Export Market, %	100		0		90.1	
Near Abroad Export Market, %	0		0		0.0	
Domestic Market, %	0		100		9.9	
Far Abroad Export Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	10,662	370.43	0	0.00	11,491	399.24
Less						
Export Tariff	4,758	165.31	0	0.00	4,758	165.31
Subtotal Price	5,904	205.12	0	0.00	6,733	233.93
Transportation	1,060	36.83	0	0.00	436	15.15
Net Export Oil Price	4,844	168.30	0	0.00	6,297	218.78
Near Abroad Export Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0.00	0	0.00	0	0.00
Less						
VAT	0	0.00	0	0.00	0	0.00
Export Tariff	0	0.00	0	0.00	0	0.00
Subtotal Price	0	0.00	0	0.00	0	0.00
Transportation	0	0.00	0	0.00	0	0.00
Net Export Oil Price	0	0.00	0	0.00	0	0.00
Domestic Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0.00	4,321	150.13	6,443	223.85
Less						
VAT	0	0.00	659	22.90	983	34.15
Subtotal Price	0	0.00	3,662	127.23	5,460	189.70
Transportation	0	0.00	0	0.00	475	16.50
Net Domestic Oil Price	0	0.00	3,662	127.23	4,985	173.20
Condensate Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0	4,321	150.13	0	0.00
Less						
VAT or Export Tariff	0	0	659	22.90	0	0.00
Subtotal Condensate Price	0	0	3,662	127.23	0	0.00
Transportation	0	0	0	0.00	0	0.00
Net Condensate Price	0	0	3,662	127.23	0	0.00
Gas Price	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**
Contract Price	767	26.65	767	26.65	207	7.19
Less						
VAT	117	4.06	117	4.06	32	1.11
Net Gas Price	650	22.58	650	22.58	175	6.08

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

Oil Sales Allocation	Krasnodarneftegaz	Polar Lights	Purneftegaz[1]
Far Abroad Export Market, %	45.9	47.6	63.5
Near Abroad Export Market, %	0.0	8.3	0.0
Domestic Market, %	54.1	44.1	36.5

Far Abroad Export Oil Price	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt
Contract Price	10,187	353.93	11,025	383.05	11,639	404.38
Less						
Export Tariff	4,758	165.31	4,758	165.31	4,758	165.31
Subtotal Price	5,429	188.62	6,267	217.74	6,881	239.07
Transportation	146	5.07	817	28.39	2,030	70.53
Net Export Oil Price	5,283	183.55	5,450	189.35	4,851	168.54

Near Abroad Export Oil Price	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt
Contract Price	0	0.00	5,896	204.85	0	0.00
Less						
VAT	0	0.00	0	0.00	0	0.00
Export Tariff	0	0.00	0	0.00	0	0.00
Subtotal Price	0	0.00	5,896	204.85	0	0.00
Transportation	0	0.00	817	28.39	0	0.00
Net Export Oil Price	0	0.00	5,079	176.46	0	0.00

Domestic Oil Price	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt
Contract Price	7,977	277.15	5,376	186.78	11,775	409.10
Less						
VAT	1,217	42.28	820	28.49	1,796	62.40
Subtotal Price	6,760	234.86	4,556	158.29	9,979	346.70
Transportation	1,651	57.36	220	7.64	2,936	102.01
Net Domestic Oil Price	5,109	177.50	4,336	150.65	7,043	244.70

Condensate Price	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt
Contract Price	0	0.00	0	0.00	11,361	394.72
Less						
VAT or Export Tariff	0	0.00	0	0.00	4,758	165.31
Subtotal Condensate Price	0	0.00	0	0.00	6,603	229.41
Transportation	0	0.00	0	0.00	2,288	79.49
Net Condensate Price	0	0.00	0	0.00	4,315	149.92

Gas Price	Ruble/10^3m^3	U.S.$/$10^3m^3$	Ruble/10^3m^3	U.S.$/$10^3m^3$	Ruble/10^3m^3	U.S.$/$10^3m^3$
Contract Price	1,186	41.21	0	0.00	353	12.26
Less						
VAT	181	6.29	0	0.00	54	1.88
Net Gas Price	1,005	34.92	0	0.00	299	10.39

Note 1 Gas price was escalated approximately 3.2% per year until 2025. In 2025 the contract price is 2,394 Rubles/10^3m^3.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

Oil Sales Allocation	Sakhalinmorneftegaz		Selkupneftegaz[1]		Severnaya Neft	
Far Abroad Export Market, %	43.7		63.5		75.4	
Near Abroad Export Market, %	0.0		0.0		24.3	
Domestic Market, %	56.3		36.5		0.3	
Far Abroad Export Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	11,183	388.53	11,639	404.38	10,855	377.15
Less						
Export Tariff	4,758	165.31	4,758	165.31	4,758	165.31
Subtotal Price	6,425	223.23	6,881	239.07	6,097	211.83
Transportation	550	19.11	2,030	70.53	1,632	56.72
Net Export Oil Price	5,875	204.12	4,851	168.54	4,465	155.12
Near Abroad Export Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0.00	0	0.00	6,548	227.50
Less						
VAT	0	0.00	0	0.00	0	0.00
Export Tariff	0	0.00	0	0.00	0	0.00
Subtotal Price	0	0.00	0	0.00	6,548	227.50
Transportation	0	0.00	0	0.00	1,727	60.00
Net Export Oil Price	0	0.00	0	0.00	4,821	167.50
Domestic Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	9,755	338.92	11,775	409.10	5,135	178.41
Less						
VAT	1,488	51.70	1,796	62.40	783	27.20
Subtotal Price	8,267	287.22	9,979	346.70	4,352	151.20
Transportation	1,953	67.85	2,936	102.01	0	0.00
Net Domestic Oil Price	6,314	219.37	7,043	244.70	4,352	151.20
Condensate Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price			11,361	394.72	0	0.00
Less						
VAT or Export Tariff			4,758	165.31	0	0.00
Subtotal Condensate Price			6,603	229.41	0	0.00
Transportation			2,288	79.49	0	0.00
Net Condensate Price			4,315	149.92	0	0.00
Gas Price	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**
Contract Price	802	27.86	353	12.26	0	0.00
Less						
VAT	122	4.25	54	1.88	0	0.00
Net Gas Price	680	23.61	299	10.39	0	0.00

Note 1 Gas price was escalated approximately 3.2% per year until 2025. In 2025 the contract price is 2,394 Rubles/10^3m^3.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

Oil Sales Allocation	Stavropolneftegaz		Vankorskoye Field		Verhnechonskneftegaz	
Far Abroad Export Market, %	0.0		100.0		100.0	
Near Abroad Export Market, %	0.0		0.0		0.0	
Domestic Market, %	100.0		0.0		0.0	
Far Abroad Export Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0.00	11,637	404.31	11,302	392.67
Less						
Export Tariff	0	0.00	4,758	165.31	4,758	165.31
Subtotal Price	0	0.00	6,879	239.00	6,544	227.36
Transportation	0	0.00	1,721	59.79	1,563	54.30
Net Export Oil Price	0	0.00	5,158	179.21	4,981	173.06
Near Abroad Export Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0.00	0	0.00	0	0.00
Less						
VAT	0	0.00	0	0.00	0	0.00
Export Tariff	0	0.00	0	0.00	0	0.00
Subtotal Price	0	0.00	0	0.00	0	0.00
Transportation	0	0.00	0	0.00	0	0.00
Net Export Oil Price	0	0.00	0	0.00	0	0.00
Domestic Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	11,702	406.57	0	0.00	0	0.00
Less						
VAT	1,785	62.02	0	0.00	0	0.00
Subtotal Price	9,917	344.55	0	0.00	0	0.00
Transportation	2,860	99.37	0	0.00	0	0.00
Net Domestic Oil Price	7,057	245.18	0	0.00	0	0.00
Condensate Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0.00	0	0.00	0	0.00
Less						
VAT or Export Tariff	0	0.00	0	0.00	0	0.00
Subtotal Condensate Price	0	0.00	0	0.00	0	0.00
Transportation	0	0.00	0	0.00	0	0.00
Net Condensate Price	0	0.00	0	0.00	0	0.00
Gas Price	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**
Contract Price	1,244	43.22	0	0.00	207	7.19
Less						
VAT	190	6.60	0	0.00	32	1.10
Net Gas Price	1,054	36.62	0	0.00	175	6.09

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

Oil Sales Allocation	Yuganskneftegaz[1]	
Far Abroad Export Market, %	58.40	
Near Abroad Export Market, %	10.20	
Domestic Market, %	31.40	

Far Abroad Export Oil Price	Ruble/mt	U.S.$/mt
Contract Price	10,687	371.31
Less		
Export Tariff	4,758	165.31
Subtotal Price	5,929	205.99
Transportation	849	29.50
Net Export Oil Price	5,080	176.50

Near Abroad Export Oil Price	Ruble/mt	U.S.$/mt
Contract Price	6,540	227.22
Less		
VAT	0	0.00
Export Tariff	0	0.00
Subtotal Price	6,540	227.22
Transportation	460	15.98
Net Export Oil Price	6,080	211.24

Domestic Oil Price	Ruble/mt	U.S.$/mt
Contract Price	10,656	370.22
Less		
VAT	1,625	56.46
Subtotal Price	9,031	313.77
Transportation	3,663	127.26
Net Domestic Oil Price	5,368	186.50

Condensate Price	Ruble/mt	U.S.$/mt
Contract Price	0	0.00
Less		
VAT or Export Tariff	0	0.00
Subtotal Condensate Price	0	0.00
Transportation	0	0.00
Net Condensate Price	0	0.00

Gas Price	Ruble/10^3m^3	U.S.$/$10^3m^3$
Contract Price	325	11.29
Less		
VAT	50	1.74
Net Gas Price	275	9.55

Note 1 Gas price was escalated approximately 3.2% per year until 2025. In 2025 the contract price is 2,394 Rubles/10^3m^3.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

Oil Sales Allocation	Sakhalin-1
Far Abroad Export Market, %	100.0
Near Abroad Export Market, %	0.0
Domestic Market, %	0.0

Far Abroad Export Oil Price	Ruble/mt	U.S.$/mt
Contract Price	11,374	395.17
Less		
Export Tariff	0	0.00
Subtotal Price	11,374	395.17
Transportation	316	10.98
Net Export Oil Price	11,058	384.19

Export Gas Price	Ruble/10^3m^3	U.S.$/$10^3m^3$
Contract Price	332	11.53
Less		
VAT	51	1.77
Subtotal Price	281	9.76
Tansportation	0	0.00
Net Export Gas Price	281	9.76

Net Domestic Gas Price	Ruble/10^3m^3	U.S.$/$10^3m^3$
2006	1,606	55.79
2007	1,697	58.95
2008	1,791	62.22

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 3
NET PROVED, PROBABLE, and POSSIBLE RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

Reserves Classification	English Units: Oil and Condensate (10^3bbl)	English Units: Sales Gas (10^6ft^3)	Metric Units: Oil and Condensate (10^3mt)	Metric Units: Sales Gas (10^6m^3)
Proved Developed Producing	7,313,488	5,703,987	1,003,319	161,516
Proved Developed Nonproducing	254,205	33,707	35,364	952
Proved Undeveloped	7,309,646	18,647,923	1,008,274	528,053
Total Proved	**14,877,339**	**24,385,617**	**2,046,957**	**690,521**
Probable	**8,304,677**	**15,691,404**	**1,142,930**	**444,336**
Possible	**7,219,389**	**15,351,362**	**987,035**	**434,698**

Note: Probable and possible reserves have not been adjusted for risk.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 4
NET RESERVES and REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

	English Units		Metric Units		Rosneft Net	
Reserves Classification	**Oil and Condensate (10^3bbl)**	**Sales Gas (10^6ft^3)**	**Oil and Condensate (10^3mt)**	**Sales Gas (106m^3)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
Proved Developed	7,567,693	5,737,694	1,038,683	162,468	97,513,009	36,304,313
Total Proved	14,877,339	24,385,617	2,046,957	690,521	218,363,251	70,896,603
Proved plus Probable	23,182,016	40,077,021	3,189,887	1,134,857	334,784,038	88,125,366
Proved plus Probable plus Possible	30,401,405	55,428,383	4,176,922	1,569,555	423,526,167	96,505,168

Note: There have been no adjustments to the extent and value of the probable or possible reserves to account for risk.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 5
NET OIL and CONDENSATE RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

Rosneft Holdings	Proved: Developed: Producing (10^3bbl)	Proved: Developed: Nonproducing (10^3bbl)	Proved: Undeveloped (10^3bbl)	Proved: Total (10^3bbl)	Probable (10^3bbl)	Possible (10^3bbl)
Dagneft	14,488	0	0	14,488	3,964	3,561
Dagneftegaz	3,128	0	0	3,128	1,225	2,069
Chechnya	161,424	0	0	161,424	54,777	138,335
Krasnodarneftegaz	93,165	0	33	93,198	38,288	85,502
Polar Light	17,158	113	1,857	19,128	10,918	12,335
Purneftegaz	1,228,090	1,462	627,074	1,856,626	1,394,764	2,046,717
Sakhalin-1	15,144	0	0	15,144	238,136	148,014
Sakhalinmorneftegaz	103,539	0	19,028	122,567	73,714	67,302
Selkupneftegaz	47,212	0	68,941	116,153	109,435	259,684
Severnaya Neft	159,789	1,718	292,284	453,791	218,061	279,682
Stavropolneftegaz	69,804	0	0	69,804	23,381	52,674
Vankorskoye Field	0	0	945,896	945,896	956,866	394,775
Verhnechonskneftegaz	0	0	81,785	81,785	130,735	152,383
Yuganskneftegaz	5,400,547	250,912	5,272,748	10,924,207	5,050,413	3,576,356
Total	**7,313,488**	**254,205**	**7,309,646**	**14,877,339**	**8,304,677**	**7,219,389**

Note: Probable and possible reserves have not been adjusted for risk.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 6
NET OIL and CONDENSATE RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

	Proved					
	Developed					
Rosneft Holdings	**Producing (10^3mt)**	**Nonproducing (10^3mt)**	**Undeveloped (10^3mt)**	**Total (10^3mt)**	**Probable (10^3mt)**	**Possible (10^3mt)**
Dagneft	1,904	0	0	1,904	520	476
Dagneftegaz	417	0	0	417	162	277
Chechnya	21,210	0	0	21,210	7,195	18,165
Krasnodarneftegaz	12,865	0	4	12,869	5,260	11,786
Polar Light	2,330	15	252	2,597	1,490	1,685
Purneftegaz	167,961	204	86,949	255,114	192,335	283,174
Sakhalin-1	2,044	0	0	2,044	32,144	19,979
Sakhalinmorneftegaz	14,356	0	2,541	16,897	10,057	9,362
Selkupneftegaz	5,250	0	8,292	13,542	14,415	32,947
Severnaya Neft	21,685	234	40,102	62,021	29,986	38,158
Stavropolneftegaz	9,234	0	0	9,234	3,088	6,981
Vankorskoye Field	0	0	135,454	135,454	133,398	54,984
Verhnechonskneftegaz	0	0	11,063	11,063	17,684	20,612
Yuganskneftegaz	744,063	34,911	723,617	1,502,591	695,196	488,449
Total	**1,003,319**	**35,364**	**1,008,274**	**2,046,957**	**1,142,930**	**987,035**

Note: Probable and possible reserves have not been adjusted for risk.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 7
NET SALES GAS RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS OAO NK ROSNEFT

RUSSIA

SPE CASE

Rosneft Holdings	Proved: Developed: Producing ($10^6 ft^3$)	Proved: Developed: Nonproducing ($10^6 ft^3$)	Proved: Undeveloped ($10^6 ft^3$)	Proved: Total ($10^6 ft^3$)	Probable ($10^6 ft^3$)	Possible ($10^6 ft^3$)
Dagneft	0	0	0	0	0	0
Dagneftegaz	226,371	0	0	226,371	81,836	120,878
Chechnya	153,351	0	0	153,351	52,961	131,850
Krasnodarneftegaz	1,195,751	0	39,090	1,234,841	282,886	453,983
Polar Light	0	0	0	0	0	0
Purneftegaz	2,855,975	0	14,899,636	17,755,611	10,480,886	10,261,002
Sakhalin-1	73,352	0	0	73,352	1,723,781	472,650
Sakhalinmorneftegaz	253,917	0	24,915	278,832	121,218	204,949
Selkupneftegaz	283,454	0	1,488,370	1,771,824	1,602,852	2,825,961
Severnaya Neft	0	0	0	0	0	0
Stavropolneftegaz	16,544	0	0	16,544	5,986	11,659
Vankorskoye Field	0	0	0	0	0	0
Verhnechonskneftegaz	0	0	0	0	0	0
Yuganskneftegaz	645,272	33,707	2,195,912	2,874,891	1,338,998	868,430
Total	**5,703,987**	**33,707**	**18,647,923**	**24,385,617**	**15,691,404**	**15,351,362**

Note: Probable and possible reserves have not been adjusted for risk.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 8
NET SALES GAS RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

Rosneft Holdings	Proved: Developed: Producing (10^6m^3)	Proved: Developed: Nonproducing (10^6m^3)	Proved: Undeveloped (10^6m^3)	Proved: Total (10^6m^3)	Probable (10^6m^3)	Possible (10^6m^3)
Dagneft	0	0	0	0	0	0
Dagneftegaz	6,410	0	0	6,410	2,318	3,423
Chechnya	4,343	0	0	4,343	1,501	3,730
Krasnodarneftegaz	33,859	0	1,107	34,966	8,008	12,858
Polar Light	0	0	0	0	0	0
Purneftegaz	80,872	0	421,913	502,785	296,788	290,559
Sakhalin-1	2,077	0	0	2,077	48,812	13,384
Sakhalinmorneftegaz	7,191	0	705	7,896	3,431	5,804
Selkupneftegaz	8,027	0	42,147	50,174	45,387	80,022
Severnaya Neft	0	0	0	0	0	0
Stavropolneftegaz	467	0	0	467	170	329
Vankorskoye Field	0	0	0	0	0	0
Verhnechonskneftegaz	0	0	0	0	0	0
Yuganskneftegaz	18,270	952	62,181	81,403	37,921	24,589
Total	**161,516**	**952**	**528,053**	**690,521**	**444,336**	**434,698**

Note: Probable and possible reserves have not been adjusted for risk.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 9
SUMMARY of FUTURE NET REVENUE from PROVED DEVELOPED RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Rosneft Holdings	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
Dagneft	1,904	0	320,409	78,143	23,617	71,566	35,103	111,980	111,980	59,697
Dagneftegaz	417	6,410	197,737	10,009	3,495	46,745	32,821	104,667	104,667	55,310
Chechnya	21,210	4,343	4,570,810	1,056,732	178,202	861,286	591,301	1,883,289	1,883,289	1,067,584
Krasnodarneftegaz	12,865	33,859	3,501,856	414,610	305,314	688,810	498,382	1,594,740	1,594,740	912,958
Polar Light	4,691	0	803,190	163,301	31,397	212,425	64,438	331,629	165,813	126,059
Purneftegaz	168,165	80,872	33,529,055	3,612,009	703,003	6,032,882	5,486,277	17,694,884	17,694,884	6,049,184
Sakhalin-1	11,516	11,754	4,588,059	991,100	0	844,977	0	2,751,982	550,397	414,787
Sakhalinmorneftegaz	14,356	7,191	3,223,333	642,313	87,056	630,146	436,183	1,427,635	1,427,635	858,779
Selkupneftegaz	5,250	8,027	952,417	134,429	28,691	160,069	150,774	478,454	478,454	262,703
Severnaya Neft	21,919	0	3,465,704	315,840	268,591	917,867	463,073	1,500,333	1,500,333	1,128,176
Stavropolneftegaz	9,234	467	2,280,233	401,242	252,937	477,219	253,574	895,261	895,261	512,730
Vankorskoye Field	0	0	0	0	1,258	0	0	(1,258)	(1,258)	(1,192)
Verhnechonskneftegaz	0	0	0	0	0	0	0	0	0	0
Yuganskneftegaz	778,974	19,222	142,879,843	17,087,849	5,400,878	27,138,671	22,145,631	71,106,814	71,106,814	24,857,538
Total	**1,050,501**	**172,145**	**200,312,646**	**24,907,577**	**7,284,439**	**38,082,663**	**30,157,557**	**99,880,410**	**97,513,009**	**36,304,313**

Note: Refer to Table 2 for prices and sales allocations.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 10
SUMMARY of FUTURE NET REVENUE from TOTAL PROVED RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

Rosneft Holdings	Gross								Rosneft Net	
	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
Dagneft	1,904	0	320,409	78,143	23,617	71,566	35,103	111,980	111,980	59,697
Dagneftegaz	417	6,410	197,737	10,009	3,495	46,745	32,821	104,667	104,667	55,310
Chechnya	21,210	4,343	4,570,810	1,056,732	178,202	861,286	591,301	1,883,289	1,883,289	1,067,584
Krasnodarneftegaz	12,869	34,966	3,541,297	420,266	307,864	689,746	505,659	1,617,762	1,617,762	919,896
Polar Light	5,197	0	889,697	175,409	50,060	233,066	73,425	357,737	178,867	133,961
Purneftegaz	255,114	502,785	82,412,959	6,757,112	2,892,178	11,539,433	14,647,938	46,576,298	46,576,298	10,760,262
Sakhalin-1	11,516	11,754	4,588,059	991,100	0	844,977	0	2,751,982	550,397	414,787
Sakhalinmorneftegaz	16,897	7,896	3,780,411	659,503	131,709	731,998	530,643	1,726,558	1,726,558	1,026,471
Selkupneftegaz	13,542	50,174	5,540,203	699,403	841,800	673,711	804,868	2,520,421	2,520,421	320,786
Severnaya Neft	62,021	0	9,806,098	1,258,762	1,050,630	2,233,192	1,253,622	4,009,892	4,009,892	2,116,501
Stavropolneftegaz	9,234	467	2,280,233	401,242	252,937	477,219	253,574	895,261	895,261	512,730
Vankorskoye Field	135,454	0	23,652,230	2,340,355	1,701,196	4,372,480	3,665,882	11,572,317	11,572,317	4,003,020
Verhnechonskneftegaz	42,648	0	7,380,474	1,023,844	1,851,884	1,472,837	773,080	2,258,829	585,940	100,809
Yuganskneftegaz	1,502,591	81,403	279,941,322	22,599,199	14,289,944	51,103,738	45,918,839	146,029,602	146,029,602	49,404,789
Total	**2,090,614**	**700,198**	**428,901,939**	**38,471,079**	**23,575,516**	**75,351,994**	**69,086,755**	**222,416,595**	**218,363,251**	**70,896,603**

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 11
SUMMARY of FUTURE NET REVENUE from TOTAL PROVED-PLUS-PROBABLE RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Rosneft Holdings	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
Dagneft	2,424	0	408,132	100,398	29,773	88,549	45,404	144,008	144,008	70,255
Dagneftegaz	579	8,728	270,794	13,077	5,237	63,211	45,315	143,954	143,954	66,878
Chechnya	28,405	5,844	6,121,597	1,372,207	198,109	1,124,789	819,575	2,606,917	2,606,917	1,294,730
Krasnodarneftegaz	18,129	42,974	4,768,327	556,123	486,602	892,686	680,512	2,152,404	2,152,404	1,054,240
Polar Light	8,176	0	1,399,623	265,152	117,793	330,147	122,005	564,526	282,262	187,826
Purneftegaz	447,449	799,573	140,223,611	13,995,121	8,639,617	20,290,548	23,310,865	73,987,460	73,987,460	13,540,214
Sakhalin-1	264,517	447,643	95,876,172	5,489,600	11,964,200	5,015,112	25,066,728	48,340,532	9,668,106	3,190,990
Sakhalinmorneftegaz	26,954	11,327	6,001,550	1,021,206	251,198	1,145,420	850,103	2,733,623	2,733,623	1,425,112
Selkupneftegaz	27,957	95,561	11,229,951	1,226,087	1,480,259	1,435,931	1,721,900	5,365,774	5,365,774	525,606
Severnaya Neft	92,007	0	14,547,167	1,990,497	1,457,399	3,165,550	1,889,738	6,043,983	6,043,983	2,471,067
Stavropolneftegaz	12,322	637	3,044,922	562,084	336,095	629,130	341,530	1,176,083	1,176,083	592,243
Vankorskoye Field	268,852	0	46,945,297	3,552,687	3,669,401	8,557,716	7,520,074	23,645,419	23,645,419	7,619,952
Verhnechonskneftegaz	110,821	0	19,178,279	2,781,804	2,804,923	3,576,996	2,438,954	7,575,602	1,965,111	315,175
Yuganskneftegaz	2,197,787	119,324	409,844,857	38,696,948	27,136,446	74,508,263	64,634,266	204,868,934	204,868,934	55,771,078
Total	**3,506,379**	**1,531,611**	**759,860,279**	**71,622,991**	**58,577,052**	**120,824,048**	**129,486,969**	**379,349,219**	**334,784,038**	**88,125,366**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable reserves to account for risk.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 12
SUMMARY of FUTURE NET REVENUE from TOTAL PROVED-PLUS-PROBABLE-PLUS-POSSIBLE RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Rosneft Holdings	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
Dagneft	2,900	0	487,029	121,443	30,865	103,580	55,070	176,071	176,071	81,847
Dagneftegaz	856	12,151	383,277	18,975	9,947	88,342	63,690	202,323	202,323	78,758
Chechnya	46,570	9,574	10,036,424	2,261,255	204,833	1,782,523	1,386,592	4,401,221	4,401,221	1,631,014
Krasnodarneftegaz	29,915	55,832	7,341,731	821,195	487,505	1,287,128	1,131,167	3,614,736	3,614,736	1,336,254
Polar Light	11,546	0	1,976,681	375,863	138,253	439,293	199,475	823,797	411,898	246,296
Purneftegaz	730,623	1,090,132	215,868,452	26,524,098	13,663,503	31,933,805	34,495,933	109,251,113	109,251,113	15,516,677
Sakhalin-1	479,348	604,869	141,059,942	7,992,300	12,856,800	5,097,030	39,740,516	75,373,296	15,074,657	3,693,087
Sakhalinmorneftegaz	36,316	17,131	8,128,976	1,356,029	325,881	1,513,392	1,174,409	3,759,265	3,759,265	1,721,416
Selkupneftegaz	60,904	175,583	22,579,395	2,237,852	2,678,483	2,798,315	3,589,358	11,275,387	11,275,387	1,044,567
Severnaya Neft	130,165	0	20,580,469	2,635,364	2,200,610	4,376,100	2,722,467	8,645,928	8,645,928	2,859,326
Stavropolneftegaz	19,303	966	4,768,514	906,329	517,613	967,109	551,599	1,825,864	1,825,864	676,262
Vankorskoye Field	323,836	0	56,546,358	4,105,813	3,687,234	10,213,892	9,288,660	29,250,759	29,250,759	9,340,086
Verhnechonskneftegaz	190,282	0	32,929,649	4,823,488	2,985,488	5,938,096	4,639,492	14,543,085	3,772,476	558,129
Yuganskneftegaz	2,686,236	143,913	501,017,175	52,233,061	50,740,723	92,846,206	73,332,716	231,864,469	231,864,469	57,721,449
Total	**4,748,800**	**2,110,151**	**1,023,704,072**	**106,413,065**	**90,527,738**	**159,384,811**	**172,371,144**	**495,007,314**	**423,526,167**	**96,505,168**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable reserves to account for risk.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 13
NET PROVED DEVELOPED PRODUCTION FORECAST
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

	English Units		Metric Units	
Year	Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)
2006	525,572	338,206	71,892	9,575
2007	477,701	327,748	65,367	9,277
2008	427,020	346,664	58,450	9,820
2009	383,145	332,341	52,463	9,411
2010	347,094	336,138	47,548	9,518
2011	316,176	318,459	43,324	9,024
2012	289,820	320,454	39,716	9,073
2013	266,408	291,110	36,528	8,241
2014	245,284	265,085	33,649	7,505
2015	226,199	242,209	31,043	6,865
2016	209,916	220,808	28,814	6,240
2017	194,227	202,416	26,653	5,744
2018	182,299	186,896	25,035	5,286
2019	163,491	122,542	22,458	3,470
2020	154,296	114,725	21,204	3,250
2021	145,980	107,943	20,055	3,063
2022	138,930	101,924	19,097	2,878
2023	132,595	96,483	18,210	2,734
2024	126,959	91,611	17,454	2,590
2025	121,384	87,484	16,684	2,485
2026	116,235	83,922	15,970	2,374
2027	110,522	80,495	15,192	2,284
2028	105,736	68,109	14,547	1,924
2029	101,589	65,179	13,986	1,845
2030	97,800	62,529	13,456	1,770
Subtotal	**5,606,378**	**4,811,480**	**768,795**	**136,246**
Remaining	1,961,315	926,214	269,888	26,222
Total	**7,567,693**	**5,737,694**	**1,038,683**	**162,468**

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 14
NET TOTAL PROVED PRODUCTION FORECAST
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

	English Units		Metric Units	
Year	Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)
2006	569,095	343,220	77,856	9,716
2007	595,054	365,854	81,440	10,350
2008	621,194	420,995	85,111	11,927
2009	662,197	445,778	90,923	12,628
2010	707,872	503,232	97,466	14,246
2011	718,048	487,897	99,026	13,821
2012	708,496	517,492	97,821	14,658
2013	703,315	597,909	97,150	16,927
2014	693,973	654,978	95,723	18,541
2015	672,632	792,425	92,677	22,450
2016	642,007	781,289	88,397	22,115
2017	607,926	768,292	83,644	21,764
2018	571,580	755,421	78,625	21,385
2019	518,513	685,847	71,317	19,417
2020	473,057	760,534	65,071	21,542
2021	422,274	736,228	58,085	20,852
2022	375,436	713,701	51,678	20,199
2023	338,231	694,361	46,559	19,664
2024	307,066	677,768	42,304	19,189
2025	280,047	663,242	38,597	18,792
2026	257,038	650,344	35,433	18,413
2027	231,098	638,359	31,844	18,078
2028	209,855	618,217	28,930	17,503
2029	190,553	608,077	26,263	17,221
2030	175,603	599,353	24,182	16,968
Subtotal	**12,252,160**	**15,480,813**	**1,686,122**	**438,366**
Remaining	2,625,179	8,904,804	360,835	252,155
Total	**14,877,339**	**24,385,617**	**2,046,957**	**690,521**

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 15
NET TOTAL PROVED-PLUS-PROBABLE PRODUCTION FORECAST
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

	English Units		Metric Units	
Year	Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)
2006	589,352	345,464	80,633	9,776
2007	647,293	378,204	88,578	10,697
2008	689,532	441,485	94,475	12,513
2009	773,163	475,146	106,206	13,461
2010	830,511	560,335	114,353	15,863
2011	848,110	564,782	116,908	15,994
2012	869,913	668,420	119,997	18,934
2013	899,438	778,642	124,102	22,052
2014	909,194	860,516	125,324	24,354
2015	898,394	1,020,449	123,750	28,900
2016	863,156	1,031,356	118,833	29,201
2017	828,732	1,038,339	113,999	29,417
2018	794,185	1,040,243	109,205	29,444
2019	748,600	1,024,196	102,886	28,999
2020	701,448	1,053,693	96,440	29,854
2021	650,318	1,034,618	89,376	29,288
2022	601,964	1,007,948	82,766	28,534
2023	557,790	981,612	76,690	27,801
2024	513,960	956,604	70,689	27,077
2025	477,312	937,690	65,630	26,565
2026	458,699	909,576	63,074	25,757
2027	419,924	881,107	57,740	24,955
2028	372,865	840,200	51,308	23,783
2029	335,779	816,977	46,232	23,134
2030	306,318	791,860	42,171	22,420
Subtotal	**16,585,950**	**20,439,462**	**2,281,365**	**578,773**
Remaining	6,596,066	19,637,559	908,522	556,084
Total	**23,182,016**	**40,077,021**	**3,189,887**	**1,134,857**

Note: Probable and possible reserves have not been adjusted for risk.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 16
NET TOTAL PROVED-PLUS-PROBABLE-PLUS-POSSIBLE PRODUCTION FORECAST
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

Year	English Units		Metric Units	
	Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)
2006	592,201	349,535	81,023	9,888
2007	652,631	383,844	89,307	10,853
2008	701,572	455,672	96,133	12,914
2009	790,856	491,117	108,621	13,914
2010	853,866	578,117	117,550	16,369
2011	885,792	606,875	122,001	17,188
2012	933,644	740,829	128,614	20,980
2013	974,570	886,770	134,247	25,116
2014	995,231	975,372	136,987	27,603
2015	996,512	1,154,209	137,093	32,685
2016	970,342	1,185,291	133,411	33,567
2017	941,136	1,203,948	129,279	34,110
2018	903,167	1,209,721	123,986	34,246
2019	855,801	1,221,000	117,421	34,565
2020	809,205	1,301,100	111,062	36,865
2021	762,763	1,235,166	104,632	34,968
2022	723,039	1,221,841	99,191	34,587
2023	693,937	1,237,792	95,149	35,063
2024	664,481	1,222,149	91,142	34,586
2025	626,444	1,200,265	85,930	34,004
2026	605,904	1,174,085	83,140	33,249
2027	569,475	1,145,977	78,139	32,458
2028	532,021	1,111,730	73,015	31,466
2029	494,880	1,080,900	67,946	30,602
2030	453,562	1,043,612	62,262	29,556
Subtotal	**18,983,032**	**24,416,917**	**2,607,281**	**691,402**
Remaining	11,418,373	31,011,466	1,569,641	878,153
Total	**30,401,405**	**55,428,383**	**4,176,922**	**1,569,555**

Note: Probable and possible reserves have not been adjusted for risk.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 17
PROJECTION of PROVED DEVELOPED RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
2006	74,199	10,326	14,260,696	1,133,465	860,302	5,397,583	1,631,288	5,238,058	4,767,909	4,519,390
2007	67,323	10,500	12,976,230	1,059,186	857,194	2,263,985	2,073,014	6,722,851	6,268,503	5,378,559
2008	60,118	11,357	11,685,842	1,028,481	635,640	2,054,710	1,814,992	6,152,019	5,754,134	4,469,223
2009	53,918	11,422	10,555,939	999,477	559,627	1,881,661	1,584,293	5,530,881	5,174,560	3,638,115
2010	48,711	10,922	9,519,977	957,711	439,019	1,705,651	1,410,705	5,006,891	4,744,234	3,019,393
2011	44,264	10,005	8,637,190	927,682	430,659	1,555,181	1,262,868	4,460,800	4,277,204	2,464,131
2012	40,466	9,763	7,880,924	894,115	380,685	1,422,835	1,132,755	4,050,534	3,927,903	2,048,399
2013	37,135	8,729	7,210,667	865,024	338,124	1,326,096	1,037,819	3,643,604	3,580,759	1,690,365
2014	34,141	7,850	6,616,182	836,651	297,456	1,202,880	951,306	3,327,889	3,287,609	1,404,870
2015	31,454	7,112	6,082,319	804,363	292,466	1,110,192	871,502	3,003,796	2,988,540	1,156,020
2016	28,858	6,240	5,503,775	695,309	262,753	970,627	807,769	2,767,317	2,766,104	968,552
2017	26,666	5,744	5,087,879	664,288	253,507	896,670	763,916	2,509,498	2,509,446	795,397
2018	25,047	5,286	4,772,545	644,376	246,930	840,955	713,297	2,326,987	2,326,798	667,606
2019	22,458	3,470	4,241,300	577,671	242,242	749,263	630,988	2,041,136	2,041,157	530,132
2020	21,204	3,250	4,002,325	555,893	244,474	707,110	594,119	1,900,729	1,900,729	446,868
2021	20,055	3,063	3,785,587	534,306	1,882	664,902	567,169	2,017,328	2,017,328	429,323
2022	19,097	2,878	3,601,449	519,716	3,766	629,283	544,534	1,904,150	1,904,150	366,823
2023	18,210	2,734	3,436,149	503,210	4,074	597,632	524,509	1,806,724	1,806,724	315,069
2024	17,454	2,590	3,289,510	491,406	4,180	569,929	506,586	1,717,409	1,717,409	271,107
2025	16,684	2,485	3,144,182	465,354	4,914	542,813	492,584	1,638,517	1,638,517	234,134
2026	15,970	2,374	3,009,258	447,245	8,173	518,285	477,799	1,557,756	1,557,756	201,492
2027	15,192	2,284	2,861,652	427,341	7,321	492,330	461,043	1,473,617	1,473,617	172,540
2028	14,547	1,924	2,739,384	411,722	4,498	471,286	441,715	1,410,163	1,410,163	149,464
2029	13,986	1,845	2,631,980	403,342	5,503	452,477	423,106	1,347,552	1,347,552	129,288
2030	13,456	1,770	2,533,189	388,403	9,424	435,103	407,329	1,292,930	1,292,930	112,288
Subtotal	**780,613**	**145,923**	**150,066,130**	**17,235,737**	**6,394,813**	**29,459,439**	**22,127,005**	**74,849,136**	**72,481,735**	**35,578,548**
Remaining	269,888	26,222	50,246,516	7,671,840	889,626	8,623,224	8,030,552	25,031,274	25,031,274	725,765
Total	**1,050,501**	**172,145**	**200,312,646**	**24,907,577**	**7,284,439**	**38,082,663**	**30,157,557**	**99,880,410**	**97,513,009**	**36,304,313**

Notes: Refer in Table 2 for prices and sales allocations.

Present Worth at (10^3U.S.$)	
8 Percent	41,307,536
9 Percent	38,638,021
11 Percent	34,244,519

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 18
PROJECTION of TOTAL PROVED RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
2006	80,261	10,467	15,476,281	1,198,497	2,195,025	5,861,545	1,781,403	4,439,811	4,111,921	3,897,593
2007	83,918	11,573	16,182,601	1,173,202	2,794,544	2,827,797	2,632,642	6,754,416	6,397,038	5,488,844
2008	87,292	13,464	16,860,092	1,211,304	2,379,190	2,996,931	2,698,150	7,574,517	7,207,912	5,598,373
2009	92,889	14,639	17,908,529	1,260,900	1,893,786	3,211,182	2,833,393	8,709,268	8,337,703	5,862,049
2010	99,451	15,650	19,069,665	1,274,180	1,634,160	3,408,129	3,061,285	9,691,911	9,421,089	5,995,903
2011	101,143	14,802	19,287,249	1,277,219	1,531,116	3,449,221	3,102,857	9,926,836	9,693,637	5,584,580
2012	100,006	15,348	19,067,708	1,310,784	1,536,270	3,411,585	3,033,048	9,776,021	9,579,182	4,995,541
2013	99,385	17,415	19,041,333	1,345,856	1,470,638	3,422,677	3,029,316	9,772,846	9,618,839	4,540,753
2014	97,969	18,886	18,874,469	1,346,632	1,233,785	3,361,875	3,009,448	9,922,729	9,777,664	4,178,215
2015	94,938	22,697	18,546,568	1,351,506	1,027,846	3,279,667	2,953,965	9,933,584	9,803,459	3,792,154
2016	90,364	22,115	17,662,376	1,268,470	855,002	3,074,414	2,817,971	9,646,519	9,526,002	3,335,538
2017	85,622	21,764	16,829,614	1,266,338	806,274	2,917,408	2,714,368	9,125,226	9,003,722	2,853,831
2018	80,637	21,385	15,940,724	1,262,621	686,395	2,750,070	2,561,686	8,679,952	8,556,212	2,454,941
2019	73,344	19,417	14,571,494	1,204,556	595,583	2,502,899	2,331,935	7,936,521	7,809,731	2,028,350
2020	67,116	21,542	13,603,760	1,186,288	601,235	2,312,179	2,171,395	7,332,663	7,203,386	1,693,542
2021	60,146	20,852	12,335,769	1,135,116	185,420	2,075,540	1,963,076	6,976,617	6,844,927	1,456,726
2022	53,748	20,199	11,168,039	1,110,497	177,851	1,860,000	1,772,694	6,246,997	6,113,771	1,177,791
2023	48,634	19,664	10,244,690	1,090,688	180,988	1,687,054	1,625,156	5,660,804	5,527,017	963,829
2024	44,123	19,189	9,432,807	1,052,395	101,148	1,535,252	1,503,335	5,240,677	5,075,229	801,165
2025	39,885	18,792	8,679,662	993,798	98,356	1,393,454	1,393,494	4,800,560	4,680,285	668,776
2026	36,343	18,413	8,013,922	962,438	100,213	1,277,022	1,291,169	4,383,080	4,297,717	555,901
2027	32,486	18,078	7,278,556	885,707	46,605	1,147,593	1,186,066	4,012,585	3,952,193	462,755
2028	29,381	17,503	6,665,851	841,512	28,854	1,043,979	1,088,888	3,662,618	3,620,169	383,700
2029	26,516	17,221	6,119,881	725,306	29,805	946,870	1,026,511	3,391,389	3,372,767	323,593
2030	24,182	16,968	5,675,022	669,840	57,432	866,706	962,728	3,118,316	3,131,547	271,969
Subtotal	**1,729,779**	**448,043**	**344,536,662**	**28,405,650**	**22,247,521**	**62,621,049**	**54,545,979**	**176,716,463**	**172,663,119**	**69,366,412**
Remaining	360,835	252,155	84,365,277	10,065,429	1,327,995	12,730,945	14,540,776	45,700,132	45,700,132	1,530,191
Total	**2,090,614**	**700,198**	**428,901,939**	**38,471,079**	**23,575,516**	**75,351,994**	**69,086,755**	**222,416,595**	**218,363,251**	**70,896,603**

Notes: Refer to Table 2 for prices and sales allocations.

Present Worth at (10^3U.S.$)	
8 Percent	83,901,697
9 Percent	76,955,741
11 Percent	65,573,935

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 19
PROJECTION of TOTAL PROVED-PLUS-PROBABLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

Year	Gross: Oil and Condensate (10^3mt)	Gross: Sales Gas (10^6m^3)	Gross: Future Gross Revenue (10^3U.S.$)	Gross: Operating Expenses (10^3U.S.$)	Gross: Capital and Abandonment Costs (10^3U.S.$)	Gross: Production and Other Taxes (10^3U.S.$)	Gross: Profit Tax (10^3U.S.$)	Gross: Future Net Revenue (10^3U.S.$)	Rosneft Net: Future Net Revenue (10^3U.S.$)	Rosneft Net: Present Worth at 10 Percent (10^3U.S.$)
2006	83,257	10,591	16,058,299	1,342,964	4,500,189	6,013,552	1,820,520	2,381,074	3,322,828	3,149,635
2007	100,296	12,224	20,926,323	1,356,990	5,096,286	2,970,321	2,795,196	8,707,530	6,304,516	5,409,447
2008	105,488	14,421	21,857,067	1,402,433	3,693,651	3,241,897	3,334,522	10,184,564	7,648,473	5,940,563
2009	116,311	15,899	23,400,200	1,486,213	3,300,030	3,662,092	4,176,404	10,775,461	9,452,153	6,645,587
2010	124,038	18,302	24,781,324	1,515,086	3,191,967	3,909,468	4,344,541	11,820,262	10,796,708	6,871,401
2011	126,576	18,434	25,225,902	1,548,382	3,154,468	4,000,379	4,267,028	12,255,645	11,186,102	6,444,397
2012	133,406	28,701	27,335,446	1,781,452	2,659,756	4,226,436	4,723,477	13,944,325	11,733,180	6,118,860
2013	137,924	31,820	28,308,609	1,872,484	2,596,104	4,403,167	4,937,730	14,499,124	12,319,769	5,815,772
2014	138,985	34,121	28,605,448	1,901,769	2,154,063	4,427,603	5,059,855	15,062,158	12,820,455	5,478,462
2015	136,534	38,667	28,285,414	1,840,463	1,770,435	4,392,162	5,008,519	15,273,835	13,086,917	5,062,248
2016	131,494	38,968	27,536,294	1,839,957	1,483,408	4,205,764	4,941,074	15,066,091	12,857,801	4,502,184
2017	126,234	39,185	26,662,437	1,851,919	1,467,626	4,036,289	4,874,953	14,431,650	12,282,620	3,893,128
2018	121,711	39,212	25,943,758	1,875,258	1,434,831	3,878,333	4,769,518	13,985,818	11,769,353	3,376,822
2019	115,454	38,766	23,354,119	1,871,029	1,439,734	3,663,230	4,074,690	12,305,436	10,871,757	2,823,634
2020	107,763	39,622	22,052,594	1,861,601	1,290,095	3,452,648	3,831,509	11,616,741	10,259,687	2,412,084
2021	98,835	39,056	20,495,687	1,805,648	920,940	3,203,420	3,533,964	11,031,715	9,885,896	2,103,901
2022	90,993	38,302	19,121,038	1,800,474	722,778	2,976,372	3,273,168	10,348,246	9,365,627	1,804,250
2023	84,116	37,178	17,876,087	1,794,392	661,246	2,768,801	3,036,417	9,615,231	8,731,358	1,522,620
2024	77,761	36,026	16,724,172	1,758,549	702,622	2,566,379	2,834,344	8,862,278	8,045,263	1,269,997
2025	72,822	36,070	15,863,372	1,653,274	772,792	2,396,094	2,736,093	8,305,119	7,434,083	1,062,273
2026	69,994	35,042	15,245,648	1,653,723	824,587	2,311,063	2,633,284	7,822,991	6,898,159	892,267
2027	64,598	34,408	14,251,312	1,607,918	545,385	2,131,120	2,491,568	7,475,321	6,583,310	770,826
2028	57,829	32,815	12,930,325	1,536,330	387,893	1,918,237	2,255,292	6,832,573	6,011,663	637,173
2029	53,213	32,900	12,094,965	1,459,703	360,248	1,748,258	2,141,733	6,385,023	5,497,234	527,422
2030	49,543	32,189	11,429,074	1,400,350	435,191	1,613,125	2,045,643	5,934,765	5,055,329	439,048
Subtotal	**2,525,175**	**772,919**	**526,364,914**	**41,818,361**	**45,566,325**	**84,116,210**	**89,941,042**	**264,922,976**	**230,220,241**	**84,974,001**
Remaining	981,204	758,692	233,495,365	29,804,630	13,010,727	36,707,838	39,545,927	114,426,243	104,563,797	3,151,365
Total	**3,506,379**	**1,531,611**	**759,860,279**	**71,622,991**	**58,577,052**	**120,824,048**	**129,486,969**	**379,349,219**	**334,784,038**	**88,125,366**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable or possible reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	106,864,912
9 Percent	96,773,155
11 Percent	80,648,434

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 20
PROJECTION of TOTAL PROVED-PLUS-PROBABLE-PLUS-POSSIBLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
2006	83,749	10,710	16,153,602	1,353,221	4,527,940	6,049,531	1,831,461	2,391,449	3,327,926	3,154,464
2007	101,302	12,392	21,120,527	1,371,421	5,291,321	3,002,115	2,825,037	8,630,633	6,216,080	5,333,573
2008	107,410	15,687	22,279,613	1,419,640	3,867,156	3,306,466	3,416,679	10,269,672	7,695,613	5,977,170
2009	119,481	16,683	24,083,970	1,507,237	3,369,761	3,731,896	4,335,134	11,139,942	9,702,746	6,821,783
2010	128,347	19,141	25,729,558	1,541,404	3,257,335	4,014,931	4,561,368	12,354,520	11,154,374	7,099,021
2011	133,101	19,961	26,635,097	1,584,660	3,260,278	4,162,763	4,587,762	13,039,634	11,740,028	6,763,523
2012	144,297	31,600	29,659,579	1,841,959	2,792,760	4,496,501	5,251,995	15,276,364	12,682,518	6,613,934
2013	150,201	35,741	30,957,507	1,937,172	2,791,309	4,714,406	5,536,369	15,978,251	13,414,042	6,332,346
2014	153,037	38,225	31,644,248	1,984,497	2,482,025	4,792,548	5,741,243	16,643,935	13,964,798	5,967,467
2015	153,496	43,308	32,068,980	1,945,612	2,165,880	4,814,933	5,890,398	17,252,157	14,409,301	5,573,775
2016	149,813	44,190	29,680,068	1,986,790	1,936,904	4,699,290	5,166,035	15,891,049	14,031,692	4,913,218
2017	145,628	44,734	29,037,255	2,027,849	1,861,839	4,572,365	5,132,972	15,442,230	13,612,848	4,314,759
2018	140,273	44,868	28,128,212	2,065,240	1,681,571	4,402,886	4,961,417	15,017,098	13,186,742	3,783,507
2019	133,769	45,188	27,053,607	2,094,954	1,690,654	4,197,135	4,771,133	14,299,731	12,477,167	3,240,595
2020	127,413	47,488	26,049,551	2,128,702	1,619,708	4,011,148	4,597,499	13,692,494	11,823,096	2,779,640
2021	120,969	45,592	24,897,686	2,153,988	1,276,007	3,795,043	4,387,103	13,285,545	11,439,941	2,434,635
2022	115,561	45,209	23,989,186	2,138,302	1,395,590	3,615,640	4,241,059	12,598,595	10,787,597	2,078,178
2023	111,506	45,687	23,372,014	2,183,161	1,371,296	3,485,964	4,121,429	12,210,164	10,402,860	1,814,110
2024	107,530	45,208	22,702,210	2,221,648	1,480,109	3,357,310	3,991,746	11,651,397	9,855,194	1,555,698
2025	101,292	44,627	21,583,616	2,188,686	1,468,202	3,197,609	3,764,090	10,965,029	9,253,630	1,322,278
2026	98,104	43,873	20,924,589	2,169,440	1,486,498	3,110,830	3,644,529	10,513,292	8,790,647	1,137,057
2027	93,200	43,080	20,015,930	2,157,273	1,429,649	2,954,314	3,499,157	9,975,537	8,288,499	970,484
2028	88,140	42,089	19,052,898	2,164,663	1,432,603	2,795,986	3,311,743	9,347,903	7,671,482	813,093
2029	82,820	41,225	18,040,379	2,171,954	847,183	2,615,705	3,119,274	9,286,263	7,610,194	730,149
2030	76,580	40,181	16,893,955	2,052,502	785,493	2,400,962	2,939,772	8,715,226	7,133,920	619,575
Subtotal	**2,967,019**	**906,687**	**611,753,837**	**48,391,975**	**55,569,071**	**96,298,277**	**105,626,404**	**305,868,110**	**260,672,935**	**92,144,032**
Remaining	1,781,781	1,203,464	411,950,235	58,021,090	34,958,667	63,086,534	66,744,740	189,139,204	162,853,232	4,361,136
Total	**4,748,800**	**2,110,151**	**1,023,704,072**	**106,413,065**	**90,527,738**	**159,384,811**	**172,371,144**	**495,007,314**	**423,526,167**	**96,505,168**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable or possible reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	118,569,041
9 Percent	106,626,524
11 Percent	87,838,202

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 21
PROJECTION of TOTAL PROVED RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
POLAR LIGHT

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	1,208	0	206,879	21,237	16,427	92,356	17,510	59,349	29,675	28,128
2007	985	0	168,761	20,898	8,550	32,928	22,471	83,914	41,957	36,001
2008	759	0	129,475	20,515	1,590	25,990	14,748	66,632	33,316	25,876
2009	576	0	98,941	19,748	5,417	20,509	8,718	44,549	22,275	15,661
2010	444	0	75,885	18,663	1,894	16,190	4,456	34,682	17,341	11,036
2011	339	0	58,250	17,179	2,014	12,733	2,372	23,952	11,976	6,899
2012	263	0	44,847	13,198	2,589	9,882	1,367	17,811	8,906	4,644
2013	201	0	34,382	13,172	2,590	7,697	523	10,400	5,199	2,455
2014	155	0	26,737	10,679	2,724	5,790	371	7,173	3,586	1,533
2015	121	0	20,641	7,399	2,567	4,221	327	6,127	3,064	1,185
2016	94	0	15,974	7,396	2,568	3,061	133	2,816	1,408	493
2017	28	0	5,018	2,663	1,005	946	325	79	38	12
2018	24	0	3,907	2,662	47	763	104	331	166	48
2019	0	0	0	0	78	0	0	(78)	(40)	(10)
2020	0	0	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0	0	0
2024	0	0	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0	0	0
2027	0	0	0	0	0	0	0	0	0	0
2028	0	0	0	0	0	0	0	0	0	0
2029	0	0	0	0	0	0	0	0	0	0
2030	0	0	0	0	0	0	0	0	0	0
Subtotal	**5,197**	**0**	**889,697**	**175,409**	**50,060**	**233,066**	**73,425**	**357,737**	**178,867**	**133,961**
Remaining	0	0	0	0	0	0	0	0	0	0
Total	**5,197**	**0**	**889,697**	**175,409**	**50,060**	**233,066**	**73,425**	**357,737**	**178,867**	**133,961**

Notes: Refer to Table 2 for prices and sales allocations.

Present Worth at (10^3U.S.$)	
8 Percent	141,385
9 Percent	137,592
11 Percent	130,482

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 22
PROJECTION of TOTAL PROVED-PLUS-PROBABLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
POLAR LIGHT

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
2006	1,230	0	210,723	22,467	16,427	94,111	17,715	60,003	30,003	28,438
2007	1,076	0	184,314	22,183	14,095	35,744	25,088	87,204	43,602	37,412
2008	960	0	163,981	22,480	13,201	32,207	20,653	75,440	37,720	29,296
2009	932	0	159,752	22,709	23,647	31,480	19,135	62,781	31,390	22,070
2010	845	0	144,501	23,152	14,057	28,730	15,672	62,890	31,445	20,014
2011	694	0	119,044	23,091	7,490	24,079	10,493	53,891	26,945	15,523
2012	580	0	99,269	21,854	7,491	20,278	6,757	42,889	21,445	11,183
2013	449	0	76,797	18,959	2,218	15,813	3,301	36,506	18,254	8,617
2014	360	0	61,487	18,662	2,261	12,683	1,296	26,585	13,292	5,680
2015	280	0	48,012	14,119	2,306	9,606	544	21,437	10,718	4,146
2016	219	0	37,709	12,545	2,304	7,275	479	15,106	7,553	2,645
2017	174	0	29,644	12,528	2,305	5,829	763	8,219	4,109	1,302
2018	102	0	17,480	7,596	2,487	3,340	109	3,948	1,973	566
2019	84	0	14,262	6,095	2,032	2,747	0	3,388	1,695	441
2020	47	0	8,027	2,856	2,090	1,541	0	1,540	769	181
2021	39	0	6,740	2,853	507	1,292	0	2,088	1,044	222
2022	34	0	5,676	2,851	507	1,085	0	1,233	616	119
2023	28	0	4,780	2,718	508	902	0	652	326	56
2024	24	0	4,036	2,718	507	763	0	48	24	4
2025	19	0	3,389	2,716	507	642	0	(476)	(238)	(34)
2026	0	0	0	0	846	0	0	(846)	(423)	(55)
2027	0	0	0	0	0	0	0	0	0	0
2028	0	0	0	0	0	0	0	0	0	0
2029	0	0	0	0	0	0	0	0	0	0
2030	0	0	0	0	0	0	0	0	0	0
Subtotal	**8,176**	**0**	**1,399,623**	**265,152**	**117,793**	**330,147**	**122,005**	**564,526**	**282,262**	**187,826**
Remaining	0	0	0	0	0	0	0	0	0	0
Total	**8,176**	**0**	**1,399,623**	**265,152**	**117,793**	**330,147**	**122,005**	**564,526**	**282,262**	**187,826**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable or possible reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	202,355
9 Percent	194,878
11 Percent	181,171

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 23
PROJECTION of TOTAL PROVED-PLUS-PROBABLE-PLUS-POSSIBLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
POLAR LIGHT

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	1,363	0	233,637	24,015	16,427	103,888	20,496	68,811	34,407	32,613
2007	1,226	0	209,721	24,004	14,095	40,107	29,702	101,813	50,906	43,678
2008	1,116	0	190,942	24,047	13,201	36,800	25,644	91,250	45,626	35,436
2009	1,094	0	187,330	24,538	23,647	36,202	24,183	78,760	39,379	27,689
2010	1,007	0	172,160	24,986	14,057	33,463	20,733	78,921	39,461	25,113
2011	887	0	152,328	24,660	14,176	29,838	16,563	67,091	33,545	19,326
2012	797	0	136,405	24,128	14,178	26,860	13,224	58,015	29,007	15,127
2013	681	0	116,266	24,222	8,736	23,075	9,167	51,066	25,534	12,054
2014	562	0	96,342	20,825	2,092	18,943	6,303	48,179	24,089	10,295
2015	462	0	79,008	18,993	2,051	15,316	3,583	39,065	19,532	7,554
2016	380	0	65,492	18,963	2,197	12,492	1,680	30,160	15,081	5,281
2017	320	0	54,553	17,055	2,196	10,411	4,346	20,545	10,272	3,256
2018	250	0	42,889	12,998	2,267	8,085	3,395	16,144	8,072	2,316
2019	215	0	36,631	12,980	2,260	6,958	2,649	11,784	5,891	1,530
2020	185	0	31,583	12,968	2,261	6,056	2,190	8,108	4,055	953
2021	134	0	23,031	7,129	413	4,207	2,238	9,044	4,522	963
2022	119	0	20,257	6,730	168	3,684	1,983	7,692	3,846	741
2023	104	0	17,804	6,334	169	3,223	1,711	6,367	3,183	555
2024	84	0	14,222	4,694	280	2,530	1,479	5,239	2,619	414
2025	74	0	12,784	4,491	0	2,265	1,314	4,714	2,357	336
2026	67	0	11,524	4,489	0	2,050	1,129	3,856	1,928	250
2027	61	0	10,389	4,486	0	1,863	970	3,070	1,535	179
2028	54	0	9,389	2,990	0	1,649	1,140	3,610	1,805	192
2029	50	0	8,439	2,856	0	1,480	985	3,118	1,559	149
2030	44	0	7,608	2,854	0	1,343	818	2,593	1,297	113
Subtotal	**11,336**	**0**	**1,940,734**	**356,435**	**134,871**	**432,788**	**197,625**	**819,015**	**409,508**	**246,113**
Remaining	210	0	35,947	19,428	3,382	6,505	1,850	4,782	2,390	183
Total	**11,546**	**0**	**1,976,681**	**375,863**	**138,253**	**439,293**	**199,475**	**823,797**	**411,898**	**246,296**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable or possible reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	269,291
9 Percent	257,358
11 Percent	236,018

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 24
PROJECTION of TOTAL PROVED RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
PURNEFTEGAZ

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	9,217	3,890	1,910,206	180,430	113,470	661,565	236,539	718,202	718,202	680,764
2007	9,676	4,060	2,037,203	178,003	268,726	336,143	341,003	913,328	913,328	783,665
2008	9,861	4,091	2,082,318	181,084	229,040	344,942	345,076	982,176	982,176	762,854
2009	10,042	4,103	2,127,021	184,319	205,004	352,903	349,646	1,035,149	1,035,149	727,789
2010	9,854	5,116	2,141,381	185,289	134,077	347,150	359,048	1,115,817	1,115,817	710,146
2011	9,589	4,923	2,090,872	185,011	124,053	339,345	354,696	1,087,767	1,087,767	626,671
2012	9,275	5,280	2,053,760	187,105	144,208	333,791	346,626	1,042,030	1,042,030	543,418
2013	9,007	7,882	2,139,711	193,471	189,761	343,073	360,334	1,053,072	1,053,072	497,121
2014	8,655	9,616	2,177,716	198,030	165,213	344,389	365,516	1,104,568	1,104,568	472,008
2015	8,463	13,597	2,364,799	202,677	115,859	360,678	403,438	1,282,147	1,282,147	495,955
2016	8,301	13,450	2,347,736	204,125	111,341	355,469	398,383	1,278,418	1,278,418	447,641
2017	8,186	13,261	2,337,765	206,321	112,485	351,352	394,563	1,273,044	1,273,044	403,507
2018	8,097	13,137	2,335,368	206,058	110,530	348,007	394,157	1,276,616	1,276,616	366,284
2019	8,028	13,029	2,338,625	207,926	103,181	345,314	395,385	1,286,819	1,286,819	334,213
2020	7,969	15,637	2,508,837	214,158	156,264	358,818	430,074	1,349,523	1,349,523	317,278
2021	7,864	15,484	2,506,939	214,774	71,767	353,737	431,366	1,435,295	1,435,295	305,457
2022	7,782	15,353	2,511,697	216,039	71,768	349,796	435,639	1,438,455	1,438,455	277,112
2023	7,721	15,219	2,522,178	215,864	71,767	346,894	441,370	1,446,283	1,446,283	252,210
2024	7,693	15,112	2,538,641	217,914	71,767	345,003	447,274	1,456,683	1,456,683	229,945
2025	7,675	15,005	2,559,727	218,884	71,767	343,791	453,265	1,472,020	1,472,020	210,343
2026	7,589	14,897	2,534,329	219,868	71,935	339,926	448,800	1,453,800	1,453,800	188,047
2027	6,652	14,796	2,343,826	196,519	310	306,305	418,863	1,421,829	1,421,829	166,478
2028	5,933	14,706	2,196,376	190,230	310	280,610	393,995	1,331,231	1,331,231	141,097
2029	5,377	14,623	2,081,535	170,013	1,034	259,892	378,737	1,271,859	1,271,859	122,027
2030	4,969	14,552	1,995,315	168,068	10,412	245,061	363,767	1,208,007	1,208,007	104,912
Subtotal	**203,475**	**280,819**	**56,783,881**	**4,942,180**	**2,726,049**	**8,693,954**	**9,687,560**	**30,734,138**	**30,734,138**	**10,166,942**
Remaining	51,639	221,966	25,629,078	1,814,932	166,129	2,845,479	4,960,378	15,842,160	15,842,160	593,320
Total	**255,114**	**502,785**	**82,412,959**	**6,757,112**	**2,892,178**	**11,539,433**	**14,647,938**	**46,576,298**	**46,576,298**	**10,760,262**

Note: Refer to Table 2 for prices and sales allocations.

Present Worth at (10^3U.S.$)	
8 Percent	13,314,669
9 Percent	11,927,406
11 Percent	9,769,928

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 25
PROJECTION of TOTAL PROVED-PLUS-PROBABLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
PURNEFTEGAZ

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
2006	9,331	3,900	1,932,956	181,683	206,196	671,812	237,492	635,773	635,773	602,634
2007	9,996	4,093	2,101,224	181,523	587,856	355,020	343,075	633,750	633,750	543,776
2008	10,448	4,190	2,201,697	187,119	591,451	379,362	349,256	694,509	694,509	539,424
2009	11,222	4,389	2,370,948	194,699	492,910	411,533	371,422	900,384	900,384	633,039
2010	11,897	5,640	2,565,629	203,745	387,560	437,945	410,161	1,126,218	1,126,218	716,764
2011	12,832	5,941	2,773,324	215,925	408,477	474,203	449,610	1,225,109	1,225,109	705,796
2012	13,678	6,822	2,988,553	233,138	478,944	512,441	482,534	1,281,496	1,281,496	668,300
2013	14,646	9,976	3,344,818	254,347	522,202	567,438	541,221	1,459,610	1,459,610	689,034
2014	15,015	12,149	3,549,165	269,570	383,891	594,558	573,988	1,727,158	1,727,158	738,054
2015	15,001	16,507	3,793,743	281,434	247,678	616,430	620,473	2,027,728	2,027,728	784,361
2016	14,769	16,610	3,778,962	288,287	183,346	607,100	614,447	2,085,782	2,085,782	730,339
2017	14,637	16,681	3,783,454	295,714	186,005	600,531	612,193	2,089,011	2,089,011	662,138
2018	14,660	16,856	3,824,705	304,922	238,617	600,262	618,434	2,062,470	2,062,470	591,758
2019	14,508	16,932	3,826,822	311,318	210,293	593,876	622,751	2,088,584	2,088,584	542,450
2020	14,192	19,573	3,953,615	321,751	265,174	598,485	652,282	2,115,923	2,115,923	497,461
2021	13,858	19,459	3,914,801	325,087	159,799	585,146	648,536	2,196,233	2,196,233	467,400
2022	13,594	19,252	3,886,170	331,098	168,750	574,190	645,467	2,166,665	2,166,665	417,399
2023	13,390	19,051	3,871,812	334,815	168,860	565,368	645,308	2,157,461	2,157,461	376,229
2024	13,254	18,890	3,870,498	339,949	168,862	558,695	647,974	2,155,018	2,155,018	340,183
2025	13,141	18,738	3,878,066	346,301	169,084	553,546	652,634	2,156,501	2,156,501	308,146
2026	12,908	18,255	3,800,464	350,899	277,426	544,904	636,658	1,990,577	1,990,577	257,479
2027	12,050	17,863	3,608,127	343,081	225,812	515,117	603,415	1,920,702	1,920,702	224,892
2028	11,367	17,532	3,453,412	347,236	173,392	491,338	576,518	1,864,928	1,864,928	197,663
2029	10,772	17,198	3,314,885	350,823	130,252	469,913	551,557	1,812,340	1,812,340	173,881
2030	10,069	16,837	3,152,458	352,757	105,870	444,638	520,550	1,728,643	1,728,643	150,130
Subtotal	**321,235**	**343,334**	**83,540,308**	**7,147,221**	**7,138,707**	**13,323,851**	**13,627,956**	**42,302,573**	**42,302,573**	**12,558,730**
Remaining	126,214	456,239	56,683,303	6,847,900	1,500,910	6,966,697	9,682,909	31,684,887	31,684,887	981,484
Total	**447,449**	**799,573**	**140,223,611**	**13,995,121**	**8,639,617**	**20,290,548**	**23,310,865**	**73,987,460**	**73,987,460**	**13,540,214**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable reserves to account for risk.

Present Worth at (^{10}U.S.$)	
8 Percent	17,349,382
9 Percent	15,268,245
11 Percent	12,091,267

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 26
PROJECTION of TOTAL PROVED-PLUS-PROBABLE-PLUS-POSSIBLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
PURNEFTEGAZ

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	9,331	3,900	1,932,956	181,683	206,196	671,812	237,492	635,773	635,773	602,634
2007	9,996	4,093	2,101,224	181,523	587,856	355,020	343,075	633,750	633,750	543,776
2008	10,448	4,190	2,201,697	187,119	591,451	379,362	349,256	694,509	694,509	539,424
2009	11,225	4,389	2,371,518	194,726	496,555	411,701	371,422	897,114	897,114	630,740
2010	11,903	5,641	2,566,855	203,796	390,859	438,283	410,252	1,123,665	1,123,665	715,139
2011	12,889	5,947	2,784,926	216,734	420,953	476,539	451,331	1,219,369	1,219,369	702,489
2012	13,803	6,840	3,013,931	234,861	497,793	517,410	486,408	1,277,459	1,277,459	666,195
2013	15,109	10,135	3,443,294	259,367	610,681	585,449	557,292	1,430,505	1,430,505	675,295
2014	16,320	12,552	3,825,632	282,580	590,790	644,808	619,814	1,687,640	1,687,640	721,165
2015	17,447	17,207	4,311,131	305,073	535,414	710,372	706,447	2,053,825	2,053,825	794,456
2016	18,487	17,713	4,568,389	324,353	519,295	749,506	745,737	2,229,498	2,229,498	780,665
2017	19,429	18,141	4,805,407	343,154	484,057	783,641	782,035	2,412,520	2,412,520	764,676
2018	19,497	18,418	4,863,777	357,501	367,845	785,989	788,455	2,563,987	2,563,987	735,652
2019	19,273	18,626	4,862,921	370,029	302,763	777,626	789,598	2,622,905	2,622,905	681,227
2020	18,954	21,366	4,996,812	384,461	304,483	780,790	819,595	2,707,483	2,707,483	636,537
2021	18,577	21,356	4,960,180	394,361	205,184	765,168	814,628	2,780,839	2,780,839	591,814
2022	18,390	21,429	4,965,931	405,721	225,902	756,422	817,085	2,760,801	2,760,801	531,856
2023	18,281	21,545	4,994,404	417,338	219,825	750,455	823,819	2,782,967	2,782,967	485,308
2024	18,214	21,668	5,028,870	426,764	219,827	745,511	832,868	2,803,900	2,803,900	442,612
2025	18,188	21,737	5,073,937	436,465	211,024	742,092	844,680	2,839,676	2,839,676	405,771
2026	18,078	21,499	5,036,651	447,542	319,236	736,493	835,623	2,697,757	2,697,757	348,948
2027	17,344	21,352	4,884,785	449,966	267,122	709,767	808,657	2,649,273	2,649,273	310,200
2028	16,827	21,266	4,779,756	457,672	232,377	690,559	792,163	2,606,985	2,606,985	276,312
2029	16,410	20,961	4,679,746	460,814	217,801	673,756	777,315	2,550,060	2,550,060	244,660
2030	15,699	20,484	4,508,782	468,295	220,893	648,448	745,683	2,425,463	2,425,463	210,652
Subtotal	**400,119**	**382,455**	**101,563,512**	**8,391,898**	**9,246,182**	**16,286,979**	**16,550,730**	**51,087,723**	**51,087,723**	**14,038,203**
Remaining	330,504	707,677	114,304,940	18,132,200	4,417,321	15,646,826	17,945,203	58,163,390	58,163,390	1,478,474
Total	**730,623**	**1,090,132**	**215,868,452**	**26,524,098**	**13,663,503**	**31,933,805**	**34,495,933**	**109,251,113**	**109,251,113**	**15,516,677**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable or possible reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	20,428,032
9 Percent	17,722,910
11 Percent	13,696,059

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 27
PROJECTION of TOTAL PROVED RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
SAKHALIN-1

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
2006	2,117	912	778,313	147,200	0	85,284	0	545,829	109,166	103,476
2007	1,848	1,486	715,217	104,300	0	92,027	0	518,890	103,778	89,045
2008	1,618	1,867	655,871	103,000	0	91,922	0	460,949	92,190	71,604
2009	1,456	2,443	630,155	99,800	0	109,054	0	421,301	84,260	59,241
2010	1,173	1,705	493,852	91,000	0	93,467	0	309,385	61,877	39,381
2011	958	1,192	392,656	93,700	0	82,465	0	216,491	43,298	24,945
2012	768	838	309,030	90,600	0	74,160	0	144,270	28,854	15,047
2013	634	592	249,633	88,200	0	88,839	0	72,594	14,519	6,854
2014	512	419	198,734	87,400	0	64,829	0	46,505	9,301	3,974
2015	432	300	164,598	85,900	0	62,930	0	15,768	3,154	1,220
2016	0	0	0	0	0	0	0	0	0	0
2017	0	0	0	0	0	0	0	0	0	0
2018	0	0	0	0	0	0	0	0	0	0
2019	0	0	0	0	0	0	0	0	0	0
2020	0	0	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0	0	0
2024	0	0	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0	0	0
2027	0	0	0	0	0	0	0	0	0	0
2028	0	0	0	0	0	0	0	0	0	0
2029	0	0	0	0	0	0	0	0	0	0
2030	0	0	0	0	0	0	0	0	0	0
Subtotal	**11,516**	**11,754**	**4,588,059**	**991,100**	**0**	**844,977**	**0**	**2,751,982**	**550,397**	**414,787**
Remaining	0	0	0	0	0	0	0	0	0	0
Total	**11,516**	**11,754**	**4,588,059**	**991,100**	**0**	**844,977**	**0**	**2,751,982**	**550,397**	**414,787**

Note: Refer to Table 2 for prices and sales allocations.

Present Worth at (10^3U.S.$)	
8 Percent	437,426
9 Percent	425,869
11 Percent	404,152

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 28
PROJECTION of TOTAL PROVED-PLUS-PROBABLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
SAKHALIN-1

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	2,238	920	820,645	150,200	1,479,800	17,400	0	(826,755)	(165,351)	(156,732)
2007	12,306	1,722	4,337,041	141,200	803,600	19,881	0	3,372,360	674,472	578,716
2008	11,556	2,153	4,101,168	140,000	197,600	10,527	439,955	3,313,086	662,617	514,654
2009	10,518	2,750	3,476,491	150,700	722,700	43,471	952,040	1,607,580	321,516	226,051
2010	9,722	2,753	3,209,633	140,600	961,000	20,849	851,231	1,235,953	247,191	157,321
2011	9,372	2,752	3,110,629	153,900	989,000	21,757	719,532	1,226,440	245,288	141,312
2012	9,277	11,020	3,915,171	203,200	451,200	34,543	1,013,407	2,212,821	442,564	230,797
2013	9,237	11,021	3,904,331	208,500	453,800	56,957	1,066,670	2,118,404	423,681	200,006
2014	9,103	11,020	3,833,703	197,100	263,500	39,344	1,130,340	2,203,419	440,684	188,314
2015	8,144	11,020	3,514,023	92,900	152,400	40,217	1,089,820	2,138,686	427,737	165,456
2016	8,847	11,020	3,720,574	88,100	129,500	44,536	1,201,071	2,257,367	451,473	158,084
2017	8,913	11,021	3,741,413	87,100	133,500	47,819	1,223,530	2,249,464	449,893	142,599
2018	9,345	11,020	3,867,100	87,400	106,200	52,171	1,272,287	2,349,042	469,808	134,796
2019	10,019	11,020	2,494,836	87,500	129,500	57,460	791,302	1,429,074	285,815	74,232
2020	9,184	11,020	2,294,318	87,700	23,400	59,310	733,870	1,390,038	278,008	65,360
2021	7,833	11,022	2,075,598	87,800	62,700	59,768	662,591	1,202,739	240,548	51,193
2022	6,757	11,020	1,919,726	90,600	129,500	60,797	607,199	1,031,630	206,326	39,748
2023	6,054	10,581	1,780,883	94,100	152,900	61,791	542,433	929,659	185,932	32,424
2024	5,772	10,097	1,726,514	102,900	197,700	63,848	504,562	857,504	171,501	27,072
2025	6,135	10,723	1,812,289	95,900	164,600	70,914	532,069	948,806	189,761	27,116
2026	5,987	10,477	1,729,545	96,600	81,900	74,454	510,933	965,658	193,131	24,981
2027	6,096	10,664	1,797,472	96,300	154,200	80,310	539,295	927,367	185,473	21,717
2028	5,825	10,190	1,739,394	96,400	194,000	83,171	515,471	850,352	170,070	18,026
2029	6,500	11,020	1,925,052	102,200	210,600	93,936	562,015	956,301	191,260	18,350
2030	7,025	11,022	2,077,116	110,200	318,400	102,328	592,364	953,824	190,765	16,568
Subtotal	**201,765**	**219,048**	**68,924,665**	**2,989,100**	**8,663,200**	**1,317,559**	**18,053,987**	**37,900,819**	**7,580,163**	**3,098,161**
Remaining	62,752	228,595	26,951,507	2,500,500	3,301,000	3,697,553	7,012,741	10,439,713	2,087,943	92,829
Total	**264,517**	**447,643**	**95,876,172**	**5,489,600**	**11,964,200**	**5,015,112**	**25,066,728**	**48,340,532**	**9,668,106**	**3,190,990**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	3,776,057
9 Percent	3,463,133
11 Percent	2,952,561

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 29
PROJECTION of TOTAL PROVED-PLUS-PROBABLE-PLUS-POSSIBLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
SAKHALIN-1

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
2006	2,238	920	820,645	150,200	1,479,800	16,309	0	(825,664)	(165,133)	(156,525)
2007	12,306	1,722	4,337,041	141,200	803,600	14,589	0	3,377,652	675,530	579,625
2008	11,556	3,102	4,150,647	140,000	197,600	5,108	457,273	3,350,666	670,133	520,491
2009	11,084	3,099	3,653,202	150,700	722,700	20,128	1,019,721	1,739,953	347,991	244,664
2010	10,706	3,101	3,520,187	140,600	961,000	10,295	961,618	1,446,674	289,335	184,143
2011	10,708	3,102	3,526,416	153,900	989,000	11,014	866,733	1,505,769	301,154	173,497
2012	11,178	11,884	4,557,088	203,200	451,200	17,453	1,240,812	2,644,423	528,885	275,813
2013	11,341	11,887	4,606,904	208,500	453,800	38,825	1,315,406	2,590,373	518,075	244,567
2014	11,516	11,886	4,629,336	197,100	263,500	20,306	1,411,717	2,736,713	547,342	233,892
2015	11,973	11,886	4,734,753	92,900	152,400	22,143	1,519,719	2,947,591	589,518	228,036
2016	12,017	11,886	2,883,586	88,100	129,500	23,737	911,153	1,731,096	346,219	121,229
2017	11,988	11,886	2,880,562	87,100	133,500	25,371	925,443	1,709,148	341,830	108,347
2018	11,960	11,885	2,862,550	87,400	106,200	27,110	924,246	1,717,594	343,519	98,562
2019	12,042	11,887	2,888,833	87,500	129,500	29,075	933,203	1,709,555	341,911	88,802
2020	12,070	11,886	2,840,943	87,700	23,400	31,112	929,010	1,769,721	353,944	83,213
2021	12,081	11,887	2,863,324	87,800	62,700	33,266	941,669	1,737,889	347,578	73,971
2022	12,123	11,885	2,905,602	90,600	129,500	35,592	955,255	1,694,655	338,931	65,294
2023	12,123	11,886	2,919,387	94,100	152,900	38,018	943,512	1,690,857	338,171	58,972
2024	12,164	11,886	2,953,691	102,900	197,700	40,654	936,433	1,676,004	335,201	52,913
2025	11,015	11,886	2,731,227	95,900	164,600	41,755	856,955	1,572,017	314,403	44,926
2026	10,573	11,886	2,611,867	96,600	81,900	43,884	823,078	1,566,405	313,281	40,522
2027	10,680	11,886	2,667,331	96,300	154,200	46,980	847,377	1,522,474	304,495	35,653
2028	10,761	11,886	2,701,992	96,400	194,000	50,237	855,741	1,505,614	301,123	31,916
2029	10,829	11,886	2,725,546	102,200	210,600	53,684	846,625	1,512,437	302,487	29,022
2030	10,908	11,888	2,798,213	110,200	318,400	57,378	849,766	1,462,469	292,494	25,403
Subtotal	**277,940**	**240,881**	**80,770,873**	**2,989,100**	**8,663,200**	**754,023**	**22,272,465**	**46,092,085**	**9,218,417**	**3,486,948**
Remaining	201,408	363,988	60,289,069	5,003,200	4,193,600	4,343,007	17,468,051	29,281,211	5,856,240	206,139
Total	**479,348**	**604,869**	**141,059,942**	**7,992,300**	**12,856,800**	**5,097,030**	**39,740,516**	**75,373,296**	**15,074,657**	**3,693,087**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable or possible reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	4,493,876
9 Percent	4,059,616
11 Percent	3,380,328

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 30
PROJECTION of TOTAL PROVED RESERVES and FUTURE NET REVENUE as of DECEMBER 31, 2005 for CERTAIN ASSETS OAO NK ROSNEFT SEVERNAYA NEFT

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	6,017	0	951,447	65,767	154,959	451,096	98,242	181,383	181,383	171,928
2007	6,158	0	973,539	67,604	171,030	181,870	164,409	388,626	388,626	333,450
2008	5,365	0	848,118	69,679	153,769	162,844	135,844	325,982	325,982	253,194
2009	4,893	0	773,816	80,586	150,132	152,834	115,433	274,831	274,831	193,225
2010	4,568	0	722,045	81,955	70,895	144,294	103,588	321,313	321,313	204,494
2011	4,364	0	690,296	82,884	79,794	139,294	95,652	292,672	292,672	168,613
2012	4,119	0	651,292	81,684	53,965	132,215	87,408	296,020	296,020	154,373
2013	3,836	0	606,283	78,163	37,853	123,500	78,944	287,823	287,823	135,874
2014	3,477	0	549,922	69,017	26,531	112,117	70,587	271,670	271,670	116,090
2015	3,019	0	476,906	61,772	21,123	97,795	57,882	238,334	238,334	92,191
2016	2,626	0	415,596	60,527	22,894	85,938	46,196	200,041	200,041	70,045
2017	2,308	0	364,917	59,668	22,978	76,123	39,333	166,815	166,815	52,873
2018	2,066	0	326,684	54,722	18,891	68,292	36,000	148,779	148,779	42,687
2019	1,860	0	294,204	45,964	17,790	60,779	33,719	135,952	135,952	35,310
2020	1,549	0	244,546	43,631	7,684	50,452	26,404	116,375	116,375	27,360
2021	1,245	0	197,274	39,423	551	41,042	18,868	97,390	97,390	20,727
2022	1,012	0	159,672	32,662	618	32,999	15,518	77,875	77,875	15,004
2023	815	0	128,940	28,998	451	26,772	11,326	61,393	61,393	10,704
2024	624	0	98,664	21,987	2,132	20,461	7,646	46,438	46,438	7,332
2025	510	0	80,418	21,126	1,382	16,862	4,915	36,133	36,133	5,161
2026	414	0	65,643	21,104	1,381	13,988	3,026	26,144	26,144	3,382
2027	338	0	53,652	21,085	4,251	11,674	1,214	15,428	15,428	1,807
2028	276	0	43,448	19,783	4,250	9,618	590	9,207	9,207	976
2029	190	0	29,977	13,966	5,172	6,763	504	3,572	3,572	343
2030	155	0	24,604	13,482	3,669	5,696	297	1,460	1,460	126
Subtotal	**61,804**	**0**	**9,771,903**	**1,237,239**	**1,034,145**	**2,225,318**	**1,253,545**	**4,021,656**	**4,021,656**	**2,117,269**
Remaining	217	0	34,195	21,523	16,485	7,874	77	(11,764)	(11,764)	(768)
Total	**62,021**	**0**	**9,806,098**	**1,258,762**	**1,050,630**	**2,233,192**	**1,253,622**	**4,009,892**	**4,009,892**	**2,116,501**

Notes: Refer to Table 2 for prices and sales allocations.

Present Worth at (10^3U.S.$)	
8 Percent	2,366,947
9 Percent	2,236,248
11 Percent	2,006,561

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 31
PROJECTION of TOTAL PROVED-PLUS-PROBABLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
SEVERNAYA NEFT

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
2006	6,061	0	958,381	67,392	162,342	454,566	98,545	175,536	175,536	166,386
2007	6,201	0	980,351	69,026	174,826	183,349	165,074	388,076	388,076	332,978
2008	5,529	0	874,126	71,969	191,776	168,482	139,235	302,664	302,664	235,081
2009	5,191	0	820,827	84,332	170,867	162,565	122,137	280,926	280,926	197,511
2010	4,834	0	764,251	85,451	86,729	153,207	109,225	329,639	329,639	209,794
2011	4,626	0	731,666	87,641	134,980	149,284	99,463	260,298	260,298	149,962
2012	4,586	0	725,016	89,577	106,765	148,484	96,402	283,788	283,788	147,994
2013	4,518	0	714,132	88,636	83,672	146,544	93,150	302,130	302,130	142,626
2014	4,416	0	698,431	86,066	69,234	143,304	90,298	309,529	309,529	132,267
2015	4,487	0	709,155	88,933	58,583	144,601	91,066	325,972	325,972	126,093
2016	4,099	0	648,475	88,873	47,676	133,047	79,819	299,060	299,060	104,716
2017	4,041	0	638,927	91,072	34,047	130,349	78,163	305,296	305,296	96,769
2018	3,954	0	624,917	91,213	26,649	126,758	77,457	302,840	302,840	86,888
2019	3,611	0	571,044	91,290	17,813	116,032	68,326	277,583	277,583	72,094
2020	3,181	0	502,439	81,016	6,655	101,799	58,860	254,109	254,109	59,743
2021	2,747	0	435,227	71,850	571	87,909	48,972	225,925	225,925	48,080
2022	2,314	0	365,109	67,099	572	74,033	39,054	184,351	184,351	35,516
2023	2,001	0	316,621	61,241	6,525	63,912	32,777	152,166	152,166	26,534
2024	1,783	0	282,123	54,470	8,376	56,248	29,283	133,746	133,746	21,113
2025	1,609	0	254,040	50,349	8,500	50,267	27,853	117,071	117,071	16,730
2026	1,444	0	228,388	50,434	4,990	45,201	24,039	103,724	103,724	13,414
2027	1,250	0	197,949	48,898	3,500	39,323	20,784	85,444	85,444	10,006
2028	1,094	0	172,730	43,206	3,502	34,186	19,016	72,820	72,820	7,719
2029	916	0	144,910	34,209	5,532	28,314	16,648	60,207	60,207	5,776
2030	821	0	129,629	33,292	2,570	25,436	14,795	53,536	53,536	4,649
Subtotal	**85,314**	**0**	**13,488,864**	**1,777,535**	**1,417,252**	**2,967,200**	**1,740,441**	**5,586,436**	**5,586,436**	**2,450,439**
Remaining	6,693	0	1,058,303	212,962	40,147	198,350	149,297	457,547	457,547	20,628
Total	**92,007**	**0**	**14,547,167**	**1,990,497**	**1,457,399**	**3,165,550**	**1,889,738**	**6,043,983**	**6,043,983**	**2,471,067**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable reserves to account for risk.

Present Worth at (10^3U.S.$)	
9 Percent	2,856,259
10 Percent	2,652,337
11 Percent	2,309,233

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 32
PROJECTION of TOTAL PROVED-PLUS-PROBABLE-PLUS-POSSIBLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
SEVERNAYA NEFT

RUSSIA

SPE CASE

Year	Gross								Rosneft Net	
	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	6,061	0	958,381	67,392	162,755	454,575	98,534	175,125	175,125	165,996
2007	6,201	0	980,351	69,026	174,845	183,362	165,114	388,004	388,004	332,917
2008	5,529	0	874,126	71,969	191,702	168,497	139,271	302,687	302,687	235,099
2009	5,231	0	827,111	84,635	185,114	163,982	123,050	270,330	270,330	190,061
2010	5,000	0	790,488	88,029	106,823	158,643	113,106	323,887	323,887	206,134
2011	4,964	0	785,172	92,479	154,734	159,938	107,795	270,226	270,226	155,680
2012	6,023	0	952,121	96,784	127,317	189,795	137,658	400,567	400,567	208,896
2013	5,762	0	910,885	96,014	104,616	183,000	127,932	399,323	399,323	188,507
2014	5,517	0	872,489	94,112	89,722	176,222	120,084	392,349	392,349	167,659
2015	5,447	0	860,997	97,249	79,028	173,969	115,854	394,897	394,897	152,753
2016	4,956	0	784,003	97,498	66,905	159,820	99,607	360,173	360,173	126,115
2017	4,780	0	755,726	99,914	40,748	153,811	95,496	365,757	365,757	115,932
2018	4,583	0	724,426	101,258	33,335	147,215	90,934	351,684	351,684	100,905
2019	4,167	0	658,966	100,719	25,811	134,490	79,504	318,442	318,442	82,705
2020	3,743	0	591,131	94,361	25,670	120,922	69,087	281,091	281,091	66,086
2021	3,458	0	547,872	83,643	43,964	111,482	63,533	245,250	245,250	52,193
2022	3,225	0	508,928	81,656	43,601	103,752	57,962	221,957	221,957	42,759
2023	3,091	0	488,926	79,837	47,238	99,448	55,640	206,763	206,763	36,058
2024	3,363	0	532,366	80,147	49,362	106,376	65,585	230,896	230,896	36,446
2025	3,367	0	531,852	74,715	37,605	105,044	69,491	244,997	244,997	35,011
2026	3,104	0	490,872	74,086	33,075	97,215	62,571	223,925	223,925	28,962
2027	2,816	0	445,126	68,346	25,093	88,310	57,319	206,058	206,058	24,127
2028	2,489	0	393,522	66,619	20,510	78,640	49,407	178,346	178,346	18,905
2029	2,165	0	342,686	58,170	22,049	68,631	43,473	150,363	150,363	14,424
2030	2,000	0	315,552	56,925	18,890	62,765	40,410	136,562	136,562	11,861
Subtotal	**107,042**	**0**	**16,924,075**	**2,075,583**	**1,910,512**	**3,649,904**	**2,248,417**	**7,039,659**	**7,039,659**	**2,796,191**
Remaining	23,123	0	3,656,394	559,781	290,098	726,196	474,050	1,606,269	1,606,269	63,135
Total	**130,165**	**0**	**20,580,469**	**2,635,364**	**2,200,610**	**4,376,100**	**2,722,467**	**8,645,928**	**8,645,928**	**2,859,326**

Notes:

1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable or possible reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	3,382,937
9 Percent	3,102,955
11 Percent	2,645,896

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 33
PROJECTION of TOTAL PROVED RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
VANKORSKOYE FIELD

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	0	0	0	0	393,418	0	0	(393,418)	(393,418)	(372,911)
2007	0	0	0	0	537,181	0	0	(537,181)	(537,181)	(460,917)
2008	795	0	138,804	23,806	314,879	48,425	0	(248,306)	(248,306)	(192,859)
2009	3,590	0	626,931	65,098	107,631	136,808	63,705	253,689	253,689	178,363
2010	7,954	0	1,388,850	84,974	79,983	266,153	209,201	748,539	748,539	476,396
2011	10,710	0	1,870,071	75,928	46,378	342,142	307,857	1,097,766	1,097,766	632,431
2012	12,727	0	2,222,356	99,884	48,984	402,431	371,382	1,299,675	1,299,675	677,781
2013	13,717	0	2,395,248	115,696	31,846	430,658	401,783	1,415,265	1,415,265	668,102
2014	12,754	0	2,227,091	121,719	800	399,271	370,834	1,334,467	1,334,467	570,247
2015	11,404	0	1,991,207	127,064	713	356,479	323,190	1,183,761	1,183,761	457,900
2016	9,713	0	1,696,094	126,967	685	302,859	265,238	1,000,345	1,000,345	350,272
2017	8,256	0	1,441,673	126,486	666	258,967	246,366	809,188	809,188	256,482
2018	7,018	0	1,225,432	126,078	630	221,689	204,852	672,183	672,183	192,861
2019	5,965	0	1,041,616	125,730	581	189,984	169,091	556,230	556,230	144,465
2020	5,072	0	885,366	125,436	516	162,968	138,205	458,241	458,241	107,734
2021	4,309	0	752,572	93,889	516	137,300	120,105	400,762	400,762	85,290
2022	3,664	0	639,681	93,728	515	117,662	97,785	329,991	329,991	63,571
2023	3,114	0	543,720	93,593	516	101,004	79,926	268,681	268,681	46,854
2024	2,646	0	462,174	93,477	516	86,883	64,686	216,612	216,612	34,194
2025	2,251	0	392,842	62,252	516	72,276	59,924	197,874	197,874	28,274
2026	1,911	0	333,923	62,197	0	62,134	48,947	160,645	160,645	20,780
2027	1,625	0	283,825	62,150	0	53,564	39,760	128,351	128,351	15,028
2028	1,383	0	241,255	62,110	0	46,320	31,796	101,029	101,029	10,708
2029	1,174	0	205,060	62,075	0	40,159	24,609	78,217	78,217	7,504
2030	998	0	174,303	62,046	20,059	34,926	13,690	43,582	43,582	3,785
Subtotal	**132,750**	**0**	**23,180,094**	**2,092,383**	**1,587,529**	**4,271,062**	**3,652,932**	**11,576,188**	**11,576,188**	**4,002,335**
Remaining	2,704	0	472,136	247,972	113,667	101,418	12,950	(3,871)	(3,871)	685
Total	**135,454**	**0**	**23,652,230**	**2,340,355**	**1,701,196**	**4,372,480**	**3,665,882**	**11,572,317**	**11,572,317**	**4,003,020**

Note: Refer to Table 2 for prices and sales allocations.

Present Worth at (10^3U.S.$)	
8 Percent	4,926,104
9 Percent	4,440,252
11 Percent	3,608,901

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 34
PROJECTION of TOTAL PROVED-PLUS-PROBABLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
VANKORSKOYE FIELD

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
2006	0	0	0	0	780,287	0	0	(780,287)	(780,287)	(739,615)
2007	0	0	0	0	1,050,344	0	0	(1,050,344)	(1,050,344)	(901,226)
2008	1,800	0	314,300	26,344	589,366	101,228	0	(402,638)	(402,638)	(312,728)
2009	9,163	0	1,599,983	79,560	248,394	325,076	213,011	733,942	733,942	516,018
2010	13,625	0	2,379,191	100,287	203,570	456,563	358,643	1,260,128	1,260,128	801,988
2011	15,843	0	2,766,334	90,744	64,947	513,405	438,940	1,658,298	1,658,298	955,359
2012	19,163	0	3,346,198	119,791	70,611	609,242	546,753	1,999,801	1,999,801	1,042,897
2013	23,205	0	4,052,028	149,497	62,676	725,447	679,904	2,434,504	2,434,504	1,149,252
2014	23,824	0	4,160,066	169,930	62,826	739,465	700,208	2,487,637	2,487,637	1,063,023
2015	22,700	0	3,963,708	185,861	55,580	701,550	657,282	2,363,435	2,363,435	914,217
2016	19,986	0	3,489,736	190,891	34,838	615,085	562,331	2,086,591	2,086,591	730,624
2017	17,747	0	3,099,122	193,996	17,372	547,706	546,425	1,793,623	1,793,623	568,510
2018	15,532	0	2,712,191	196,025	17,372	481,304	473,659	1,543,831	1,543,831	442,953
2019	13,322	0	2,326,227	196,934	17,371	415,312	400,156	1,296,454	1,296,454	336,717
2020	11,327	0	1,977,270	196,204	16,677	355,341	331,097	1,077,951	1,077,951	253,430
2021	9,623	0	1,680,698	146,688	15,635	300,659	285,143	932,573	932,573	198,468
2022	8,183	0	1,428,587	146,293	14,592	257,140	235,350	775,212	775,212	149,342
2023	6,954	0	1,214,291	145,957	14,592	220,167	194,103	639,472	639,472	111,514
2024	5,910	0	1,032,168	145,672	13,897	188,732	159,005	524,862	524,862	82,853
2025	5,025	0	877,330	96,952	13,898	158,418	141,779	466,283	466,283	66,628
2026	4,270	0	745,733	96,815	0	135,467	116,900	396,551	396,551	51,294
2027	3,630	0	633,870	96,699	0	115,979	95,971	325,221	325,221	38,079
2028	3,085	0	538,787	96,599	0	99,451	78,269	264,468	264,468	28,031
2029	2,623	0	457,958	57,908	0	82,559	73,370	244,121	244,121	23,421
2030	2,230	0	389,262	57,866	0	70,716	60,765	199,915	199,915	17,363
Subtotal	**258,770**	**0**	**45,185,038**	**2,983,513**	**3,364,845**	**8,216,012**	**7,349,064**	**23,271,604**	**23,271,604**	**7,588,412**
Remaining	10,082	0	1,760,259	569,174	304,556	341,704	171,010	373,815	373,815	31,540
Total	**268,852**	**0**	**46,945,297**	**3,552,687**	**3,669,401**	**8,557,716**	**7,520,074**	**23,645,419**	**23,645,419**	**7,619,952**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	9,490,608
9 Percent	8,502,484
11 Percent	6,830,151

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 35
PROJECTION of TOTAL PROVED-PLUS-PROBABLE-PLUS-POSSIBLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
VANKORSKOYE FIELD
RUSSIA
SPE CASE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	0	0	0	0	780,287	0	0	(780,287)	(780,287)	(739,615)
2007	0	0	0	0	1,050,344	0	0	(1,050,344)	(1,050,344)	(901,226)
2008	1,800	0	314,300	26,344	589,366	101,228	0	(402,638)	(402,638)	(312,728)
2009	9,163	0	1,599,983	79,560	248,394	325,076	213,011	733,942	733,942	516,018
2010	13,915	0	2,429,800	101,020	203,570	465,167	368,549	1,291,494	1,291,494	821,951
2011	17,152	0	2,994,921	94,149	64,947	552,265	483,657	1,799,903	1,799,903	1,036,938
2012	22,063	0	3,852,590	127,650	70,611	695,328	645,740	2,313,261	2,313,261	1,206,366
2013	27,138	0	4,738,725	160,923	62,676	842,186	813,952	2,858,988	2,858,988	1,349,638
2014	28,516	0	4,979,436	184,574	62,826	878,757	859,911	2,993,368	2,993,368	1,279,133
2015	27,768	0	4,848,709	203,002	55,580	852,001	829,461	2,908,665	2,908,665	1,125,122
2016	24,753	0	4,322,020	212,254	52,304	757,540	722,484	2,577,438	2,577,438	902,495
2017	21,993	0	3,840,592	215,615	17,372	674,698	688,432	2,244,475	2,244,475	711,413
2018	19,297	0	3,369,562	216,373	17,372	593,706	599,287	1,942,824	1,942,824	557,431
2019	16,653	0	2,907,875	218,881	17,371	515,084	510,260	1,646,279	1,646,279	427,574
2020	14,229	0	2,483,896	218,164	16,677	442,332	426,260	1,380,463	1,380,463	324,551
2021	12,157	0	2,123,176	217,571	15,635	380,332	354,924	1,154,714	1,154,714	245,744
2022	10,404	0	1,816,426	162,817	14,592	323,735	308,204	1,007,078	1,007,078	194,010
2023	8,904	0	1,554,926	162,518	14,592	278,710	257,550	841,556	841,556	146,755
2024	7,621	0	1,330,896	162,260	13,897	240,127	214,106	700,506	700,506	110,579
2025	6,481	0	1,131,555	161,956	13,898	205,834	175,532	574,335	574,335	82,068
2026	5,507	0	961,829	107,798	0	172,608	156,933	524,490	524,490	67,842
2027	4,682	0	817,550	107,650	0	147,586	129,561	432,753	432,753	50,670
2028	3,980	0	694,916	107,525	0	126,349	106,383	354,659	354,659	37,590
2029	3,382	0	590,665	107,418	0	108,340	86,870	288,037	288,037	27,635
2030	2,877	0	502,062	64,397	0	90,076	81,344	266,245	266,245	23,123
Subtotal	**310,435**	**0**	**54,206,410**	**3,420,419**	**3,382,311**	**9,769,065**	**9,032,411**	**28,602,204**	**28,602,204**	**9,291,077**
Remaining	13,401	0	2,339,948	685,394	304,923	444,827	256,249	648,555	648,555	49,009
Total	**323,836**	**0**	**56,546,358**	**4,105,813**	**3,687,234**	**10,213,892**	**9,288,660**	**29,250,759**	**29,250,759**	**9,340,086**

Notes:

1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable or possible reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	11,629,892
9 Percent	10,418,954
11 Percent	8,376,844

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 36
PROJECTION of TOTAL PROVED RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
VERHNECHONSKNEFTEGAZ

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
2006	82	0	14,242	4,800	186,679	9,702	0	(186,939)	(48,492)	(45,964)
2007	628	0	108,555	18,865	193,073	25,597	5,628	(134,608)	(34,917)	(29,960)
2008	633	0	109,701	22,653	105,734	27,075	2,133	(47,894)	(12,424)	(9,650)
2009	649	0	112,197	22,653	43,800	27,346	1,858	16,540	4,290	3,017
2010	1,076	0	186,293	24,396	98,905	40,828	14,098	8,066	2,093	1,331
2011	1,567	0	271,130	35,750	88,256	55,751	26,520	64,853	16,823	9,692
2012	1,921	0	332,461	44,638	87,600	66,518	35,787	97,918	25,400	13,246
2013	2,177	0	376,713	50,949	87,600	74,229	41,425	122,510	31,779	15,002
2014	2,361	0	408,589	55,429	87,600	79,692	45,072	140,796	36,522	15,607
2015	2,493	0	431,508	58,611	87,600	83,482	47,281	154,534	40,086	15,506
2016	2,589	0	447,973	60,869	87,600	86,387	52,289	160,828	41,719	14,608
2017	2,654	0	459,361	62,472	87,600	88,658	56,625	164,006	42,543	13,484
2018	2,699	0	467,001	63,612	87,600	90,366	58,565	166,858	43,283	12,419
2019	2,736	0	473,431	64,419	87,600	91,761	58,401	171,250	44,422	11,537
2020	2,762	0	478,076	64,994	87,600	92,762	58,162	174,558	45,281	10,646
2021	2,782	0	481,372	65,345	87,600	93,396	57,216	177,815	46,125	9,816
2022	2,795	0	483,715	65,624	87,600	93,795	56,807	179,889	46,663	8,990
2023	2,803	0	485,149	65,816	87,600	94,039	57,047	180,647	46,860	8,171
2024	2,455	0	424,790	57,627	12,775	82,257	48,734	223,397	57,949	9,148
2025	1,740	0	301,124	40,851	10,719	59,584	27,568	162,402	42,127	6,020
2026	1,229	0	212,688	28,854	10,720	43,043	14,809	115,262	29,899	3,867
2027	866	0	149,902	20,335	10,719	31,015	6,288	81,545	21,153	2,477
2028	609	0	105,319	14,288	10,719	22,228	767	57,317	14,868	1,576
2029	342	0	59,184	9,994	10,720	13,326	0	25,144	6,522	625
2030	0	0	0	0	17,865	0	0	(17,865)	(4,634)	(402)
Subtotal	**42,648**	**0**	**7,380,474**	**1,023,844**	**1,851,884**	**1,472,837**	**773,080**	**2,258,829**	**585,940**	**100,809**
Remaining	0	0	0	0	0	0	0	0	0	0
Total	**42,648**	**0**	**7,380,474**	**1,023,844**	**1,851,884**	**1,472,837**	**773,080**	**2,258,829**	**585,940**	**100,809**

Note: Refer to Table 2 for prices and sales allocations.

Present Worth at (10^3U.S.$)	
8 Percent	149,860
9 Percent	123,579
11 Percent	81,050

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 37
PROJECTION of TOTAL PROVED-PLUS-PROBABLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
VERHNECHONSKNEFTEGAZ
RUSSIA
SPE CASE

	Gross								Rosneft Net	
Year	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
2006	82	0	14,242	4,800	414,285	14,209	0	(419,052)	(108,702)	(103,036)
2007	628	0	108,555	18,865	510,825	35,894	0	(457,029)	(118,553)	(101,722)
2008	633	0	109,701	22,653	253,325	39,095	0	(205,372)	(53,274)	(41,378)
2009	649	0	112,197	22,653	43,800	37,841	0	7,903	2,050	1,442
2010	1,076	0	186,293	24,396	107,410	49,967	0	4,520	1,173	746
2011	1,567	0	271,130	35,750	89,050	63,364	0	82,966	21,521	12,399
2012	6,806	0	1,177,825	158,141	87,600	216,295	149,432	566,357	146,913	76,615
2013	7,500	0	1,297,929	175,540	87,600	235,359	169,698	629,732	163,352	77,113
2014	7,500	0	1,297,930	176,079	87,600	233,857	171,613	628,781	163,106	69,699
2015	7,500	0	1,297,929	176,293	87,600	232,207	173,622	628,207	162,957	63,034
2016	6,545	0	1,132,690	153,906	87,600	203,174	154,870	533,140	138,297	48,425
2017	5,925	0	1,025,437	139,458	87,600	184,934	147,136	466,309	120,960	38,340
2018	5,829	0	1,008,686	137,396	87,600	182,476	148,532	452,682	117,426	33,692
2019	5,129	0	887,512	120,763	87,600	162,155	127,139	389,855	101,128	26,265
2020	4,463	0	772,359	105,001	87,600	142,790	107,163	329,805	85,552	20,113
2021	3,534	0	611,616	83,025	87,600	115,539	78,917	246,535	63,951	13,610
2022	3,142	0	543,776	73,773	87,600	104,005	66,815	211,583	54,885	10,574
2023	2,892	0	500,583	67,910	87,600	96,662	59,619	188,792	48,972	8,540
2024	2,743	0	474,538	64,376	85,775	92,198	55,321	176,868	45,880	7,242
2025	2,485	0	429,997	58,333	87,600	84,629	47,898	151,537	39,308	5,617
2026	2,306	0	399,160	54,151	16,425	77,943	44,419	206,222	53,494	6,919
2027	2,092	0	362,041	49,115	0	69,980	40,249	202,697	52,580	6,157
2028	1,957	0	338,648	45,941	0	64,494	38,329	189,884	49,256	5,220
2029	1,784	0	308,772	52,140	0	58,057	32,834	165,741	42,993	4,125
2030	1,694	0	293,035	49,482	0	54,170	32,244	157,139	40,762	3,540
Subtotal	**86,461**	**0**	**14,962,581**	**2,069,940**	**2,659,695**	**2,851,294**	**1,845,850**	**5,535,802**	**1,435,987**	**293,291**
Remaining	24,360	0	4,215,698	711,864	145,228	725,702	593,104	2,039,800	529,124	21,884
Total	**110,821**	**0**	**19,178,279**	**2,781,804**	**2,804,923**	**3,576,996**	**2,438,954**	**7,575,602**	**1,965,111**	**315,175**

Notes:

1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable or possible reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	456,345
9 Percent	380,333
11 Percent	259,008

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 38
PROJECTION of TOTAL PROVED-PLUS-PROBABLE-PLUS-POSSIBLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
VERHNECHONSKNEFTEGAZ
RUSSIA
SPE CASE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	82	0	14,242	4,800	414,285	14,209	0	(419,052)	(108,702)	(103,036)
2007	628	0	108,555	18,865	510,825	35,894	0	(457,029)	(118,553)	(101,722)
2008	633	0	109,701	22,653	253,325	39,095	0	(205,372)	(53,274)	(41,378)
2009	649	0	112,197	22,653	43,800	37,841	0	7,903	2,050	1,442
2010	1,076	0	186,293	24,396	107,410	49,967	0	4,520	1,173	746
2011	1,567	0	271,130	35,750	89,050	63,364	0	82,966	21,521	12,399
2012	7,247	0	1,254,066	168,378	87,600	229,256	162,162	606,670	157,370	82,068
2013	7,500	0	1,297,930	175,540	87,600	235,360	169,698	629,732	163,353	77,114
2014	7,500	0	1,297,929	176,078	87,600	233,856	171,613	628,782	163,106	69,698
2015	7,500	0	1,297,929	176,294	87,600	232,206	173,622	628,207	162,957	63,035
2016	7,499	0	1,297,932	176,358	87,600	231,267	182,398	620,309	160,908	56,342
2017	7,500	0	1,297,930	176,517	87,600	231,257	192,522	610,034	158,243	50,157
2018	7,500	0	1,297,931	176,794	87,600	231,647	196,694	605,196	156,987	45,043
2019	7,501	0	1,297,930	176,609	87,600	231,927	195,492	606,302	157,275	40,848
2020	7,500	0	1,297,929	176,451	87,600	232,137	194,708	607,033	157,465	37,020
2021	7,500	0	1,297,930	176,191	87,600	232,212	193,271	608,656	157,885	33,601
2022	7,500	0	1,297,929	176,086	87,600	232,211	192,488	609,544	158,116	30,460
2023	7,499	0	1,297,930	176,079	87,600	232,211	192,489	609,551	158,117	27,573
2024	7,501	0	1,297,929	176,078	85,775	232,174	192,533	611,369	158,589	25,035
2025	7,500	0	1,297,930	176,078	87,600	232,177	192,531	609,544	158,116	22,593
2026	7,500	0	1,297,927	176,079	65,700	231,736	193,041	631,371	163,778	21,185
2027	7,500	0	1,297,929	176,078	65,700	231,331	193,543	631,277	163,753	19,173
2028	7,500	0	1,297,928	176,080	62,050	230,888	194,121	634,789	164,664	17,453
2029	7,080	0	1,225,366	206,915	0	216,896	174,280	627,275	162,715	15,611
2030	6,240	0	1,079,782	182,333	0	190,636	153,160	553,653	143,618	12,473
Subtotal	**145,202**	**0**	**25,128,204**	**3,506,133**	**2,836,720**	**4,591,755**	**3,510,366**	**10,683,230**	**2,771,230**	**514,933**
Remaining	45,080	0	7,801,445	1,317,355	148,768	1,346,341	1,129,126	3,859,855	1,001,246	43,196
Total	**190,282**	**0**	**32,929,649**	**4,823,488**	**2,985,488**	**5,938,096**	**4,639,492**	**14,543,085**	**3,772,476**	**558,129**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable or possible reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	807,319
9 Percent	671,880
11 Percent	462,077

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 39
PROJECTION of TOTAL PROVED RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
YUGANSKNEFTEGAZ

RUSSIA

SPE CASE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	54,285	1,123	9,981,116	622,287	1,195,561	4,024,377	1,215,618	2,923,273	2,923,273	2,770,898
2007	57,741	1,667	10,642,480	630,125	1,236,900	1,883,293	1,853,291	5,038,871	5,038,871	4,323,497
2008	61,941	2,354	11,444,590	632,834	1,292,996	2,030,588	1,977,021	5,511,151	5,511,151	4,280,502
2009	66,076	3,167	12,238,867	634,067	1,236,200	2,171,211	2,102,633	6,094,756	6,094,756	4,285,084
2010	69,407	4,054	12,892,522	637,238	1,178,596	2,283,235	2,205,145	6,588,308	6,588,308	4,193,024
2011	69,064	4,034	12,836,497	638,537	1,126,021	2,277,703	2,166,184	6,628,052	6,628,052	3,818,472
2012	66,837	3,892	12,427,816	645,348	1,123,157	2,211,102	2,056,324	6,391,885	6,391,885	3,333,371
2013	66,107	3,851	12,299,159	658,023	1,050,887	2,189,939	2,028,421	6,371,889	6,371,889	3,007,967
2014	66,683	3,898	12,413,144	657,627	882,488	2,205,212	2,051,029	6,616,788	6,616,788	2,827,501
2015	65,943	3,882	12,282,002	663,976	732,275	2,176,012	2,023,414	6,686,325	6,686,325	2,586,387
2016	64,251	3,781	11,972,448	667,696	573,337	2,113,649	1,963,671	6,654,095	6,654,095	2,329,942
2017	61,651	3,653	11,498,363	670,634	540,178	2,024,784	1,891,097	6,371,670	6,371,670	2,019,578
2018	58,436	3,476	10,903,866	676,203	435,855	1,914,449	1,787,507	6,089,852	6,089,852	1,747,288
2019	52,723	3,146	9,843,998	638,065	356,095	1,725,773	1,605,656	5,518,409	5,518,409	1,433,250
2020	47,914	2,865	8,950,455	620,346	319,372	1,565,742	1,451,493	4,993,502	4,993,502	1,173,987
2021	42,274	2,514	7,901,353	614,507	23,168	1,376,462	1,271,409	4,615,807	4,615,807	982,328
2022	36,967	2,174	6,912,666	598,362	14,987	1,199,027	1,107,743	3,992,547	3,992,547	769,147
2023	32,796	1,928	6,136,420	588,876	18,275	1,057,800	979,520	3,491,949	3,491,949	608,945
2024	29,439	1,712	5,509,723	570,997	11,475	945,706	881,720	3,099,825	3,099,825	489,328
2025	26,559	1,545	4,973,245	566,539	10,753	851,192	797,056	2,747,705	2,747,705	392,626
2026	24,207	1,397	4,532,706	555,943	10,753	774,625	729,124	2,462,261	2,462,261	318,488
2027	22,098	1,268	4,138,683	518,773	28,219	705,979	675,421	2,210,291	2,210,291	258,802
2028	20,432	1,168	3,824,041	492,111	10,754	651,653	626,518	2,043,005	2,043,005	216,534
2029	18,745	1,060	3,508,273	411,453	9,290	596,253	589,320	1,901,957	1,901,957	182,480
2030	17,444	967	3,264,437	374,422	1,293	553,610	553,466	1,781,646	1,781,646	154,735
Subtotal	**1,200,020**	**64,576**	**223,328,870**	**14,984,989**	**13,418,885**	**41,509,376**	**36,589,801**	**116,825,819**	**116,825,819**	**48,504,161**
Remaining	302,571	16,827	56,612,452	7,614,210	871,059	9,594,362	9,329,038	29,203,783	29,203,783	900,628
Total	**1,502,591**	**81,403**	**279,941,322**	**22,599,199**	**14,289,944**	**51,103,738**	**45,918,839**	**146,029,602**	**146,029,602**	**49,404,789**

Note: Refer to Table 2 for prices and sales allocations.

Present Worth at (10^3U.S.$)	
8 Percent	58,067,153
9 Percent	53,449,769
11 Percent	45,836,768

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 40
PROJECTION of TOTAL PROVED-PLUS-PROBABLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
YUGANSKNEFTEGAZ
RUSSIA
SPE CASE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	56,679	1,129	10,420,114	749,587	1,263,854	4,200,208	1,245,985	2,960,480	2,960,480	2,806,168
2007	62,242	1,763	11,470,609	758,459	1,322,400	2,026,196	1,981,916	5,381,638	5,381,638	4,617,597
2008	67,117	2,528	12,400,630	761,016	1,381,359	2,195,892	2,128,101	5,934,262	5,934,262	4,609,135
2009	71,931	3,420	13,322,297	762,948	1,386,834	2,359,760	2,273,890	6,538,865	6,538,865	4,597,323
2010	75,781	4,390	14,074,127	771,130	1,311,424	2,489,368	2,390,185	7,112,020	7,112,020	4,526,336
2011	75,779	4,380	14,082,548	775,896	1,342,890	2,497,259	2,356,073	7,110,430	7,110,430	4,096,372
2012	73,856	4,254	13,729,595	789,216	1,352,917	2,442,275	2,248,118	6,897,069	6,897,069	3,596,825
2013	73,221	4,220	13,622,366	808,240	1,269,092	2,426,233	2,217,736	6,901,065	6,901,065	3,257,777
2014	73,987	4,268	13,769,432	815,517	1,166,016	2,449,522	2,238,653	7,099,724	7,099,724	3,033,868
2015	73,822	4,281	13,745,791	831,037	1,064,532	2,441,182	2,222,665	7,186,375	7,186,375	2,779,813
2016	72,623	4,211	13,529,560	847,284	894,927	2,396,775	2,173,912	7,216,662	7,216,662	2,526,930
2017	70,585	4,111	13,160,737	862,636	919,785	2,328,432	2,112,146	6,937,738	6,937,738	2,198,998
2018	68,302	3,993	12,739,963	883,886	901,220	2,251,383	2,028,393	6,675,081	6,675,081	1,915,197
2019	65,220	3,837	12,174,652	893,819	921,924	2,150,941	1,922,169	6,285,799	6,285,799	1,632,560
2020	62,001	3,645	11,576,549	907,014	838,442	2,044,834	1,812,354	5,973,905	5,973,905	1,404,483
2021	58,110	3,389	10,858,564	931,316	592,072	1,916,000	1,680,005	5,739,171	5,739,171	1,221,402
2022	54,126	3,124	10,117,292	935,075	319,379	1,779,239	1,557,990	5,525,609	5,525,609	1,064,484
2023	50,174	2,885	9,383,760	940,929	228,453	1,644,243	1,447,148	5,122,987	5,122,987	893,376
2024	45,844	2,622	8,577,211	913,477	225,134	1,499,233	1,327,428	4,611,939	4,611,939	728,018
2025	42,164	2,429	7,894,619	879,929	327,902	1,379,496	1,226,812	4,080,480	4,080,480	583,074
2026	41,037	2,353	7,682,696	884,466	442,171	1,343,616	1,201,944	3,810,499	3,810,499	492,881
2027	37,571	2,137	7,033,782	854,788	159,833	1,227,300	1,099,848	3,692,013	3,692,013	432,292
2028	32,812	1,834	6,139,290	796,151	15,036	1,070,594	946,061	3,311,448	3,311,448	350,977
2029	29,033	1,603	5,431,164	763,754	11,474	946,138	826,423	2,883,375	2,883,375	276,642
2030	26,246	1,420	4,908,818	702,473	5,719	851,534	750,648	2,598,444	2,598,444	225,671
Subtotal	**1,460,263**	**78,226**	**271,846,166**	**20,820,043**	**19,664,789**	**50,357,653**	**43,416,603**	**137,587,078**	**137,587,078**	**53,868,199**
Remaining	737,524	41,098	137,998,691	17,876,905	7,471,657	24,150,610	21,217,663	67,281,856	67,281,856	1,902,879
Total	**2,197,787**	**119,324**	**409,844,857**	**38,696,948**	**27,136,446**	**74,508,263**	**64,634,266**	**204,868,934**	**204,868,934**	**55,771,078**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	66,818,704
9 Percent	60,869,559
11 Percent	51,358,957

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 41
PROJECTION of TOTAL PROVED-PLUS-PROBABLE-PLUS-POSSIBLE RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
YUGANSKNEFTEGAZ
RUSSIA
SPE CASE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	56,960	1,145	10,472,248	755,014	1,263,854	4,220,741	1,252,267	2,980,372	2,980,372	2,825,021
2007	62,928	1,792	11,597,901	767,101	1,332,487	2,047,853	2,004,992	5,445,468	5,445,468	4,672,372
2008	68,309	2,580	12,620,377	771,274	1,402,373	2,233,540	2,168,725	6,044,465	6,044,465	4,694,722
2009	73,348	3,492	13,585,252	774,155	1,391,037	2,404,626	2,322,831	6,692,603	6,692,603	4,705,418
2010	77,447	4,491	14,383,337	784,181	1,330,760	2,542,251	2,447,476	7,278,669	7,278,669	4,632,392
2011	77,641	4,489	14,427,889	790,422	1,359,346	2,556,442	2,419,847	7,301,832	7,301,832	4,206,646
2012	75,967	4,373	14,122,879	805,993	1,375,843	2,509,855	2,320,380	7,110,808	7,110,808	3,708,284
2013	75,513	4,348	14,047,467	827,075	1,298,898	2,499,596	2,295,155	7,126,743	7,126,743	3,364,316
2014	76,445	4,401	14,228,162	838,734	1,188,370	2,528,752	2,321,236	7,351,070	7,351,070	3,141,269
2015	76,494	4,430	14,241,422	856,639	1,096,271	2,526,958	2,311,327	7,450,227	7,450,227	2,881,883
2016	75,563	4,374	14,077,300	876,531	931,335	2,491,726	2,270,677	7,507,031	7,507,031	2,628,599
2017	73,693	4,278	13,739,691	895,124	966,264	2,429,207	2,213,402	7,235,694	7,235,694	2,293,439
2018	71,500	4,161	13,335,000	917,722	966,137	2,355,774	2,131,475	6,963,892	6,963,892	1,998,066
2019	68,486	4,001	12,782,779	932,152	1,014,105	2,258,932	2,024,658	6,552,932	6,552,932	1,701,934
2020	65,404	3,810	12,210,403	956,052	1,032,208	2,160,489	1,913,279	6,148,375	6,148,375	1,445,502
2021	61,942	3,582	11,571,971	989,316	818,155	2,048,579	1,785,873	5,930,048	5,930,048	1,262,027
2022	58,861	3,354	10,999,613	1,015,906	818,660	1,949,138	1,683,858	5,532,051	5,532,051	1,065,725
2023	56,557	3,218	10,575,319	1,047,083	778,910	1,875,108	1,608,965	5,265,253	5,265,253	918,182
2024	53,716	3,020	10,046,012	1,076,788	813,600	1,785,664	1,513,266	4,856,694	4,856,694	766,658
2025	49,979	2,851	9,356,277	1,047,946	915,955	1,672,862	1,395,914	4,323,600	4,323,600	617,813
2026	48,788	2,778	9,132,201	1,072,878	949,218	1,640,319	1,354,702	4,115,084	4,115,084	532,280
2027	45,791	2,568	8,570,269	1,069,495	874,979	1,549,877	1,250,808	3,825,110	3,825,110	447,874
2028	42,446	2,331	7,939,174	1,075,592	894,126	1,448,292	1,117,321	3,403,843	3,403,843	360,771
2029	38,917	2,086	7,276,221	1,065,426	395,302	1,330,551	997,562	3,487,380	3,487,380	334,590
2030	35,022	1,845	6,547,379	1,001,036	226,568	1,196,109	885,737	3,237,929	3,237,929	281,210
Subtotal	**1,567,717**	**83,798**	**291,886,543**	**23,009,635**	**25,434,761**	**54,263,241**	**46,011,733**	**143,167,173**	**143,167,173**	**55,486,993**
Remaining	1,118,519	60,115	209,130,632	29,223,426	25,305,962	38,582,965	27,320,983	88,697,296	88,697,296	2,234,456
Total	**2,686,236**	**143,913**	**501,017,175**	**52,233,061**	**50,740,723**	**92,846,206**	**73,332,716**	**231,864,469**	**231,864,469**	**57,721,449**

Notes:
1. Refer to Table 2 for prices and sales allocations.
2. There have been no adjustments to the extent and value of the probable or possible reserves to account for risk.

Present Worth at (10^3U.S.$)	
8 Percent	69,496,802
9 Percent	63,137,168
11 Percent	53,059,077

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

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DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas Texas 75244

APPRAISAL REPORT
as of
DECEMBER 31, 2005
on
OIL, CONDENSATE, and NATURAL GAS RESERVES
owned by
OAO NK ROSNEFT
in
CERTAIN FIELDS
in
RUSSIA

SEC CASE—ECONOMIC LIFE

SUMMARY

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DEGOLYER AND MACNAUGHTON
5001 SPRING VALLEY ROAD
SUITE 800 EAST
DALLAS, TEXAS 75244

APPRAISAL REPORT
as of
DECEMBER 31, 2005
on
OIL, CONDENSATE, and NATURAL GAS RESERVES
owned by
OAO NK ROSNEFT
in
CERTAIN FIELDS
in
RUSSIA

SEC CASE—ECONOMIC LIFE

SUMMARY

FOREWORD

Scope of Investigation This report presents an appraisal, as of December 31, 2005, of the extent and value of the proved crude oil, condensate, and natural gas reserves of certain fields owned by OAO NK Rosneft (Rosneft).

Rosneft owns interests in these fields through various subsidiary enterprises. The Rosneft subsidiary enterprises included in this report are OAO NK Rosneft—Dagneft (Dagneft), OAO Dagneftegaz (Dagneftegaz), OAO NK Rosneft—Krasnodarneftegaz (Krasnodarneftegaz), OOO Polar Light Company (Polar Light), OAO NK Rosneft—Purneftegaz (Purneftegaz), OAO NK Rosneft—Sakhalinmorneftegaz (Sakhalinmorneftegaz), OAO Selkupneftegaz (Selkupneftegaz), OAO Severnaya Neft (Severnaya Neft), OAO NK Rosneft—Stavropolneftegaz (Stavropolneftegaz), OAO Verkhnechonskneftegaz (Verkhnechonskneftegaz) and OAO Yuganskneftegaz (Yuganskneftegaz). Additionally, ZAO Vankorneft and LLC Taymirneft hold licenses to different portions of the Vankorskoye field. Rosneft owns 99.99 percent of ZAO Vankorneft and 60 percent of LLC Taymirneft. The majority of the estimated reserves are in the southern portion of the field owned by ZAO Vankorneft. In this report, reserves and values for both license areas are reported for the entire field. Also included in the evaluation are fields held directly by Rosneft in the Chechen Republic (Chechnya) and the Sakhalin-1 Project (Sakhalin-1) in which Rosneft holds an interest through a production sharing agreement (PSA).

These subsidiary enterprises, the Rosneft holdings in the Chechen Republic and the Sakhalin-1 project are collectively referred to hereinafter as “Rosneft Holdings.” All fields are held at 100 percent by the respective subsidiary enterprise. Rosneft’s ownership in all the subsidiary enterprises ranges between 15 and 100 percent. The estimated reserves and associated values are reported herein at 100 percent for those subsidiaries of which Rosneft has majority control, either through direct ownership or through voting rights. The estimated reserves and values for subsidiary enterprises which Rosneft does not control are reported at Rosneft’s ownership interest. Table 1 shows the ownership interest and the reported interest for each of the Rosneft Holdings reported herein. All of the fields evaluated are located in the Russian Federation.

Rosneft has represented that the Russian Law on Subsoil provides for the extension of production licenses at the request of the license holder if there exists economic reserves upon the expiration of the primary term, provided the license holder is in material compliance with the terms of the existing license. Furthermore, we have been advised that the Law on Subsoil was amended in 2000 to provide that new production or combined production and exploration licenses for new fields or upon the expiration of the term of existing licenses will no longer be limited to a specified number of years and may now be issued for the full useful life of the fields associated with such license. We understand that the principal requirements are that the license holder complies with the material terms of the license and that mineral extraction has not been completed. As in the past, Rosneft is required to submit to the appropriate government agency for approval, prior to production, individual field development plans based on the economic life of the field and not based on the term of the associated license. Rosneft has already extended the licenses for all the fields in the Dagneft subsidiary to or beyond the economic life. Furthermore Rosneft has represented that upon completion of the primary term of its current licenses each of the other subsidiary enterprises intends to extend these licenses to the end of the economic life of the associated fields, and that they intend to proceed accordingly with development and operation of these fields. Based on these representations we have included as proved reserves those volumes that are estimated to be economically producible from the fields evaluated after the expiration of the primary term of their licenses.

In June 1996, the PSA for the Sakhalin-1 project was approved. In December 2001, the Sakhalin-1 project was declared commercial by the Russian Government, at which time the initial 20-year development period specified by the PSA commenced. All of the proved reserves estimated in this report attributable to the Sakhalin-1 license project are estimated to be produced before the end of the primary development period in December 2021.

Reserves estimated in this report are expressed as gross reserves and net reserves owned or controlled by Rosneft (Rosneft net). Gross reserves are defined as the total estimated oil, condensate, and gas to be produced from the fields after December 31, 2005. Rosneft net reserves are defined as that portion of the gross reserves attributable to Rosneft after deducting interests owned by others. For the Sakhalin-1 PSA, these reserves are expressed in terms of the barrel equivalent of the cost recovery and profit share (entitlement) after deducting interests owned by others. The product prices on which the cost recovery and profit share are based are summarized in Table 2. The estimated proved oil, condensate, and gas reserves, expressed in English and metric units, are summarized in Tables 3 through 8 for the Rosneft Holdings.

This report presents values for proved reserves that were estimated using prices and costs, as of December 31, 2005, without consideration of escalations based on future conditions. Current estimates of prices, operating expenses, and capital costs were used for the life of the properties. Prices and costs were provided in Russian rubles (R) or United States dollars (US.$). The exchange rate effective December 31, 2005, was R28.7825 per U.S.$1.00. All values were estimated in US. dollars, and all prices, costs, and revenue shown in this report are expressed in U.S. dollars. A detailed explanation of future price and costs assumptions is included in the Valuation of Reserves section of this report. The estimated value of the proved reserves for the Rosneft Holdings is summarized in Tables 9 through 14.

In this report, values for proved reserves are expressed in terms of future gross revenue, future net revenue, present worth and Rosneft future net revenue and Rosneft present worth. In all subsidiary enterprises except Sakhalin-1, future gross revenue is defined as that revenue to be realized from the production and sale of the estimated gross reserves. In Sakhalin-1, future gross revenue is defined as that revenue to be realized from the sale of the PSA contractor entitlement. Future net revenue is calculated by deducting estimated transportation costs, operating expenses, abandonment costs, capital costs, royalty where applicable, estimated local profit taxes, and other taxes as specified by Rosneft, from future gross revenue. Present worth is defined as future net revenue discounted at an arbitrary rate over the expected period of realization. Rosneft future net revenue is defined as Rosneft's share of future net revenue after the deduction of revenue attributable to others. Rosneft present worth is defined as Rosneft future net revenue discounted at an arbitrary rate over the expected period of realization. Present worth and Rosneft present worth values using a discount rate of 10 percent are reported in detail. Rosneft present worth values using discount rates of 8, 9, and 11 percent are reported as totals. All values presented in this report are expressed in thousands of United States dollars (10^3U.S.$).

Estimates of oil, condensate, and gas reserves and future net revenue should be regarded only as estimates that may change as further production history and additional information become available. Not only are such reserves and revenue estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Authority This report was authorized by Mr. Sergei M. Bogdanchikov, President of Rosneft.

Source of Information Information used in the preparation of this report was obtained from Rosneft. In the preparation of this report we have relied, without independent verification, upon information furnished by Rosneft with respect to ownership, production, current costs of operation and development, current prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented. A field examination of the properties was not considered necessary for the purposes of this report.

CLASSIFICATION of RESERVES

Petroleum reserves included in this report are classified as proved and are judged to be economically producible in future years from known reservoirs under existing economic and operating conditions and assuming continuation of current regulatory practices using conventional production methods and equipment. In the analyses of production-decline curves, reserves were estimated only to the limit of economic rates of production under existing economic and operating conditions using prices and costs as of the date the estimate is made, including consideration of changes in existing prices provided only by contractual arrangements but not including escalations based upon future conditions. Proved reserves classifications used in this report are in accordance with the reserves definitions of Rules 4-10(a) (1)-(13) of Regulation S-X of the Securities and Exchange Commission (SEC) of the United States. The petroleum reserves are classified as follows:

Proved oil and gas reserves—Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, *i.e.*, prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

(i) Reservoirs are considered proved if economic producibility is supported by either actual production or conclusive formation test. The area of a reservoir considered proved includes (A) that portion delineated by drilling and defined by gas-oil and/or oil-water contacts, if any; and (B) the immediately adjoining portions not yet drilled, but which can be reasonably judged as economically productive on the basis of available geological and engineering data. In the absence of information on fluid contacts, the lowest known structural occurrence of hydrocarbons controls the lower proved limit of the reservoir.

(ii) Reserves which can be produced economically through application of improved recovery techniques (such as fluid injection) are included in the "proved classification when successful testing by a pilot project, or the operation of an installed program in the reservoir, provides support for the engineering analysis on which the project or program was based.

(iii) Estimates of proved reserves do not include the following: (A) oil that may become available from known reservoirs but is classified separately as "indicated additional reserves"; (B) crude oil, natural gas, and natural gas liquids, the recovery of which is subject to reasonable doubt because of uncertainty as to geology, reservoir characteristics, or economic factors; (C) crude oil, natural gas, and natural gas liquids, that may occur in undrilled prospects; and (D) crude oil, natural gas, and natural gas liquids, that may be recovered from oil shales, coal, gilsonite, and other such sources.

Proved developed oil and gas reserves—Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery should be included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

Proved undeveloped reserves—Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

ESTIMATION of RESERVES

Estimates of reserves were prepared by the use of standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of each reservoir was tempered by experience with similar reservoirs, stage of development, quality and completeness of basic data, and production history.

When applicable, the volumetric method was used to estimate the original oil in place (OOIP) and original gas in place (OGIP). Structure maps were prepared to delineate each reservoir and isopach maps were constructed to estimate reservoir volume. Electrical logs, radioactivity logs, core analyses, and other available data were used to prepare these maps as well as to estimate representative values for porosity and water saturation. When adequate data were available and when circumstances justified, material-balance and other engineering methods were used to estimate OOIP or OGIP.

Estimates of ultimate recovery were obtained after applying recovery factors to OOIP or OGIP. These recovery factors were based on consideration of the type of energy inherent in the reservoirs, analyses of the petroleum, the structural positions of the properties, and the production histories. When applicable, material-balance and other engineering methods were used to estimate recovery factors. In such cases, an analysis of reservoir performance, including production rate, reservoir pressure, and gas-oil ratio behavior, was used in the estimation of reserves.

For depletion-type reservoirs or those whose performance disclosed a reliable decline in producing-rate trends or other diagnostic characteristics, reserves were estimated by the application of appropriate decline curves or other performance relationships. In the analyses of production-decline curves, reserves were estimated only to the limits of economic production based on current economic conditions.

In certain cases, when the previously named methods could not be used, reserves were estimated by analogy with similar wells or reservoirs for which more complete data were available.

Data available from wells drilled through December 31, 2005, have been used to prepare the estimates shown herein. Gross production through December 2005 was deducted from the gross ultimate recovery to determine the estimated gross reserves. Estimates of prices, as of December 31, 2005, were used in calculations to estimate the entitlement reserves for properties in the Sakhalin-1 PSA only to the limit of the current license.

Gas reserves estimated herein are reported as sales-gas volumes. Sales gas is defined as the total volume of gas to be produced from the reservoirs, measured at the point of delivery, after reduction for field separation, usage, and losses. Sales gas is made up of associated gas, including gas-cap and solution gas, from certain oil fields and nonassociated gas from certain gas reservoirs. Gas reserves estimated herein are expressed at a temperature base of 20 degrees Centigrade (°C) and a pressure base of 1 atmosphere. Estimates of gas reserves are expressed in millions of cubic feet (10^6ft^3) and in millions of cubic meters (10^6m^3).

Oil and condensate reserves estimated are to be recovered by normal separation in the field. Estimates of oil and condensate are expressed in thousands of barrels (10^3bl) and thousands of metric tons (10^3mt). In these estimates, 1 barrel equals 42 US. gallons.

VALUATION of RESERVES

Revenue values in this report were estimated using initial prices and costs provided by Rosneft. Future prices were estimated using guidelines established by the SEC and the Financial Accounting Standards Board (FASB). The prices used in this report have been reviewed by Rosneft, which has represented that the prices are those that Rosneft received on December 31, 2005. Values presented herein were estimated in U.S. dollars (U.S.$) using the December 31, 2005, Central Moscow Bank exchange rate of R28.7825 per U.S.$1.00. In this report, values for proved reserves are based on projections of estimated future production and revenue prepared for these properties. The following assumptions were supplied by Rosneft and used for estimating future prices and costs in this report.

Prices—Sales prices of oil, condensate, and gas were based on December 2005 information provided by Rosneft and are presented in Table 2.

Expenses and Costs—Current expenses and costs and forecasts provided by Rosneft were used in estimating future values required to operate the fields. In certain cases, future values, either higher or lower than current values, were used because of anticipated changes in operating conditions, but no general escalation that might result from inflation was applied.

Operating Expenses

Operating expenses consist of fixed and variable components that are projected to facilitate production and sale of the estimated reserves.

Capital Costs

Capital costs for drilling wells, facilities, and other significant development programs in the fields evaluated were based on actual area historical costs and forecasted costs from Rosneft.

Transportation Costs

Transportation costs for sales of crude oil, condensate, and gas were provided by Rosneft and are presented in Table 2.

Depreciation

Future capital expenditures were amortized over a period from 5 to 16 years, depending on the type of capital expenditures. Depreciation was applied from the first year of the expenditure.

Abandonment Costs

Abandonment costs were provided by Rosneft.

Fiscal Terms—A continuation of all regulatory practices in place, or approved, as of December 31, 2005, was maintained in this analysis. Although most fields developed in Russia are done so under concessionary terms, the Sakhalin-1 project has been approved to be developed under a PSA. A separate discussion of the major components of each fiscal regime follows:

Concessionary Agreements

Russian concessionary terms were used in the evaluation of all the fields for Dagneft, Dagneftegaz, Cechnya, Krasnodarneftegaz, Polar Light, Purneftegaz, Sakhalinmorneftegaz, Selkupneftegaz, Severnaya Neft, Stavropolneftegaz, Vankorskoye Field, Verhnechonskneftegaz, and Yuganskneftegaz. The most prominent taxes are discussed as follows:

Value-Added Tax (VAT)

VAT was estimated using a rate of 18 percent applied to the sales price for oil and condensate and gas sold domestically.

Asset Tax

Asset taxes were estimated annually using a rate of 2.2 percent applied to the undepreciated book value of the properties.

Social Obligation Tax

Social obligation taxes were estimated using a rate between 13 and 26 percent, depending on the subsidiary, applied to labor costs.

Production Tax

The production tax was estimated for oil, condensate, and nonassociated gas as follows:

Oil—For 2006, the oil production tax was estimated using a reference rate of R419 per metric ton with an adjustment for the market price of oil. After 2006, oil production tax was estimated using a rate of 16.5 percent applied to the future gross revenue from oil sales less transportation costs.

Condensate—The condensate production tax was estimated using a rate of 17.5 percent applied to the future gross revenue from condensate sales less transportation costs.

Gas—The gas production tax was applied only to the nonassociated sales gas at a reference rate of R147 per thousand cubic meters.

Profit Tax

Local tax on profit was estimated using a rate of 24 percent applied to taxable income. Taxable income was calculated by deducting taxes, transportation, operating expenses, and depreciation from future gross revenue.

PSA Terms

Presented as follows are the main PSA terms that were applied to the evaluation of the Sakhalin-1 project.

Royalty

Royalty for the Sakhalin-1 project was calculated as 8 percent of the gross revenue. Royalty is paid in-kind and thus reduces Rosneft's entitlement.

Revenue Available for Sharing

The revenue available for sharing is the total project future gross revenue less the royalty.

Cost Recovery

Operating expenses, capital costs, and abandonment costs are fully recoverable from a percentage of gross revenue less royalty. The maximum cost recovery limit for the Sakhalin-1 project is 85 percent. Revenue allocated for cost recovery, which is in excess of the recoverable costs, is divided between the nongovernmental participants (or collectively, the contractor) and the government in the same proportion as the profit share.

Profit Share

Profit share is defined as gross revenue less royalty less cost recovery. The contractor's portion of profit share varies with the real rate of return (RROR) of the project as follows.

RROR	**Contractor's Profit Share (Percent)**
Less than 17.5 percent	85
Greater than or equal to 17.5 percent and less than 28 percent	50
Greater than or equal to 28 percent	30

Profit Taxes

A 35-percent profit tax is based on the contractor's taxable income, which is the contractor's profit share less certain expenses not eligible for cost recovery.

The information relating to estimated Rosneft net proved reserves, estimated Rosneft future net revenue from proved reserves, and present worth of estimated Rosneft future net revenue from proved reserves of oil, condensate, and gas contained in this report has been prepared consistent with Paragraphs 10-13, 15, and 30(a)-(b) of Statement of Financial Accounting Standards No. 69 (November 1982) of the FASB and Rules 4-10(a) (1)-(13) of Regulation S-X and Rule 302(b) of Regulation S-K of the U.S. SEC; provided, however, that i) certain estimated data have not been provided with respect to changes in reserves information, and ii) certain economically producible volumes of reserves beyond the primary term of the current production licenses have been classified as proved reserves in this report based on Rosneft's representation that each of the subsidiary enterprises discussed herein has the ability to and intends to extend the applicable current production licenses to the end of the economic life of the associated fields and that Rosneft believes with reasonable certainty that the inclusion of the reserves and revenue under extended license terms is consistent with SEC regulations in light of (a) Rosneft's interpretation of Article 10 of the Law of the Russian Federation "On Subsoil" No. 2395-1, as amended in May 2004, which provides that the term of a subsoil lease shall be extended at the initiative of the subsoil user if necessary to finish production in the field provided there are no violations of the conditions of the license, (b) Rosneft's success to date in extending various licenses, and (c) Rosneft's representation of recent (May 2006) confirmation from Russia's Ministry of Natural Resources that Rosneft is not in violation of any of its licenses. We are not in a position to offer an opinion on the duration of the subsidiary enterprises' production licenses under the Russian Law on Subsoil, but, in light of the above, believe Rosneft's view on the probability of license extensions to be reasonable although such view may not be confirmed by the SEC.

To the extent the above-enumerated rules, regulations, and statements require determinations of an accounting or legal nature or information beyond the scope of this report, we are necessarily unable to express an opinion as to whether the above-described information is in accordance therewith or sufficient therefor.

SUMMARY and CONCLUSIONS

Rosneft owns interests in certain fields located in the Russian Federation through its Dagneft, Dagneftegaz, Krasnodarneftegaz, Polar Light, Purneftegaz, Sakhalinmorneftegaz, Selkupneftegaz, Severnaya Neft, Stavropolneftegaz, Vankorskoye Field, Verkhnechonskneftegaz, and Yuganskneftegaz subsidiary enterprises, through its direct ownership of fields in the Chechen Republic, and through its participation in the Sakhalin-1 project. The estimated reserves and associated values are reported herein at 100 percent for those subsidiaries of which Rosneft has majority control, either through direct ownership or through voting rights. The estimated Rosneft net total proved oil, condensate, and gas reserves, as of December 31, 2005, are summarized as follows, expressed in English and metric units. Oil and condensate volumes are expressed in thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt). Gas volumes are expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3):

		Rosneft Net Reserves			
		English Units		Metric Units	
Subsidiary	**Reserves Classification**	**Oil and Condensate (10^3bbl)**	**Sales Gas (10^6ft^3)**	**Oil and Condensate (10^3mt)**	**Sales Gas (106^6m^3)**
Dagneft[(1)]	Proved Developed	14,488	0	1,904	0
	Proved Undeveloped	0	0	0	0
	Total Proved	**14,488**	**0**	**1,904**	**0**
Dagneftegaz[(2)]	Proved Developed	3,128	226,371	417	6,410
	Proved Undeveloped	0	0	0	0
	Total Proved	**3,128**	**226,371**	**417**	**6,410**
Chechnya[(3)]	Proved Developed	161,424	153,351	21,210	4,343
	Proved Undeveloped	0	0	0	0
	Total Proved	**161,424**	**153,351**	**21,210**	**4,343**
Krasnodarneftegaz[(4)]	Proved Developed	93,165	1,195,751	12,865	33,859
	Proved Undeveloped	33	39,090	4	1,107
	Total Proved	**93,198**	**1,234,841**	**12,869**	**34,966**
Polar Light[(5)]	Proved Developed	17,271	0	2,345	0
	Proved Undeveloped	1,857	0	252	0
	Total Proved	**19,128**	**0**	**2,597**	**0**
Purneftegaz[(6)]	Proved Developed	1,229,552	2,855,975	168,165	80,872
	Proved Undeveloped	345,646	821,242	47,388	23,256
	Total Proved	**1,575,198**	**3,677,217**	**215,553**	**104,128**
Sakhalin-1[(7)]	Proved Developed	15,144	73,352	2,044	2,077
	Proved Undeveloped	0	0	0	0
	Total Proved	**15,144**	**73,352**	**2,044**	**2,077**

Subsidiary	Reserves Classification	Rosneft Net Reserves — English Units: Oil and Condensate (10^3bbl)	English Units: Sales Gas (10^6ft^3)	Metric Units: Oil and Condensate (10^3mt)	Metric Units: Sales Gas (106^6m^3)
Sakhalinmorneftegaz[8]	Proved Developed	103,539	253,917	14,356	7,191
	Proved Undeveloped	11,463	15,012	1,531	425
	Total Proved	**115,002**	**268,929**	**15,887**	**7,616**
Selkupneftegaz[9]	Proved Developed	47,212	283,454	5,250	8,027
	Proved Undeveloped	25,135	29,558	3,415	837
	Total Proved	**72,347**	**313,012**	**8,665**	**8,864**
Severnaya Neft[10]	Proved Developed	161,507	0	21,919	0
	Proved Undeveloped	279,444	0	38,346	0
	Total Proved	**440,951**	**0**	**60,265**	**0**
Stavropolneftegaz[11]	Proved Developed	69,804	16,544	9,234	467
	Proved Undeveloped	0	0	0	0
	Total Proved	**69,804**	**16,544**	**9,234**	**467**
Vankorskoye Field[12]	Proved Developed	0	0	0	0
	Proved Undeveloped	0	0	0	0
	Total Proved	**0**	**0**	**0**	**0**
Verhnechonskneftegaz[13]	Proved Developed	0	0	0	0
	Proved Undeveloped	0	0	0	0
	Total Proved	**0**	**0**	**0**	**0**
Yuganskneftegaz[14]	Proved Developed	5,651,459	678,979	778,974	19,222
	Proved Undeveloped	2,503,497	106,011	343,958	3,004
	Total Proved	**8,154,956**	**784,990**	**1,122,932**	**22,226**
	Total				
	Proved Developed	**7,567,693**	**5,737,694**	**1,038,683**	**162,468**
	Proved Undeveloped	**3,167,075**	**1,010,913**	**434,894**	**28,629**
	Total Proved	**10,734,768**	**6,748,607**	**1,473,577**	**191,097**

(1) Includes those reserves attributable to the 31.30 percent interest in Dagneft not owned by Rosneft.

(2) Includes those reserves attributable to the 18.78 percent interest in Dagneftegaz not owned by Rosneft.

(3) Represents Rosneft's 100 percent ownership of the fields in the Chechen Republic.

(4) Includes those reserves attributable to the 4.54 percent interest in Krasnodarneftegaz not owned by Rosneft.

(5) Represents Rosneft's 50 percent ownership in Polar Light.

(6) Includes those reserves attributable to the 16.91 percent interest in Purneftegaz not owned by Rosneft.

(7) Rosneft's share of the contractor's entitlement in Sakhalin-1, reported herein as 20 percent, represents Rosneft's direct ownership of 8.5 percent plus a consolidation of the 11.5 percent of Sakhalin-1 owned by Sakhalinmoreneftegaz, which includes the 35.38 percent of Sakhalinrnmoreneftegaz not owned by Rosneft.

(8) Includes those reserves attributable to the 35.38 percent interest in Sakhalinmorneftegaz not owned by Rosneft.

(9) Represents Rosneft's 100 percent ownership of Selkupneftegaz.

(10) Represents Rosneft's 100 percent ownership of Severnaya Neft.

(11) Includes those reserves attributable to the 24.82 percent interest in Stavropolneftegaz not owned by Rosneft.

(12) Includes those reserves attributable to the 40-percent interest in the northern portion of the field and the 0.01-percent interest in the southern portion of the field not owned by Rosneft.

(13) Represents Rosneft's 25.94 percent ownership of Verhnechonskneftegaz.

(14) Includes those reserves attributable to the 23.21 percent interest in Yuganskneftegaz not owned by Rosneft.

The Rosneft future net revenue and Rosneft present worth to be derived from the production and sale of the estimated total proved Rosneft net reserves, as of December 31, 2005, under the aforementioned assumptions concerning future prices and costs are summarized as follows, expressed in thousands of U.S. dollars (10^3U.S.$):

Subsidiary	Reserves Classification	Rosneft Future Net Revenue (10^3U.S.$)	Rosneft Present Worth at 10 Percent (10^3U.S.$)
Dagneft[(1)]	Proved Developed	111,980	59,697
	Proved Undeveloped	0	0
	Total Proved	**111,980**	**59,697**
Dagneftegaz[(2)]	Proved Developed	104,667	55,310
	Proved Undeveloped	0	0
	Total Proved	**104,667**	**55,310**
Chechnya[(3)]	Proved Developed	1,883,289	1,067,584
	Proved Undeveloped	0	0
	Total Proved	**1,883,289**	**1,067,584**
Krasnodarneftegaz[(4)]	Proved Developed	1,594,740	912,958
	Proved Undeveloped	23,022	6,938
	Total Proved	**1,617,762**	**919,896**
Polar Light[(5)]	Proved Developed	165,813	126,059
	Proved Undeveloped	13,054	7,902
	Total Proved	**178,867**	**133,961**
Purneftegaz[(6)]	Proved Developed	17,694,884	6,049,184
	Proved Undeveloped	4,557,425	1,400,446
	Total Proved	**22,252,309**	**7,449,630**
Sakhalin-1[(7)]	Proved Developed	550,397	414,787
	Proved Undeveloped	0	0
	Total Proved	**550,397**	**414,787**
Sakhalinmorneftegaz[(8)]	Proved Developed	1,427,635	858,779
	Proved Undeveloped	175,273	99,553
	Total Proved	**1,602,908**	**958,332**
Selkupneftegaz[(9)]	Proved Developed	478,454	262,703
	Proved Undeveloped	169,534	50,182
	Total Proved	**647,988**	**312,885**
Severnaya Neft[(10)]	Proved Developed	1,500,333	1,128,176
	Proved Undeveloped	2,399,017	950,466
	Total Proved	**3,899,350**	**2,078,642**
Stavropolneftegaz[(11)]	Proved Developed	895,261	512,730
	Proved Undeveloped	0	0
	Total Proved	**895,261**	**512,730**
Vankorskoye Field[(12)]	Proved Developed	(1,258)	(1,192)
	Proved Undeveloped	0	0
	Total Proved	**(1,258)**	**(1,192)**

Subsidiary	Reserves Classification	Rosneft Future Net Revenue (10^3U.S.$)	Rosneft Present Worth at 10 Percent (10^3U.S.$)
Verhnechonskneftegaz(13)	Proved Developed	0	0
	Proved Undeveloped	0	0
	Total Proved	**0**	**0**
Yuganskneftegaz(14)	Proved Developed	71,106,814	24,857,538
	Proved Undeveloped	34,214,141	12,034,773
	Total Proved	**105,320,955**	**36,892,311**
	Total		
	Proved Developed	**97,513,009**	**36,304,313**
	Proved Undeveloped	**41,551,466**	**14,550,260**
	Total Proved	**139,064,475**	**50,854,573**

(1) Includes future net revenue and present worth attributable to the 31.30 percent interest in Dagneft not owned by Rosneft.

(2) Includes future net revenue and present worth attributable to the 18.78 percent interest in Dagneftegaz not owned by Rosneft.

(3) Represents Rosneft's 100 percent ownership of the fields in the Chechen Republic.

(4) Includes future net revenue and present worth attributable to the 4.54 percent interest in Krasnodarneftegaz not owned by Rosneft.

(5) Represents Rosneft's 50 percent ownership of the fields in Polar Light.

(6) Includes future net revenue and present worth attributable to the 16.91 percent interest in Purneftegaz not owned by Rosneft.

(7) Rosneft's share of the contractor's entitlement in Sakhalin-1, reported herein as 20 percent, represents Rosneft's direct ownership of 8.5 percent plus a consolidation of the 11.5 percent of Sakhalin-1 owned by Sakhalinmoreneftegaz, which includes the 35.38 percent of Sakhalinmoreneftegaz not owned by Rosneft.

(8) Includes future net revenue and present worth attributable to the 35.38 percent interest in Sakhalinmorneftegaz not owned by Rosneft.

(9) Represents Rosneft's 100 percent ownership of Selkupneftegaz.

(10) Represents Rosneft's 100 percent ownership of Severnaya Neft.

(11) Includes future net revenue and present worth attributable to the 24.82 percent interest in Stavropolneftegaz not owned by Rosneft.

(12) Includes future net revenue and present worth attributable to the 40-percent interest in the northern portion of the field and the 0.01-percent interest in the southern portion of the field not owned by Rosneft.

(13) Represents Rosneft's 25.94 percent ownership of Verhnechonskneftegaz.

(14) Includes future net revenue and present worth attributable to the 23.21 percent interest in Yuganskneftegaz not owned by Rosneft.

Gas reserves estimated herein are sales gas volumes expressed at a temperature base of 20 °C and a pressure base of 1 atmosphere.

The separately bound appendices which accompany this report contain tables summarizing Rosneft's reserves and revenue by subsidiary enterprise.

Submitted,

/s/ DeGolyer and MacNaughton

DeGOLYER and MacNAUGHTON

SIGNED: May 17, 2006

[STATE OF TEXAS SEAL] /s/ Thomas A. Schob, P.E.

Thomas A. Schob, P.E.
Senior Vice President
DeGolyer and MacNaughton

TABLE 1
ROSNEFT HOLDINGS EVALUATED
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—ECONOMIC LIFE

Rosneft Holdings	Rosneft Ownership (%)	Reported Net Interest (%)
Dagneft	68.70	100.00
Dagneftegaz	81.22	100.00
Chechnya	100.00	100.00
Krasnodarneftegaz	95.46	100.00
Polar Light	50.00	50.00
Purneftegaz	83.09	100.00
Sakhalin-1	15.93	20.00
Sakhalinmorneftegaz	64.62	100.00
Selkupneftegaz	100.00	100.00
Severnaya Neft	100.00	100.00
Stavropolneftegaz	75.18	100.00
Vankorskoye Field		100.00
Verhnechonskneftegaz	25.94	25.94
Yuganskneftegaz	76.79	100.00

Notes:

1. Rosneft has represented that it controls the management of the Rosneft Holdings listed above, except for Polar Light, Verhnechonskneftegaz and Sakhalin-1. For those Rosneft Holdings controlled by Rosneft, 100 percent of the reserves associated with the subsidiary enterprise are reported here in as Rosneft Net Reserves. Rosneft future net revenue and Rosneft present worth are attributed to Rosneft Net Reserves.

2. Rosneft's share of the contractor's entitlement in Sakhalin-1, reported herein as 20 percent, represents Rosneft's direct ownership of 8.5 percent plus a consolidation of the 11.5 percent of Sakhalin-1 owned by Sakhalinmorneftegaz, which includes the 35.38 percent of Sakhalinmorneftegaz not owned by Rosneft.

3. Rosneft net reserves reported herein for Sakhalin-1 represent 20 percent of the contractor's entitlement which varies depending on the contractor's share of cost oil and profit oil.

4. ZAO Vankorneft and LLC Taymirneft hold licenses to different portions of the Vankorskoye field. Rosneft owns 99.99-percent of ZAO Vankorneft and 60-percent of LLC Taymirneft. The majority of the estimated reserves are in the southern portion of the field owned by ZAO Vankorneft. In this report, reserves and values for both license areas are reported at 100-percent for the entire field.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 2
ECONOMIC PARAMETERS
as of
DECEMBER 31, 2005
of
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—ECONOMIC LIFE

Exchange Rate, Ruble/U.S. $28.7825

Oil Sales Allocation	**Dagneft**		**Dagneftegaz**		**Chechnya**	
Far Abroad Export Market, %	100		0		90.1	
Near Abroad Export Market %	0		0		0.0	
Domestic Market, %	0		100		9.9	
Far Abroad Export Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	10,662	370.43	0	0.00	11,491	399.24
Less						
Export Tariff	4,758	165.31	0	0.00	4,758	165.31
Subtotal Price	5,904	205.12	0	0.00	6,733	233.93
Transportation	1,060	36.83	0	0.00	436	15.15
Net Export Oil Price	4,844	168.30	0	0.00	6,297	218.78
Near Abroad Export Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0.00	0	0.00	0	0.00
Less						
VAT	0	0.00	0	0.00	0	0.00
Export Tariff	0	0.00	0	0.00	0	0.00
Subtotal Price	0	0.00	0	0.00	0	0.00
Transportation	0	0.00	0	0.00	0	0.00
Net Export Oil Price	0	0.00	0	0.00	0	0.00
Domestic Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0.00	4,321	150.13	6,443	223.85
Less						
VAT	0	0.00	659	22.90	983	34.15
Subtotal Price	0	0.00	3,662	127.23	5,460	189.70
Transportation	0	0.00	0	0.00	475	16.50
Net Domestic Oil Price	0	0.00	3,662	127.23	4,985	173.20
Condensate Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0	4,321	150.13	0	0.00
Less						
VAT or Export Tariff	0	0	659	22.90	0	0.00
Subtotal Condensate Price	0	0	3,662	127.23	0	0.00
Transportation	0	0	0	0.00	0	0.00
Net Condensate Price	0	0	3,662	127.23	0	0.00
Gas Price	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**
Contract Price	767	26.65	767	26.65	207	7.19
Less						
VAT	117	4.06	117	4.06	32	1.11
Net Gas Price	650	22.58	650	22.58	175	6.08

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

Oil Sales Allocation	Krasnodarneftegaz	Polar Lights	Purneftegaz
Far Abroad Export Market, %	45.9	47.6	63.5
Near Abroad Export Market, %	0.0	8.3	0.0
Domestic Market, %	54.1	44.1	36.5

Far Abroad Export Oil Price	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt
Contract Price	10,187	353.93	11,025	383.05	11,639	404.38
Less						
Export Tariff	4,758	165.31	4,758	165.31	4,758	165.31
Subtotal Price	5,429	188.62	6,267	217.74	6,881	239.07
Transportation	146	5.07	817	28.39	2,030	70.53
Net Export Oil Price	5,283	183.55	5,450	189.35	4,851	168.54

Near Abroad Export Oil Price	Ruble/ mt	U.S.$/mt	Ruble/ mt	U.S.$/mt	Ruble/mt	U.S.$/mt
Contract Price	0	0.00	5,896	204.85	0	0.00
Less						
VAT	0	0.00	0	0.00	0	0.00
Export Tariff	0	0.00	0	0.00	0	0.00
Subtotal Price	0	0.00	5,896	204.85	0	0.00
Transportation	0	0.00	817	28.39	0	0.00
Net Export Oil Price	0	0.00	5,079	176.46	0	0.00

Domestic Oil Price	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt
Contract Price	7,977	277.15	5,376	186.78	11,775	409.10
Less						
VAT	1,217	42.28	820	28.49	1,796	62.40
Subtotal Price	6,760	234.86	4,556	158.29	9,979	346.70
Transportation	1,651	57.36	220	7.64	2,936	102.01
Net Domestic Oil Price	5,109	177.50	4,336	150.65	7,043	244.70

Condensate Price	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt
Contract Price	0	0.00	0	0.00	11,361	394.72
Less						
VAT or Export Tariff	0	0.00	0	0.00	4,758	165.31
Subtotal Condensate Price	0	0.00	0	0.00	6,603	229.41
Transportation	0	0.00	0	0.00	2,288	79.49
Net Condensate Price	0	0.00	0	0.00	4,315	149.92

Gas Price	Ruble/10^3m^3	U.S.$/$10^3m^3$	Ruble/10^3m^3	U.S.$/$10^3m^3$	Ruble/10^3m^3	U.S.$/$10^3m^3$
Contract Price	1,186	41.21	0	0.00	353	12.26
Less						
VAT	181	6.29	0	0.00	54	1.88
Net Gas Price	1,005	34.92	0	0.00	299	10.39

Oil Sales Allocation	Sakhalinmorneftegaz	Selkupneftegaz	Severnaya Neft
Far Abroad Export Market, %	43.7	63.5	75.4
Near Abroad Export Market, %	0.0	0.0	24.3
Domestic Market, %	56.3	36.5	0.3

Far Abroad Export Oil Price	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt
Contract Price	11,183	388.53	11,639	404.38	10,855	377.15
Less						
Export Tariff	4,758	165.31	4,758	165.31	4,758	165.31
Subtotal Price	6,425	223.23	6,881	239.07	6,097	211.83
Transportation	550	19.11	2,030	70.53	1,632	56.72
Net Export Oil Price	5,875	204.12	4,851	168.54	4,465	155.12

Near Abroad Export Oil Price	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt
Contract Price	0	0.00	0	0.00	6,548	227.50
Less						
VAT	0	0.00	0	0.00	0	0.00
Export Tariff	0	0.00	0	0.00	0	0.00
Subtotal Price	0	0.00	0	0.00	6,548	227.50
Transportation	0	0.00	0	0.00	1,727	60.00
Net Export Oil Price	0	0.00	0	0.00	4,821	167.50

Domestic Oil Price	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt
Contract Price	9,755	338.92	11,775	409.10	5,135	178.41
Less						
VAT	1,488	51.70	1,796	62.40	783	27.20
Subtotal Price	8,267	287.22	9,979	346.70	4,352	151.20
Transportation	1,953	67.85	2,936	102.01	0	0.00
Net Domestic Oil Price	6,314	219.37	7,043	244.70	4,352	151.20

Condensate Price	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt	Ruble/mt	U.S.$/mt
Contract Price			11,361	394.72	0	0.00
Less						
VAT or Export Tariff			4,758	165.31	0	0.00
Subtotal Condensate Price			6,603	229.41	0	0.00
Transportation			2,288	79.49	0	0.00
Net Condensate Price			4,315	149.92	0	0.00

Gas Price	Ruble/10^3m^3	U.S.$/$10^3m^3$	Ruble/10^3m^3	U.S.$/$10^3m^3$	Ruble/10^3m^3	U.S.$/$10^3m^3$
Contract Price	802	27.86	353	12.26	0	0.00
Less						
VAT	122	4.25	54	1.88	0	0.00
Net Gas Price	680	23.61	299	10.39	0	0.00

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

Oil Sales Allocation	Stavropolneftegaz		Vankorskoye Field		Verhnechonskneftegaz	
Far Abroad Export Market, %	0.0		100.0		100.0	
Near Abroad Export Market, %	0.0		0.0		0.0	
Domestic Market, %	100.0		0.0		0.0	
Far Abroad Export Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0.00	11,637	404.31	11,302	392.67
Less						
Export Tariff	0	0.00	4,758	165.31	4,758	165.31
Subtotal Price	0	0.00	6,879	239.00	6,544	227.36
Transportation	0	0.00	1,721	59.79	1,563	54.30
Net Export Oil Price	0	0.00	5,158	179.21	4,981	173.06
Near Abroad Export Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0.00	0	0.00	0	0.00
Less						
VAT	0	0.00	0	0.00	0	0.00
Export Tariff	0	0.00	0	0.00	0	0.00
Subtotal Price	0	0.00	0	0.00	0	0.00
Transportation	0	0.00	0	0.00	0	0.00
Net Export Oil Price	0	0.00	0	0.00	0	0.00
Domestic Oil Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	11,702	406.57	0	0.00	0	0.00
Less						
VAT	1,785	62.02	0	0.00	0	0.00
Subtotal Price	9,917	344.55	0	0.00	0	0.00
Transportation	2,860	99.37	0	0.00	0	0.00
Net Domestic Oil Price	7,057	245.18	0	0.00	0	0.00
Condensate Price	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**	**Ruble/mt**	**U.S.$/mt**
Contract Price	0	0.00	0	0.00	0	0.00
Less						
VAT or Export Tariff	0	0.00	0	0.00	0	0.00
Subtotal Condensate Price	0	0.00	0	0.00	0	0.00
Transportation	0	0.00	0	0.00	0	0.00
Net Condensate Price	0	0.00	0	0.00	0	0.00
Gas Price	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**	**Ruble/10^3m^3**	**U.S.$/$10^3m^3$**
Contract Price	1,244	43.22	0	0.00	207	7.19
Less						
VAT	190	6.60	0	0.00	32	1.10
Net Gas Price	1,054	36.62	0	0.00	175	6.09

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

Oil Sales Allocation	Yuganskneftegaz	
Far Abroad Export Market, %	58.40	
Near Abroad Export Market, %	10.20	
Domestic Market, %	31.40	

Far Abroad Export Oil Price	Ruble/mt	U.S.$/mt
Contract Price	10,687	371.31
Less		
Export Tariff	4,758	165.31
Subtotal Price	5,929	205.99
Transportation	849	29.50
Net Export Oil Price	5,080	176.50

Near Abroad Export Oil Price	Ruble/mt	U.S.$/mt
Contract Price	6,540	227.22
Less		
VAT	0	0.00
Export Tariff	0	0.00
Subtotal Price	6,540	227.22
Transportation	460	15.98
Net Export Oil Price	6,080	211.24

Domestic Oil Price	Ruble/mt	U.S.$/mt
Contract Price	10,656	370.22
Less		
VAT	1,625	56.46
Subtotal Price	9,031	313.77
Transportation	3,663	127.26
Net Domestic Oil Price	5,368	186.50

Condensate Price	Ruble/mt	U.S.$/mt
Contract Price	0	0.00
Less		
VAT or Export Tariff	0	0.00
Subtotal Condensate Price	0	0.00
Transportation	0	0.00
Net Condensate Price	0	0.00

Gas Price	Ruble/10^3m^3	U.S.$/$10^3m^3$
Contract Price	325	11.29
Less		
VAT	50	1.74
Net Gas Price	275	9.55

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

Oil Sales Allocation	Sakhalin-1
Far Abroad Export Market, %	100.0
Near Abroad Export Market, %	0.0
Domestic Market, %	0.0

Far Abroad Export Oil Price	Ruble/mt	U.S.$/mt
Contract Price	11,374	395.17
Less		
Export Tariff	0	0.00
Subtotal Price	11,374	395.17
Transportation	316	10.98
Net Export Oil Price	11,058	384.19

Export Gas Price	Ruble/10^3m^3	U.S.$/$10^3m^3$
Contract Price	332	11.53
Less		
VAT	51	1.77
Subtotal Price	281	9.76
Transportation	0	0.00
Net Export Gas Price	281	9.76

Net Domestic Gas Price	Ruble/10^3m^3	U.S.$/$10^3m^3$
2006	1,606	55.79
2007	1,697	58.95
2008	1,791	62.22

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 3
NET PROVED RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—ECONOMIC LIFE

Reserves Classification	English Units: Oil and Condensate (10^3bbl)	English Units: Sales Gas (10^6ft^3)	Metric Units: Oil and Condensate (10^3mt)	Metric Units: Sales Gas (10^6m^3)
Proved Developed Producing	7,313,488	5,703,987	1,003,319	161,516
Proved Developed Nonproducing	254,205	33,707	35,364	952
Proved Undeveloped	3,167,075	1,010,913	434,894	28,629
Total Proved	**10,734,768**	**6,748,607**	**1,473,577**	**191,097**

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 4
NET RESERVES and REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—ECONOMIC LIFE

	English Units		Metric Units		Rosneft	
Reserves Classification	**Oil and Condensate (10^3bbl)**	**Sales Gas (10^6ft^3)**	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Net Revenue (10^3U.S.\$)**	**Present Worth at 10 Percent (10^3U.S.\$)**
Proved Developed	7,567,693	5,737,694	1,038,683	162,468	97,513,009	36,304,313
Total Proved	10,734,768	6,748,607	1,473,577	191,097	139,064,475	50,854,573

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 5
NET OIL and CONDENSATE RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—ECONOMIC LIFE

	Proved			
	Developed			
Rosneft Holdings	Producing (10^3bbl)	Nonproducing (10^3bbl)	Undeveloped (10^3bbl)	Total (10^3bbl)
Dagneft	14,488	0	0	14,488
Dagneftegaz	3,128	0	0	3,128
Chechnya	161,424	0	0	161,424
Krasnodarneftegaz	93,165	0	33	93,198
Polar Light	17,158	113	1,857	19,128
Purneftegaz	1,228,090	1,462	345,646	1,575,198
Sakhalin-1	15,144	0	0	15,144
Sakhalinmorneftegaz	103,539	0	11,463	115,002
Selkupneftegaz	47,212	0	25,135	72,347
Severnaya Neft	159,789	1,718	279,444	440,951
Stavropolneftegaz	69,804	0	0	69,804
Vankorskoye Field	0	0	0	0
Verhnechonskneftegaz	0	0	0	0
Yuganskneftegaz	5,400,547	250,912	2,503,497	8,154,956
Total	**7,313,488**	**254,205**	**3,167,075**	**10,734,768**

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 6
NET OIL and CONDENSATE RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—ECONOMIC LIFE

	Proved			
	Developed			
Rosneft Holdings	Producing (10^3mt)	Nonproducing (10^3mt)	Undeveloped (10^3mt)	Total (10^3mt)
Dagneft	1,904	0	0	1,904
Dagneftegaz	417	0	0	417
Chechnya	21,210	0	0	21,210
Krasnodarneftegaz	12,865	0	4	12,869
Polar Light	2,330	15	252	2,597
Purneftegaz	167,961	204	47,388	215,553
Sakhalin-1	2,044	0	0	2,044
Sakhalinmorneftegaz	14,356	0	1,531	15,887
Selkupneftegaz	5,250	0	3,415	8,665
Severnaya Neft	21,685	234	38,346	60,265
Stavropolneftegaz	9,234	0	0	9,234
Vankorskoye Field	0	0	0	0
Verhnechonskneftegaz	0	0	0	0
Yuganskneftegaz	744,063	34,911	343,958	1,122,932
Total	**1,003,319**	**35,364**	**434,894**	**1,473,577**

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 7
NET SALES GAS RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—ECONOMIC LIFE

	Proved			
	Developed			
Rosneft Holdings	**Producing (10^6ft^3)**	**Nonproducing (10^6ft^3)**	**Undeveloped (10^6ft^3)**	**Total (10^6ft^3)**
Dagneft	0	0	0	0
Dagneftegaz	226,371	0	0	226,371
Chechnya	153,351	0	0	153,351
Krasnodarneftegaz	1,195,751	0	39,090	1,234,841
Polar Light	0	0	0	0
Purneftegaz	2,855,975	0	821,242	3,677,217
Sakhalin-1	73,352	0	0	73,352
Sakhalinmorneftegaz	253,917	0	15,012	268,929
Selkupneftegaz	283,454	0	29,558	313,012
Severnaya Neft	0	0	0	0
Stavropolneftegaz	16,544	0	0	16,544
Vankorskoye Field	0	0	0	0
Verhnechonskneftegaz	0	0	0	0
Yuganskneftegaz	645,272	33,707	106,011	784,990
Total	**5,703,987**	**33,707**	**1,010,913**	**6,748,607**

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 8
NET SALES GAS RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—ECONOMIC LIFE

	Proved			
	Developed			
Rosneft Holdings	**Producing (10^6m^3)**	**Nonproducing (10^6m^3)**	**Undeveloped (10^6m^3)**	**Total (10^6m^3)**
Dagneft	0	0	0	0
Dagneftegaz	6,410	0	0	6,410
Chechnya	4,343	0	0	4,343
Krasnodarneftegaz	33,859	0	1,107	34,966
Polar Light	0	0	0	0
Purneftegaz	80,872	0	23,256	104,128
Sakhalin-1	2,077	0	0	2,077
Sakhalinmorneftegaz	7,191	0	425	7,616
Selkupneftegaz	8,027	0	837	8,864
Severnaya Neft	0	0	0	0
Stavropolneftegaz	467	0	0	467
Vankorskoye Field	0	0	0	0
Verhnechonskneftegaz	0	0	0	0
Yuganskneftegaz	18,270	952	3,004	22,226
Total	**161,516**	**952**	**28,629**	**191,097**

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 9
SUMMARY of FUTURE NET REVENUE from PROVED DEVELOPED RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—ECONOMIC LIFE

	Gross								Rosneft Net	
Rosneft Holdings	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
Dagneft	1,904	0	320,409	78,143	23,617	71,566	35,103	111,980	111,980	59,697
Dagneftegaz	417	6,410	197,737	10,009	3,495	46,745	32,821	104,667	104,667	55,310
Chechnya	21,210	4,343	4,570,810	1,056,732	178,202	861,286	591,301	1,883,289	1,883,289	1,067,584
Krasnodarneftegaz	12,865	33,859	3,501,856	414,610	305,314	688,810	498,382	1,594,740	1,594,740	912,958
Polar Light	4,691	0	803,190	163,301	31,397	212,425	64,438	331,629	165,813	126,059
Purneftegaz	168,165	80,872	33,529,055	3,612,009	703,003	6,032,882	5,486,277	17,694,884	17,694,884	6,049,184
Sakhalin-1	11,516	11,754	4,588,059	991,100	0	844,977	0	2,751,982	550,397	414,787
Sakhalinmorneftegaz	14,356	7,191	3,223,333	642,313	87,056	630,146	436,183	1,427,635	1,427,635	858,779
Selkupneftegaz	5,250	8,027	952,417	134,429	28,691	160,069	150,774	478,454	478,454	262,703
Severnaya Neft	21,919	0	3,465,704	315,840	268,591	917,867	463,073	1,500,333	1,500,333	1,128,176
Stavropolneftegaz	9,234	467	2,280,233	401,242	252,937	477,219	253,574	895,261	895,261	512,730
Vankorskoye Field	0	0	0	0	1,258	0	0	(1,258)	(1,258)	(1,192)
Verhnechonskneftegaz	0	0	0	0	0	0	0	0	0	0
Yuganskneftegaz	778,974	19,222	142,879,843	17,087,849	5,400,878	27,138,671	22,145,631	71,106,814	71,106,814	24,857,538
Total	**1,050,501**	**172,145**	**200,312,646**	**24,907,577**	**7,284,439**	**38,082,663**	**30,157,557**	**99,880,410**	**97,513,009**	**36,304,313**

Note: Refer to Table 2 for prices and sales allocations.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 10
SUMMARY of FUTURE NET REVENUE from TOTAL PROVED RESERVES
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—ECONOMIC LIFE

	Gross								Rosneft Net	
Rosneft Holdings	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
Dagneft	1,904	0	320,409	78,143	23,617	71,566	35,103	111,980	111,980	59,697
Dagneftegaz	417	6,410	197,737	10,009	3,495	46,745	32,821	104,667	104,667	55,310
Chechnya	21,210	4,343	4,570,810	1,056,732	178,202	861,286	591,301	1,883,289	1,883,289	1,067,584
Krasnodarneftegaz	12,869	34,966	3,541,297	420,266	307,864	689,746	505,659	1,617,762	1,617,762	919,896
Polar Light	5,197	0	889,697	175,409	50,060	233,066	73,425	357,737	178,867	133,961
Purneftegaz	215,553	104,128	43,074,628	4,760,200	1,367,907	7,767,663	6,926,549	22,252,309	22,252,309	7,449,630
Sakhalin-1	11,516	11,754	4,588,059	991,100	0	844,977	0	2,751,982	550,397	414,787
Sakhalinmorneftegaz	15,887	7,616	3,558,941	651,747	118,951	693,685	491,650	1,602,908	1,602,908	958,332
Selkupneftegaz	8,665	8,864	1,629,153	352,871	126,912	287,281	214,101	647,988	647,988	312,885
Severnaya Neft	60,265	0	9,528,449	1,212,303	1,021,741	2,177,087	1,217,968	3,899,350	3,899,350	2,078,642
Stavropolneftegaz	9,234	467	2,280,233	401,242	252,937	477,219	253,574	895,261	895,261	512,730
Vankorskoye Field	0	0	0	0	1,258	0	0	(1,258)	(1,258)	(1,192)
Verhnechonskneftegaz	0	0	0	0	0	0	0	0	0	0
Yuganskneftegaz	1,122,932	22,226	205,917,642	19,996,916	9,056,840	38,551,952	32,990,979	105,320,955	105,320,955	36,892,311
Total	**1,485,649**	**200,774**	**280,097,055**	**30,106,938**	**12,509,784**	**52,702,273**	**43,333,130**	**141,444,930**	**139,064,475**	**50,854,573**

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 11
NET PROVED DEVELOPED PRODUCTION FORECAST
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—ECONOMIC LIFE

	English Units		Metric Units	
Year	**Oil and Condensate (10^3bbl)**	**Sales Gas (10^6ft^3)**	**Oil and Condensate (10^3mt)**	**Sales Gas (106^{6}m^3)**
2006	525,572	338,206	71,892	9,575
2007	477,701	327,748	65,367	9,277
2008	427,020	346,664	58,450	9,820
2009	383,145	332,341	52,463	9,411
2010	347,094	336,138	47,548	9,518
2011	316,176	318,459	43,324	9,024
2012	289,820	320,454	39,716	9,073
2013	266,408	291,110	36,528	8,241
2014	245,284	265,085	33,649	7,505
2015	226,199	242,209	31,043	6,865
2016	209,916	220,808	28,814	6,240
2017	194,227	202,416	26,653	5,744
2018	182,299	186,896	25,035	5,286
2019	163,491	122,542	22,458	3,470
2020	154,296	114,725	21,204	3,250
2021	145,980	107,943	20,055	3,063
2022	138,930	101,924	19,097	2,878
2023	132,595	96,483	18,210	2,734
2024	126,959	91,611	17,454	2,590
2025	121,384	87,484	16,684	2,485
2026	116,235	83,922	15,970	2,374
2027	110,522	80,495	15,192	2,284
2028	105,736	68,109	14,547	1,924
2029	101,589	65,179	13,986	1,845
2030	97,800	62,529	13,456	1,770
Subtotal	**5,606,378**	**4,811,480**	**768,795**	**136,246**
Remaining	1,961,315	926,214	269,888	26,222
Total	**7,567,693**	**5,737,694**	**1,038,683**	**162,468**

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 12
NET TOTAL PROVED PRODUCTION FORECAST
as of
DECEMBER 31,2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—ECONOMIC LIFE

	English Units		Metric Units	
Year	Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)	Oil and Condensate (10^3mt)	Sales Gas (106^{6}m^3
2006	561,632	342,820	76,842	9,704
2007	574,956	343,023	78,699	9,709
2008	585,279	371,914	80,163	10,538
2009	582,922	366,923	79,875	10,390
2010	553,628	390,408	75,903	11,054
2011	516,683	375,122	70,847	10,627
2012	486,789	378,429	66,758	10,718
2013	452,623	346,611	62,085	9,811
2014	412,289	317,004	56,564	8,972
2015	376,864	290,672	51,724	8,239
2016	346,255	266,460	47,520	7,534
2017	316,243	245,531	43,408	6,966
2018	292,469	227,759	40,155	6,444
2019	264,956	161,513	36,400	4,570
2020	246,993	151,521	33,932	4,297
2021	228,814	142,049	31,427	4,027
2022	212,625	133,365	29,215	3,768
2023	198,522	125,542	27,265	3,555
2024	186,525	118,504	25,638	3,351
2025	173,156	112,408	23,793	3,194
2026	161,830	106,944	22,232	3,029
2027	152,351	101,720	20,943	2,882
2028	143,673	87,801	19,763	2,482
2029	135,522	83,484	18,655	2,364
2030	128,270	79,610	17,645	2,253
Subtotal	**8,291,869**	**5,667,137**	**1,137,451**	**160,478**
Remaining	2,442,899	1,081,470	336,126	30,619
Total	**10,734,768**	**6,748,607**	**1,473,577**	**191,097**

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 13
PROJECTION of PROVED DEVELOPED RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
RUSSIA

SEC CASE—ECONOMIC LIFE

	Gross								Rosneft Net	
Year	**Oil and Condensate (10^3mt)**	**Sales Gas (10^6m^3)**	**Future Gross Revenue (10^3U.S.$)**	**Operating Expenses (10^3U.S.$)**	**Capital and Abandonment Costs (10^3U.S.$)**	**Production and Other Taxes (10^3U.S.$)**	**Profit Tax (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Future Net Revenue (10^3U.S.$)**	**Present Worth at 10 Percent (10^3U.S.$)**
2006	74,199	10,326	14,260,696	1,133,465	860,302	5,397,583	1,631,288	5,238,058	4,767,909	4,519,390
2007	67,323	10,500	12,976,230	1,059,186	857,194	2,263,985	2,073,014	6,722,851	6,268,503	5,378,559
2008	60,118	11,357	11,685,842	1,028,481	635,640	2,054,710	1,814,992	6,152,019	5,754,134	4,469,223
2009	53,918	11,422	10,555,939	999,477	559,627	1,881,661	1,584,293	5,530,881	5,174,560	3,638,115
2010	48,711	10,922	9,519,977	957,711	439,019	1,705,651	1,410,705	5,006,891	4,744,234	3,019,393
2011	44,264	10,005	8,637,190	927,682	430,659	1,555,181	1,262,868	4,460,800	4,277,204	2,464,131
2012	40,466	9,763	7,880,924	894,115	380,685	1,422,835	1,132,755	4,050,534	3,927,903	2,048,399
2013	37,135	8,729	7,210,667	865,024	338,124	1,326,096	1,037,819	3,643,604	3,580,759	1,690,365
2014	34,141	7,850	6,616,182	836,651	297,456	1,202,880	951,306	3,327,889	3,287,609	1,404,870
2015	31,454	7,112	6,082,319	804,363	292,466	1,110,192	871,502	3,003,796	2,988,540	1,156,020
2016	28,858	6,240	5,503,775	695,309	262,753	970,627	807,769	2,767,317	2,766,104	968,552
2017	26,666	5,744	5,087,879	664,288	253,507	896,670	763,916	2,509,498	2,509,446	795,397
2018	25,047	5,286	4,772,545	644,376	246,930	840,955	713,297	2,326,987	2,326,798	667,606
2019	22,458	3,470	4,241,300	577,671	242,242	749,263	630,988	2,041,136	2,041,157	530,132
2020	21,204	3,250	4,002,325	555,893	244,474	707,110	594,119	1,900,729	1,900,729	446,868
2021	20,055	3,063	3,785,587	534,306	1,882	664,902	567,169	2,017,328	2,017,328	429,323
2022	19,097	2,878	3,601,449	519,716	3,766	629,283	544,534	1,904,150	1,904,150	366,823
2023	18,210	2,734	3,436,149	503,210	4,074	597,632	524,509	1,806,724	1,806,724	315,069
2024	17,454	2,590	3,289,510	491,406	4,180	569,929	506,586	1,717,409	1,717,409	271,107
2025	16,684	2,485	3,144,182	465,354	4,914	542,813	492,584	1,638,517	1,638,517	234,134
2026	15,970	2,374	3,009,258	447,245	8,173	518,285	477,799	1,557,756	1,557,756	201,492
2027	15,192	2,284	2,861,652	427,341	7,321	492,330	461,043	1,473,617	1,473,617	172,540
2028	14,547	1,924	2,739,384	411,722	4,498	471,286	441,715	1,410,163	1,410,163	149,464
2029	13,986	1,845	2,631,980	403,342	5,503	452,477	423,106	1,347,552	1,347,552	129,288
2030	13,456	1,770	2,533,189	388,403	9,424	435,103	407,329	1,292,930	1,292,930	112,288
Subtotal	**780,613**	**145,923**	**150,066,130**	**17,235,737**	**6,394,813**	**29,459,439**	**22,127,005**	**74,849,136**	**72,481,735**	**35,578,548**
Remaining	269,888	26,222	50,246,516	7,671,840	889,626	8,623,224	8,030,552	25,031,274	25,031,274	725,765
Total	**1,050,501**	**172,145**	**200,312,646**	**24,907,577**	**7,284,439**	**38,082,663**	**30,157,557**	**99,880,410**	**97,513,009**	**36,304,313**

Note: Refer to Table 2 for prices and sales allocations.

	Present Worth at (10^3U.S.$)
8 Percent	41,307,536
9 Percent	38,638,021
11 Percent	34,244,519

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 14
PROJECTION of TOTAL PROVED RESERVES and FUTURE NET REVENUE
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT
RUSSIA
SEC CASE—ECONOMIC LIFE

	Gross								Rosneft Net	
Year	Oil and Condensate (10^3mt)	Sales Gas (10^6m^3)	Future Gross Revenue (10^3U.S.$)	Operating Expenses (10^3U.S.$)	Capital and Abandonment Costs (10^3U.S.$)	Production and Other Taxes (10^3U.S.$)	Profit Tax (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Future Net Revenue (10^3U.S.$)	Present Worth at 10 Percent (10^3U.S.$)
2006	79,186	10,455	15,168,884	1,177,095	1,579,188	5,777,651	1,733,561	4,901,389	4,435,052	4,203,884
2007	80,712	10,932	15,421,021	1,131,859	1,742,876	2,712,790	2,504,125	7,329,371	6,872,302	5,896,633
2008	81,875	12,075	15,659,883	1,138,253	1,749,181	2,783,847	2,515,753	7,472,849	7,070,774	5,491,860
2009	81,361	12,401	15,569,434	1,144,327	1,522,538	2,803,264	2,461,707	7,637,598	7,278,283	5,117,189
2010	77,091	12,458	14,701,910	1,129,832	766,038	2,656,753	2,308,663	7,840,624	7,575,775	4,821,484
2011	71,803	11,608	13,665,358	1,116,201	711,963	2,479,601	2,120,697	7,236,896	7,051,727	4,062,559
2012	67,521	11,408	12,816,014	1,097,374	658,569	2,330,634	1,961,633	6,767,804	6,643,483	3,464,568
2013	62,707	10,299	11,873,019	1,074,549	439,534	2,182,678	1,810,087	6,366,171	6,302,895	2,975,406
2014	57,062	9,317	10,797,171	1,041,909	386,394	1,971,323	1,629,380	5,768,165	5,727,374	2,447,433
2015	52,139	8,486	9,855,952	1,002,318	341,641	1,801,990	1,472,783	5,237,220	5,221,543	2,019,786
2016	47,569	7,534	8,920,239	891,788	319,159	1,595,344	1,338,026	4,775,922	4,774,514	1,671,800
2017	43,421	6,966	8,148,221	858,649	297,770	1,453,615	1,226,949	4,311,238	4,311,197	1,366,478
2018	40,168	6,444	7,538,788	834,950	307,276	1,341,526	1,133,173	3,921,863	3,921,698	1,125,215
2019	36,400	4,570	6,789,997	759,741	297,930	1,206,367	1,023,594	3,502,365	3,502,403	909,648
2020	33,932	4,297	6,333,415	743,891	272,845	1,123,380	959,517	3,233,782	3,233,782	760,270
2021	31,427	4,027	5,872,778	705,804	10,972	1,035,319	903,675	3,217,008	3,217,008	684,645
2022	29,215	3,768	5,462,387	693,176	6,403	958,270	844,530	2,960,008	2,960,008	570,229
2023	27,265	3,555	5,104,723	671,450	5,524	891,958	795,022	2,740,769	2,740,769	477,950
2024	25,638	3,351	4,800,602	651,011	7,394	835,862	752,331	2,554,004	2,554,004	403,169
2025	23,793	3,194	4,459,761	613,711	7,265	774,487	704,961	2,359,337	2,359,337	337,134
2026	22,232	3,029	4,171,043	577,659	13,012	722,507	667,712	2,190,153	2,190,153	283,291
2027	20,943	2,882	3,928,901	552,020	30,110	680,309	633,896	2,032,566	2,032,566	237,987
2028	19,763	2,482	3,708,442	539,478	9,828	642,235	596,421	1,920,480	1,920,480	203,551
2029	18,655	2,364	3,500,254	523,208	12,594	605,946	561,249	1,797,257	1,797,257	172,435
2030	17,645	2,253	3,313,741	505,189	12,969	573,541	530,638	1,691,404	1,691,404	146,893
Subtotal	**1,149,523**	**170,155**	**217,581,938**	**21,175,442**	**11,508,973**	**41,941,197**	**33,190,083**	**109,766,243**	**107,385,788**	**49,851,497**
Remaining	336,126	30,619	62,515,117	8,931,496	1,000,811	10,761,076	10,143,047	31,678,687	31,678,687	1,003,076
Total	**1,485,649**	**200,774**	**280,097,055**	**30,106,938**	**12,509,784**	**52,702,273**	**43,333,130**	**141,444,930**	**139,064,475**	**50,854,573**

Note: Refer to Table 2 for prices and sales allocations.

Present Worth at (10^3U.S.$)	
8 Percent	58,557,606
9 Percent	54,454,847
11 Percent	47,668,943

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

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DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas Texas 75244

APPRAISAL
as of
DECEMBER 31, 2005
on
OIL, CONDENSATE, and NATURAL GAS RESERVES
through the
CURRENT LICENSE EXPIRATION DATES
of
CERTAIN FIELDS
owned by
OAO NK ROSNEFT

SEC CASE—EXPIRATION OF LICENSES

SUMMARY

DEGOLYER AND MACNAUGHTON
5001 SPRING VALLEY ROAD
SUITE 800 EAST
DALLAS, TEXAS 75244

June 15, 2006

OAO NK Rosneft
26/1 Sophiyskaya Embankment
Moscow
Russia 115998

Subject: Appraisal as of December 31, 2005, on Proved Reserves through the Current License Expiration Dates of Certain Fields owned by OAO NK Rosneft

Gentlemen:

Pursuant to your request, we have prepared estimates as of December 31, 2005, of the extent and value of the proved crude oil and condensate and natural gas reserves of certain fields owned by OAO NK Rosneft (Rosneft) through various subsidiary enterprises. The Rosneft subsidiary enterprises included in this report are OAO NK Rosneft—Dagneft (Dagneft), OAO Dagneftegaz (Dagneftegaz), OAO NK Rosneft—Krasnodarneftegaz (Krasnodarneftegaz), OOO Polar Light Company (Polar Light), OAO NK Rosneft—Purneftegaz (Purneftegaz), OAO NK Rosneft—Sakhalinmorneftegaz (Sakhalinmorneftegaz), OAO Selkupneftegaz (Selkupneftegaz), OAO Severnaya Neft (Severnaya Neft), OAO NK Rosneft—Stavropolneftegaz (Stavropolneftegaz), OAO Verkhnechonskneftegaz (Verkhnechonskneftegaz) and OAO Yuganskneftegaz (Yuganskneftegaz). Additionally, ZAO Vankorneft and LLC Taymirneft hold licenses to different portions of the Vankorskoye field. Rosneft owns 99.99 percent of ZAO Vankorneft and 60 percent of LLC Taymirneft. The majority of the estimated reserves are in the southern portion of the field owned by ZAO Vankorneft. In this report, reserves and values for both license areas are reported for the entire field. Also included in the evaluation are fields held directly by Rosneft in the Chechen Republic (Chechnya) and the Sakhalin-1 Project (Sakhalin-1) in which Rosneft holds an interest through a production sharing agreement (PSA).

These subsidiary enterprises, the Rosneft holdings in the Chechen Republic, and the Sakhalin-1 project are collectively referred to hereinafter as "Rosneft Holdings." All fields are held at 100 percent by the respective subsidiary enterprise. Rosneft's ownership in all the subsidiary enterprises ranges between 15 and 100 percent. The estimated reserves and associated values are reported herein at 100 percent for those subsidiaries of which Rosneft has majority control, either through direct ownership or through voting rights. The estimated reserves and values for subsidiary enterprises which Rosneft does not control are reported at Rosneft's ownership interest. Table 1 shows the ownership interest and the reported interest for each of the Rosneft Holdings reported herein. All of the fields evaluated are located in the Russian Federation.

At the request of Rosneft, we have also prepared an evaluation on the extent and value of the proved reserves for the full economic life of the properties shown in detail in our "Appraisal Report as of December 31, 2005 on Oil, Condensate, and Natural Gas Reserves owned by OAO NK Rosneft in Certain Fields in Russia SEC Case Economic Life," hereinafter referred to as the "Economic Life Appraisal Report."

Information used in the preparation of this letter report was obtained from Rosneft. In the preparation of this letter report we have relied, without independent verification, upon information furnished by Rosneft with respect to ownership, production, current costs of operation and development, current prices for production, agreements relating to current and future operations and sale of production, and various other information and data that were accepted as represented.

This evaluation was prepared using generally accepted practices of the petroleum industry. The proved reserves estimates are those proved reserves that will be produced prior to the expiration date of the current production licenses, as provided by Rosneft. Revenue values were estimated for proved reserves using prices and costs furnished by Rosneft, as of December 31, 2005, without consideration of escalations based on future conditions. Current estimates of prices, operating expenses, and capital costs were used for the life of the properties. Prices and costs were provided in Russian rubles (R) or United States dollars (U.S.$). The exchange rate effective December 31, 2005, was R28.7825 per U.S.$1.00. All values were estimated in U.S. dollars, and all revenue shown herein is expressed in U.S. dollars. The definitions and economic parameters, including price and cost assumptions used in this letter report, are the same as those used in the Economic

Life Appraisal Report, except, at the request of Rosneft, no proved reserves were estimated beyond the expiration date of the current production licenses.

Reserves estimated in this report are expressed as gross reserves and net reserves owned or controlled by Rosneft (Rosneft net). Gross reserves are defined as the total estimated oil, condensate, and gas to be produced from the fields after December 31, 2005. Rosneft net reserves are defined as that portion of the gross reserves attributable to Rosneft after deducting interests owned by others. For the Sakhalin-1 PSA, these reserves are expressed in terms of the barrel equivalent of the cost recovery and profit share (entitlement) after deducting interests owned by others.

Gas reserves estimated herein are reported as sales-gas volumes. Sales gas is defined as the total volume of gas to be produced from the reservoirs, measured at the point of delivery, after reduction for field separation, usage, and losses. Sales gas is made up of associated gas, including gas-cap and solution gas, from certain oil fields and nonassociated gas from certain gas reservoirs. Gas reserves estimated herein are expressed at a temperature base of 20 degrees Centigrade (°C) and a pressure base of 1 atmosphere.

Rosneft owns interests in certain fields located in the Russian Federation through its Dagneft, Dagneftegaz, Krasnodarneftegaz, Polar Light, Purneftegaz, Sakhalinmorneftegaz, Selkupneftegaz, Severnaya Neft, Stavropolneftegaz, Vankorskoye Field, Verkhnechonskneftegaz, and Yuganskneftegaz subsidiary enterprises, through its direct ownership of fields in the Chechen Republic, and through its participation in the Sakhalin-1 project. The estimated reserves and associated values are reported herein at 100 percent for those subsidiaries of which Rosneft has majority control, either through direct ownership or through voting rights. The estimated Rosneft net total proved oil, condensate, and gas reserves, as of December 31, 2005, are summarized in Table 2, expressed in English and metric units. Oil and condensate volumes are expressed in thousands of barrels (10^3bbl) and thousands of metric tons (10^3mt). Gas volumes are expressed in millions of cubic feet (10^6ft^3) and millions of cubic meters (10^6m^3).

An explanation of the evaluation methodology is shown in detail in the Economic Life Appraisal Report. Values for proved reserves are expressed in terms of future gross revenue, future net revenue, and Rosneft future net revenue and Rosneft present worth. For all Rosneft holdings except Sakhalin-1, future gross revenue is defined as that revenue to be realized from the production and sale of the estimated gross reserves. For Sakhalin-1, future gross revenue is defined as that revenue to be realized from the sale of the PSA contractor entitlement. Future net revenue is calculated by deducting estimated transportation costs, operating expenses, capital and abandonment costs, production and other taxes, and profit tax, as specified by Rosneft, from future gross revenue. Present worth is defined as future net revenue discounted at an arbitrary rate over the expected period of realization. Rosneft future net revenue is defined as Rosneft's share of future net revenue after the deduction of revenue attributable to others. Rosneft present worth is defined as Rosneft future net revenue discounted at 10 percent compounded monthly over the expected period of realization. All values presented in this report are expressed in thousands of United States dollars (10^3 U.S.$) and are summarized in Table 3 included in this letter report.

In our opinion, the information relating to estimated proved reserves, estimated future net revenue from proved reserves, and present worth of estimated future net revenue from proved reserves of oil and condensate and gas contained in this report has been prepared in accordance with Paragraphs 10-13, 15, and 30(a)-(b) of Statement of Financial Accounting Standards No. 69 (November 1982) of the Financial Accounting Standards Board and Rules 4-10(a) (1)-(13) of Regulation S-X and Rule 302(b) of Regulation S-K of the United States Securities and Exchange Commission; provided, however, that certain estimated data have not been provided with respect to changes in reserves information.

To the extent the above-enumerated rules, regulations, and statements require determinations of an accounting or legal nature or information beyond the scope of this report, we are necessarily unable to express an opinion as to whether the above-described information is in accordance therewith or sufficient therefor.

In our opinion, we have made the investigations necessary to enable us to estimate the petroleum reserves reported herein. Estimates of oil and condensate and gas reserves and future net revenue should be regarded only as estimates that may change as further production history and additional information become available. Not only are such reserves and revenue estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

The estimates of reserves, future net revenue, and present worth of future net revenue summarized are subject to the definitions, assumptions, qualifications, explanations, and conclusions expressed in the

Economic Life Appraisal Report, except, at the request of Rosneft, no proved reserves were estimated beyond the expiration date of the current production licenses.

Submitted,

DeGOLYER and MacNAUGHTON

Thomas A. Schob, P.E.
Senior Vice President
DeGolyer and MacNaughton

TABLE 1
ROSNEFT HOLDINGS EVALUATED
as of
DECEMBER 31, 2005
for
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE—LICENSE EXPIRATION

Rosneft Holdings	Rosneft Ownership (%)	Reported Net Interest (%)
Dagneft	68.70	100.00
Dagneftegaz	81.22	100.00
Chechnya	100.00	100.00
Krasnodarneftegaz	95.46	100.00
Polar Light	50.00	50.00
Purneftegaz	83.09	100.00
Sakhalin-1	15.93	20.00
Sakhalinmorneftegaz	64.62	100.00
Selkupneftegaz	100.00	100.00
Severnaya Neft	100.00	100.00
Stavropolneftegaz	75.18	100.00
Vankorskoye Field		100.00
Verhnechonskneftegaz	25.94	25.94
Yuganskneftegaz	76.79	100.00

Notes:

1. Rosneft has represented that it controls the management of the Rosneft Holdings listed above, except for Polar Light, Verhnechonskneftegaz, and Sakhalin-1. For those Rosneft Holdings controlled by Rosneft, 100 percent of the reserves associated with the subsidiary enterprise are reported here in as Rosneft net reserves. Rosneft future net revenue and Rosneft present worth are attributed to Rosneft net reserves.

2. Rosneft's share of the contractor's entitlement in Sakhalin-1, reported herein as 20 percent, represents Rosneft's direct ownership of 8.5 percent plus a consolidation of the 11.5 percent of Sakhalin-1 owned by Sakhalinmorneftegaz, which includes the 35.38 percent of Sakhalinmorneftegaz not owned by Rosneft

3. Rosneft net reserves reported herein for Sakhalin-1 represent 20 percent of the contractor's entitlement, which varies depending on the contractor's share of cost oil and profit oil.

4. ZAO Vankorneft and LLC Taymirneft hold licenses to different portions of the Vankorskoye field. Rosneft owns 99.99 percent of ZAO Vankorneft and 60 percent of LLC Taymirneft. The majority of the estimated reserves are in the southern portion of the field owned by ZAO Vankorneft. In this report, reserves and values for both license areas are reported at 100 percent for the entire field.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 2
NET PROVED RESERVES
as of
DECEMBER 31, 2005
of
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE

Recoverable Proved Reserves up to License Expiration Dates

		Rosneft Net Reserves			
		English Units		Metric Units	
Subsidiary	Reserves Classification	Oil and Condensate (10^3bbl)	Sales Gas (10^6ft^3)	Oil and Condensate (10^3mt)	Sales Gas (106^6m^3)
Dagneft[1]	Proved Developed	14,488	0	1,904	0
	Proved Undeveloped	0	0	0	0
	Total Proved	**14,488**	**0**	**1,904**	**0**
Dagneftegaz[2]	Proved Developed	3,128	226,371	417	6,410
	Proved Undeveloped	0	0	0	0
	Total Proved	**3,128**	**226,371**	**417**	**6,410**
Chechnya[3]	Proved Developed	136,951	128,023	17,994	3,624
	Proved Undeveloped	0	0	0	0
	Total Proved	**136,951**	**128,023**	**17,994**	**3,624**
Krasnodarneftegaz[4]	Proved Developed	61,080	931,212	8,430	26,369
	Proved Undeveloped	13	15,482	2	438
	Total Proved	**61,093**	**946,694**	**8,432**	**26,807**
Polar Light[5]	Proved Developed	17,186	0	2,335	0
	Proved Undeveloped	1,852	0	251	0
	Total Proved	**19,038**	**0**	**2,586**	**0**
Purneftegaz[6]	Proved Developed	420,956	1,018,429	57,366	28,840
	Proved Undeveloped	102,314	212,569	13,980	6,021
	Total Proved	**523,270**	**1,230,998**	**71,346**	**34,861**
Sakhalin-1[7]	Proved Developed	15,144	73,352	2,044	2,077
	Proved Undeveloped	0	0	0	0
	Total Proved	**15,144**	**73,352**	**2,044**	**2,077**
Sakhalinmorneftegaz[8]	Proved Developed	63,234	164,077	8,734	4,646
	Proved Undeveloped	8,762	11,472	1,170	325
	Total Proved	**71,996**	**175,549**	**9,904**	**4,971**
Selkupneftegaz[9]	Proved Developed	40,488	187,667	4,503	5,315
	Proved Undeveloped	9,855	17,475	1,312	495
	Total Proved	**50,343**	**205,142**	**5,815**	**5,810**

Subsidiary	Reserves Classification	Rosneft Net Reserves — English Units: Oil and Condensate (10^3bbl)	English Units: Sales Gas (10^6ft^3)	Metric Units: Oil and Condensate (10^3mt)	Metric Units: Sales Gas (106^6m^3)
Severnaya Neft(10)	Proved Developed	159,556	0	21,654	0
	Proved Undeveloped	248,912	0	34,136	0
	Total Proved	**408,468**	**0**	**55,790**	**0**
Stavropolneftegaz(11)	Proved Developed	58,461	13,094	7,738	371
	Proved Undeveloped	0	0	0	0
	Total Proved	**58,461**	**13,094**	**7,738**	**371**
Vankorskoye Field(12)	Proved Developed	0	0	0	0
	Proved Undeveloped	0	0	0	0
	Total Proved	**0**	**0**	**0**	**0**
Verhnechonskneftegaz(13)	Proved Developed	0	0	0	0
	Proved Undeveloped	0	0	0	0
	Total Proved	**0**	**0**	**0**	**0**
Yuganskneftegaz(14)	Proved Developed	2,393,109	249,245	329,796	7,064
	Proved Undeveloped	1,382,446	44,304	189,911	1,252
	Total Proved	**3,775,555**	**293,549**	**519,707**	**8,316**
	Total				
	Proved Developed	**3,383,781**	**2,991,470**	**462,915**	**84,716**
	Proved Undeveloped	**1,754,154**	**301,302**	**240,762**	**8,531**
	Total Proved	**5,137,935**	**3,292,772**	**703,677**	**93,247**

(1) Includes those reserves attributable to the 31.30 percent interest in Dagneft not owned by Rosneft.

(2) Includes those reserves attributable to the 18.78 percent interest in Dagneftegaz not owned by Rosneft.

(3) Represents Rosneft's 100 percent ownership of the fields in the Chechen Republic.

(4) Includes those reserves attributable to the 4.54 percent interest in Krasnodarneftegaz not owned by Rosneft.

(5) Represents Rosneft's 50 percent ownership in Polar Light.

(6) Includes those reserves attributable to the 16.91 percent interest in Purneftegaz not owned by Rosneft.

(7) Rosneft's share of the contractor's entitlement in Sakhalin-1, reported herein as 20 percent, represents Rosneft's direct ownership of 8.5 percent plus a consolidation of the 11.5 percent of Sakhalin-1 owned by Sakhalinmoreneftegaz, which includes the 35.38 percent of Sakhalinmoreneftegaz not owned by Rosneft.

(8) Includes those reserves attributable to the 35.38 percent interest in Sakhalinmorneftegaz not owned by Rosneft.

(9) Represents Rosneft's 100 percent ownership of Selkupneftegaz.

(10) Represents Rosneft's 100 percent ownership of Severnaya Neft.

(11) Includes those reserves attributable to the 24.82 percent interest in Stavropolneftegaz not owned by Rosneft.

(12) Includes those reserves attributable to the 40-percent interest in the northern portion of the field and the 0.01-percent interest in the southern portion of the field not owned by Rosneft.

(13) Represents Rosneft's 25.94 percent ownership of Verhnechonskneftegaz.

(14) Includes those reserves attributable to the 23.21 percent interest in Yuganskneftegaz not owned by Rosneft.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

TABLE 3
NET REVENUE
as of
DECEMBER 31, 2005
of
CERTAIN ASSETS
OAO NK ROSNEFT

RUSSIA

SEC CASE

Recoverable Proved Reserves up to License Expiration Dates

Subsidiary	Reserves Classification	Rosneft Future Net Revenue (10^3U.S.$)	Rosneft Present Worth at 10 Percent (10^3U.S.$)
Dagneft[1]	Proved Developed	111,980	59,697
	Proved Undeveloped	0	0
	Total Proved	**111,980**	**59,697**
Dagneftegaz[2]	Proved Developed	104,667	55,310
	Proved Undeveloped	0	0
	Total Proved	**104,667**	**55,310**
Chechnya[3]	Proved Developed	1,697,368	1,038,907
	Proved Undeveloped	0	0
	Total Proved	**1,697,368**	**1,038,907**
Krasnodarneftegaz[4]	Proved Developed	1,141,554	774,644
	Proved Undeveloped	8,497	4,197
	Total Proved	**1,150,051**	**778,841**
Polar Light[5]	Proved Developed	165,592	125,993
	Proved Undeveloped	13,069	7,904
	Total Proved	**178,661**	**133,897**
Purneftegaz[6]	Proved Developed	5,655,233	3,986,829
	Proved Undeveloped	1,088,938	618,454
	Total Proved	**6,744,171**	**4,605,283**
Sakhalin-1[7]	Proved Developed	550,397	414,787
	Proved Undeveloped	0	0
	Total Proved	**550,397**	**414,787**
Sakhalinmorneftegaz[8]	Proved Developed	948,724	706,633
	Proved Undeveloped	125,271	83,645
	Total Proved	**1,073,995**	**790,278**
Selkupneftegaz[9]	Proved Developed	406,202	249,207
	Proved Undeveloped	119,304	52,258
	Total Proved	**525,506**	**301,465**
Severnaya Neft[10]	Proved Developed	1,484,405	1,121,375
	Proved Undeveloped	2,126,556	879,806
	Total Proved	**3,610,961**	**2,001,181**

Subsidiary	Reserves Classification	Rosneft Future Net Revenue (10^3U.S.$)	Rosneft Present Worth at 10 Percent (10^3U.S.$)
Stavropolneftegaz[11]	Proved Developed	763,613	494,414
	Proved Undeveloped	0	0
	Total Proved	**763,613**	**494,414**
Vankorskoye Field[12]	Proved Developed	(1,258)	(1,192)
	Proved Undeveloped	0	0
	Total Proved	**(1,258)**	**(1,192)**
Verhnechonskneftegaz[13]	Proved Developed	0	0
	Proved Undeveloped	0	0
	Total Proved	**0**	**0**
Yuganskneftegaz[14]	Proved Developed	29,205,821	19,443,149
	Proved Undeveloped	18,120,471	9,556,674
	Total Proved	**47,326,292**	**28,999,823**
	Total		
	Proved Developed	**42,234,298**	**28,469,753**
	Proved Undeveloped	**21,602,106**	**11,202,938**
	Total Proved	**63,836,404**	**39,672,691**

(1) Includes future net revenue and present worth attributable to the 31.30 percent interest in Dagneft not owned by Rosneft.

(2) Includes future net revenue and present worth attributable to the 18.78 percent interest in Dagneftegaz not owned by Rosneft.

(3) Represents Rosneft's 100 percent ownership of the fields in the Chechen Republic.

(4) Includes future net revenue and present worth attributable to the 4.54 percent interest in Krasnodarneftegaz not owned by Rosneft.

(5) Represents Rosneft's 50 percent ownership of the fields in Polar Light.

(6) Includes future net revenue and present worth attributable to the 16.91 percent interest in Purneftegaz not owned by Rosneft.

(7) Rosneft's share of the contractor's entitlement in Sakhalin-1, reported herein as 20 percent, represents Rosneft's direct ownership of 8.5 percent plus a consolidation of the 11.5 percent of Sakhalin-1 owned by Sakhalinmoreneftegaz, which includes the 35.38 percent of Sakhalinmoreneftegaz not owned by Rosneft.

(8) Includes future net revenue and present worth attributable to the 35.38 percent interest in Sakhalinmoreneftegaz not owned by Rosneft.

(9) Represents Rosneft's 100 percent ownership of Selkupneftegaz.

(10) Represents Rosneft's 100 percent ownership of Severnaya Neft.

(11) Includes future net revenue and present worth attributable to the 24.82 percent interest in Stavropolneftegaz not owned by Rosneft.

(12) Includes future net revenue and present worth attributable to the 40-percent interest in the northern portion of the field and the 0.01-percent interest in the southern portion of the field not owned by Rosneft.

(13) Represents Rosneft's 25.94 percent ownership of Verhnechonskneftegaz.

(14) Includes future net revenue and present worth attributable to the 23.21 percent interest in Yuganskneftegaz not owned by Rosneft.

These data accompany the report of DeGolyer and MacNaughton and are subject to its specific conditions.

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DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
Dallas Texas 75244

REPORT
as of
DECEMBER 31, 2005
on the
PROSPECTIVE RESOURCES
attributable to
CERTAIN PROSPECTS
of
OAO ROSNEFT
in
VARIOUS COUNTRIES

SUMMARY

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SUMMARY

FOREWORD

Scope of Investigation This report presents estimates, as of December 31, 2005, of the prospective petroleum resources of various prospects in various countries. This report has been prepared at the request of OAO Rosneft (Rosneft). Rosneft owns various interests in these prospects under the terms of exploration licenses issued.

The prospective resources in this report are expressed as gross prospective resources. Gross prospective resources are defined as the total estimated petroleum that is potentially recoverable after December 31, 2005.

The prospective resources estimated herein are those volumes of petroleum that are potentially recoverable from accumulations yet to be discovered. The definitions of prospective resources applied are in agreement with the petroleum resources definitions approved in February 2000 by the Society of Petroleum Engineers, the World Petroleum Congresses, and the American Association of Petroleum Geologists and are discussed in detail in the Classification of Resources section of this report. Because of the uncertainty of commerciality and the lack of sufficient exploration drilling, the prospective resources estimated herein cannot be classified as contingent resources or reserves. The prospective resources estimates in this report are provided as a means of comparison to other prospective resources and do not provide a means of direct comparison to contingent resources or reserves.* Tables 1 and 2 summarize the estimated prospective oil resources, as of December 31, 2005.

At the request of Rosneft, a model was prepared to estimate potential values that might be realized from the prospective resources estimated herein should these prospective resources be successfully discovered and developed. A possibility exists that the prospects will not result in successful discoveries and development, in which case there could be no positive potential present worth.

The potential values of the prospective resources estimated herein are expressed in terms of potential present worth. Potential present worth is defined as potential future net revenue discounted at a specified arbitrary discount rate compounded monthly over the expected period of realization should these prospective resources be successfully discovered and developed. Potential future net revenue is that revenue that might be derived from the sale of Rosneft's prospective resources. In this report, potential present worth values were estimated using a 10-percent discount rate. Values of potential present worth at 10 percent have been estimated by utilizing field analogy, statistical analyses, economic modeling, and regional experience. A potential present worth per prospective resources volume methodology was utilized to develop a potential present worth estimate for the prospective resources probabilistically modeled. This methodology is discussed in more detail in the Valuation of Resources section of this report.

* See Glossary of Probabilistic Terms

Potential present worth estimates are shown in this report for the prospective resources before and after adjustment for the probability of geologic and economic success in discovering and developing a commercially viable field. These potential present worth estimates are provided as a means of comparison to the potential present worth estimates of other prospective resources and do not provide a means of direct comparison to the present worth estimates attributable to contingent resources or reserves. The probability adjustment process takes into account the probability of an economically viable discovery.

These potential present worth estimates do not take into consideration the uncertainties associated with market and political conditions. The estimates are expressed in terms of present worth discounted at 10 percent. All potential present worth estimates presented in this report are expressed in United States dollars (U.S.$). The total failure scenario for potential present worth estimation recognizes the chance that zero wells encounter economic prospective resources. This probability of no positive present worth is intrinsic to all prospect portfolios.

Estimates of prospective resources and their potential present worth should be regarded only as estimates that may change as additional information becomes available. Not only are such prospective resources and potential present worth estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information. Prospective resources volumes and their potential present worth estimates should not be confused with those volumes and values that are associated with contingent resources or reserves due to the additional risks involved. The volumes that might actually be recovered may differ significantly from the estimates presented herein. Estimates of prospective resources and their potential present worth estimates should be regarded only as estimates that may change as additional information becomes available.

Authority This report was authorized by Mr. Sergei M. Bogdanchikov, President of Rosneft.

Source of Information In the preparation of this report we have relied, without independent verification, upon information furnished by or on behalf of Rosneft with respect to the property interests to be evaluated, subsurface data as they pertain to the target objectives and prospects, and various other information and technical data that were accepted as represented.

CLASSIFICATION of RESOURCES

Petroleum resources included in this report are classified as prospective resources. Because of the lack of commerciality or sufficient exploration drilling, the prospective resources estimated herein cannot be classified as reserves. The petroleum resources are classified as follows:

Prospective Resources—Those quantities of petroleum that are estimated, on a given date, to be potentially recoverable from undiscovered accumulations.

The estimation of resources quantities for a prospect is subject to both technical and commercial uncertainties and, in general, may be quoted as a range. The range of uncertainty reflects a reasonable range of estimated potentially recoverable volumes. In all cases, the range of uncertainty is dependent on the amount and quality of both technical and commercial data that are available and may change as more data become available.

Low, Median, Best, and High Estimates—Estimates of petroleum resources in this report are expressed using the terms low estimate, median estimate, best estimate, and high estimate to reflect the range of uncertainty.

A detailed explanation of the probabilistic terms used herein is included in the Glossary of Probabilistic Terms in the appendix bound with this report. For probabilistic estimates of petroleum resources, the expected value* (EV), an outcome of the probabilistic analysis, is used for the best estimate. The low estimate reported herein is the P_{90}* quantity derived from probabilistic analysis. This means that there is at least a 90-percent probability that, assuming the prospect is discovered and developed, the quantities actually recovered will equal or exceed the low estimate. The median estimate is the P_{50}* quantity derived from probabilistic analysis. This means that there is at least a 50-percent probability that, assuming the prospect is discovered and developed, the quantities actually recovered will equal or exceed the median estimate. The high estimate is the P_{10}* quantity derived from probabilistic analysis. This means that there is at least a 10-percent probability that, assuming the prospect is discovered and developed, the quantities actually recovered will equal or exceed the high estimate.

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* See Glossary of Probabilistic Terms

Uncertainties Related to Prospective Resources—The volume of petroleum discovered by exploration drilling depends on the number of prospects that are successful as well as the volume that each success contains. Reliable forecasts of these volumes are, therefore, dependent on accurate predictions of the number of discoveries that are likely to be made if the entire portfolio of prospects is drilled. The accuracy of this forecast depends on the portfolio size, and an accurate assessment of the probability of geologic success* (P_g).

Probability of Geologic Success—P_g is defined as the probability of discovering reservoirs which flow petroleum at a measurable rate. P_g is estimated by quantifying the probability of each of the following individual geologic factors: trap, source, reservoir, and migration.* The product of these four probabilities or chance factors is computed as P_g.

In this report estimates of prospective resources are presented both before and after adjustment for P_g. Total prospective resources estimates are based on the probabilistic summation of the volumes for the total inventory of prospects.

Application of P_g to estimate the P_g-adjusted prospective resources volumes does not equate prospective resources with reserves or contingent resources. P_g-adjusted prospective resources volumes cannot be compared directly to or aggregated with either reserves or contingent resources. Estimates of P_g are interpretative and are dependent on the quality and quantity of data currently made available. Future data acquisition, such as additional drilling or seismic acquisition, can have a significant effect on P_g estimation. These additional data are not confined to the study area, but also include data from similar geologic settings or technological advancements that could affect the estimation of P_g.

Predictability versus Portfolio Size—The accuracy of forecasts of the number of discoveries that are likely to be made is somewhat constrained by the number of prospects in the exploration portfolio. The size of the portfolio and P_g together are helpful in gauging the limits on the reliability of these forecasts. A high P_g, which indicates a high chance of discovering measurable petroleum, may not require a large portfolio to ensure that at least one discovery will be made (assuming the P_g does not change during drilling of some of the prospects). By contrast, a low P_g, which indicates a low chance of discovering measurable petroleum, could require a large number of prospects to ensure a high confidence level of making even a single discovery. The relationship between portfolio size, P_g, and the probability of a fully unsuccessful drilling program that results in a series of wells not encountering measurable hydrocarbons is referred to herein as the predictability versus portfolio size relationship* (PPS). It is critical to be aware of PPS, because an unsuccessful drilling program, which results in a series of wells that do not encounter measurable hydrocarbons, can adversely affect any exploration effort, resulting in a negative present worth.

For a large prospect portfolio, the P_g-adjusted best estimate of the prospective resources volume should be a reasonable estimate of the recoverable petroleum quantities found if all prospects are drilled. When the number of prospects in the portfolio is small and the P_g is low, the recoverable petroleum actually found may be considerably smaller than the P_g-adjusted best estimate would indicate. It follows that the probability that all of the prospects will be unsuccessful is smaller when a large inventory of prospects exist.

Prospect Technical Evaluation Stage—A prospect can often be subcategorized based on its current stage of technical evaluation. The different stages of technical evaluation relate to the amount of geologic, geophysical, engineering, and petrophysical data, as well as the quality of available data.

Mature Prospect—A mature prospect is a potential accumulation that is sufficiently well defined to be a viable drilling target. For a mature prospect, sufficient data and analyses exist to identify and quantify the technical uncertainties, determine reasonable ranges of geologic chance factors, engineering and petrophysical parameters, and estimate prospective resources.

Immature Prospect—An immature prospect is less well defined and requires additional data and/or evaluation to be classified as a mature prospect. An example would be a poorly defined closure mapped using sparse regional seismic data in a basin containing favorable source and reservoir(s). An immature prospect may or may not be elevated to mature prospect status depending on the results of additional technical work. An immature prospect must have a P_g equal to or less than 0.05 to reflect the inherent technical uncertainty.

Threshold Economic Field Size—The threshold economic field size (TEFS)* is the minimum amount of producible petroleum required to recover the total capital expenditure used to establish the prospect as having

*	See Glossary of Probabilistic Terms

a present worth greater than zero. These investments include expenditures required to establish and prove profitable production and to conduct delineation or confirmation drilling. All geologic, geophysical, lease and/or contract-area acquisition costs and other anticipated field delineation costs are included in the estimation of TEFS as well. The potential present worth per resources volume methodology is a standard industry practice used to estimate contingent resources value. This methodology is directly formulated from the discounted cash flow analysis, which is fundamental to the potential present worth estimation. Accordingly, where this methodology is employed to estimate TEFS, no additional provision should be made for field development costs.

Probability of Economic Success—The probability of economic success (P_e) is defined as the probability that a given discovery will be economically viable. It takes into account P_g, P_{TEFS}, TEFS, capital costs, operating expenses, the proposed development plan, the economic model (discounted cash flow analyses), and other business and economic factors. P_e is calculated as follows:

$$P_e = P_g \times P_{TEFS}.$$

Probability of Threshold Economic Field Size (P_{TEFS})—The probability of threshold economic field size* is defined as the probability of discovering an accumulation that is large enough to be economically viable. P_{TEFS} is estimated by using the prospective resources recoverable volumes distribution in conjunction with the TEFS. The probability associated with the TEFS can be determined graphically from the prospective gross recoverable volumes distribution.

ESTIMATION of RESOURCES

Estimates of prospective resources were prepared by the use of standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of the reservoirs was tempered by experience with similar reservoirs, stage of development, and quality and completeness of basic data.

The probabilistic analysis of the prospective resources in this report considered the uncertainty in the amount of petroleum that may be discovered, the P_g, and the P_e. The uncertainty analysis addresses the range of possibilities for any given volumetric parameter. Low, median, best, and high estimates of prospective resources were estimated to address this uncertainty. The P_g analysis addresses the probability that the identified prospects will encounter petroleum that flows at a measurable rate. The P_e analysis addresses the probability that the prospective resources will be economically viable.

Standard probabilistic methods were used in the uncertainty analysis. Probability distributions were estimated from representations of porosity, petroleum saturation, net hydrocarbon thickness, geometric correction factor,* recovery efficiency, fluid properties, and productive area for each prospect. These representations were prepared based on known data, analogy, and other standard estimation methods including experience. Statistical measures describing the probability distributions of these representations were identified and input to a Monte Carlo simulation to produce low estimate, median estimate, best estimate, and high estimate prospective resources for each prospect.

In this report, 11 prospects (Baikalovskoye, Yakovlevskoye, East Lodochni, Lebyazhi, Nizhnebaikhsky, Peschani, Polyarni, Protochni, Noskovskaya, Samoedski, Sovetski) are referred to as immature prospects* to reflect the current stage of technical evaluation.

Quantitative Risk Assessment and the Application of P_g

Minimum, modal, and maximum representations of productive area were interpreted from maps, available seismic data, and/or analogy. Low, mean, and high representations for the petrophysical parameters (porosity, petroleum saturation, and net hydrocarbon thickness), and engineering parameters (recovery efficiency and fluid properties) were also made based on available well data, regional data, analog field data, and global experience. Individual probability distributions for net rock volume, petrophysical, and engineering parameters were produced from these representations.

* See Glossary of Probabilistic Terms

The distributions for the variables were derived from (1) scenario-based interpretations, (2) the geologic, geophysical, petrophysical, and engineering data provided, (3) local, regional, and global knowledge, and (4) field and case studies in the literature. The parameters used to model the recoverable volumes were productive area, net hydrocarbon thickness, geometric correction factor, porosity, petroleum saturation, formation volume factor, and recovery efficiency. Minimum, mean, and maximum representations were used to statistically model and shape the input P_{90}, P_{50}, and P_{10} parameters. Productive area and net hydrocarbon thickness were modeled using truncated lognormal distributions. Truncated normal and triangular distributions were used to model geometric correction factor, formation volume factor, and recovery efficiency. Porosity and petroleum saturation were modeled using truncated normal distributions. Latin hypercube sampling was used to better represent the tails of the distributions. The Monte Carlo simulation makes 10,000 iterations to create the output distributions.

Each individual volumetric parameter was investigated using a probabilistic approach with attention to variability. Deterministic data were used to anchor and shape the various distributions. The net rock volume parameters had the greatest range of variability, and therefore had the greatest impact on the uncertainty of the simulation. The volumetric parameter variability was based on the structural and stratigraphic uncertainties due to the depositional environment and quality of the seismic data. Analog field data were statistically incorporated to derive uncertainty limits and constraints on the net pore volume. Uncertainty associated with the depth conversion, seismic interpretation, gross sand thickness mapping, and net hydrocarbon thickness assumptions were also derived from studies of analogous reservoirs, multiple interpretative scenarios, and sensitivity analyses.

A P_g analysis was applied to estimate the volumes that may actually result from drilling these prospects. In the P_g analysis, the P_g estimates were made for each prospect from the product of the probabilities of the four geologic chance factors: trap, reservoir, migration, and source. The P_g-adjusted best estimate of the prospective resources was made by application of the P_g to the best estimate of the prospective resources (the product of P_g and the best estimate).

Estimates of gross oil prospective resources and the P_g estimates, as of December 31, 2005, evaluated herein are shown in Table 1. The P_g-adjusted best estimate of the prospective resources was then made by the probabilistic product of P_g and the resources distributions for each of the individual prospects. These results for the individual prospects were then stochastically summed (zero dependency) to produce the total P_g-adjusted best estimate prospective resources.

Application of the P_g factor to estimate the P_g-adjusted prospective resources volumes does not equate prospective resources with reserves or contingent resources. P_g-adjusted estimates of prospective resources volumes cannot be compared directly to or aggregated with either reserves or contingent resources. Estimates of P_g are interpretive and are dependent on the quality and quantity of data currently available. Future data acquisition, such as additional drilling or seismic acquisition can have a significant effect on P_g estimation. These additional data are not confined to the area of study, but also include data from similar geologic settings or from technological advancements that could affect the estimation of P_g.

Application of P_e

TEFS required for prospect success was estimated. TEFS was used to truncate and redistribute the estimated prospective resources probability distributions. The truncated, TEFS-adjusted, P_e-adjusted estimates of the prospective resources were then estimated by the probabilistic product of P_e and the truncated, TEFS-adjusted prospective resources distributions for each of the individual prospects. These results were then stochastically (zero dependency) summed and redistributed to produce the truncated, TEFS-adjusted, P_e-adjusted prospective resources estimates.

Estimates of the truncated, TEFS-adjusted gross prospective oil resources, as of December 31, 2005, evaluated herein are summarized in Table 2.

Application of the P_e factor to estimate the P_e-adjusted prospective resources volumes does not equate prospective resources with contingent resources or reserves. Estimates of P_e are interpretive and are dependent on the quality and quantity of data currently available. Future data acquisition, technical developments, or favorable economic scenarios can have a significant effect on P_e estimation. These additional data are not confined to the area of study, but also include data from similar geologic settings or technological advancements that could affect the estimation of P_e.

* See Glossary of Probabilistic Terms.

VALUATION of RESOURCES

The estimates of potential present worth of future net revenue discounted at 10 percent that could be realized for the prospective resources estimated in this report are dependent on the successful discovery and development of the prospects evaluated herein. The estimated potential present worth of the prospective resources evaluated in this report are to be used for comparison and ranking of these prospective resources against other prospective resources only. The estimated potential present worth for the prospective resources cannot be compared directly to, equated with, or aggregated with the present worth estimates that could be realized from contingent resources or reserves, nor are these potential present worth estimates an assessment of the fair market value of the properties evaluated herein.

At the request of Rosneft, a probabilistic model was prepared to estimate present worth that could be potentially realized should the prospective resources estimated herein be both successfully discovered and developed. The potential present worth methodology is used by industry and DeGolyer and MacNaughton to estimate potential present worth of prospective resources; however, associated gas is not included in the potential present worth valuation, as the potential values for associated gas are highly uncertain and problematic to model. The probabilistic model incorporated various economic factors and development practices. Operating expenses, capital costs, prices, depreciation, taxes, time value of money, field life, exploration well costs, TEFS, development timing, and other factors were considered. An independent evaluation of the operating and capital expenses was performed by SNC-Lavalin. These data and interpretations were considered in this estimation. The Rosneft data were modeled using present worth at 10 percent for various field sizes and field development maturity. These data inherently contain variation in the economic assumptions, transportation, drilling, and other infrastructure installation costs. These data allowed the estimation of potential present worth per unit of resources volumes distributions, which were utilized to assign potential value assuming the successful discovery and development of each respective prospect based on analog practice and costs to Rosneft.

The estimates of potential present worth that could be realized for the truncated, TEFS-adjusted best estimate prospective resources are presented after adjustment for P_e. Potential present worth per barrel was used in the quantitative risk assessment in conjunction with the truncated, TEFS-adjusted P_e-adjusted prospective resources to estimate potential present worth.

The potential present worth per barrel methodology is a probabilistic estimation. Therefore, the potential present worth per barrel is expressed as a distribution rather than a single value. Probabilistic outcomes involve thousands of iterations using distributions. Deterministic estimations and related mathematical operations (addition, subtraction, multiplication, and division) cannot be performed on prospective resources distributions or potential present worth per barrel distributions. Any such calculation produces invalid results that are not comparable to the probabilistic outcomes estimated herein. Such calculations and comparisons to these probabilistic outcomes must be avoided.

Potential present worth for the truncated, TEFS-adjusted, P_e-adjusted prospective resources has been estimated by deriving a 10-percent present worth value versus various-sized field developments based on economic modeling results. Estimated potential present worth for the prospective resources considered the timing and costs of exploration, appraisal and development costs, and other information depending on the prospect.

Application of P_e to estimate the P_e-adjusted prospective resources does not equate prospective resources and their associated values with contingent resources or reserves. P_e-adjusted prospective resources volumes and their associated values cannot be compared directly to or aggregated with either contingent resources or reserves and their associated values.

Estimates of P_e are interpretive and are dependent on the quality and quantity of data currently made available. Future changes in the fiscal environment and/or the infrastructure of the area can change these values significantly.

SUMMARY and CONCLUSIONS

Rosneft owns interests in prospective resources in various prospects located in various basins in various countries. Should these prospects result in successful discoveries and development, estimates of the gross prospective oil and gas resources, as of December 31, 2005, are summarized as follows, expressed in thousands of barrels (10^3bbl), thousands of tons (10^3tons), millions of cubic feet (10^6ft^3), and millions of cubic meters (10^6m^3):

	Low Estimate	Median Estimate	Best Estimate	High Estimate
Gross Prospective Oil Resources, 10^3bbl	23,405,738	42,875,042	47,935,754	78,546,674
Gross Prospective Oil Resources, 10^3tons	3,228,378	5,913,799	6,611,828	10,834,024
Gross Prospective Gas Resources, 10^6ft^3	19,854,149	27,219,133	28,056,841	37,318,030
Gross Prospective Gas Resources, 10^6m^3	562,207	770,760	794,481	1,056,729

Note: Recovery efficiency is applied to prospective resources in this table.

Estimates of the gross truncated, TEFS-adjusted prospective oil and gas resources, should these prospects result in successful discoveries and development, as of December 31, 2005, are summarized as follows, thousands of barrels (10^3bbl), thousands of tons (10^3tons), millions of cubic feet (10^6ft^3), and millions of cubic meters (10^6m^3):

	Low Estimate	Median Estimate	Best Estimate	High Estimate
Gross Truncated, TEFS-Adjusted Prospective Oil Resources, 10^3bbl	31,041,494	46,866,703	49,352,663	70,764,282
Gross Truncated, TEFS-Adjusted Prospective Oil Resources, 10^3tons	4,281,585	6,464,373	6,807,264	9,760,591
Gross Truncated, TEFS-Adjusted Prospective Gas Resources, 10^6ft^3	20,811,925	28,532,201	29,410,320	39,118,274
Gross Truncated, TEFS-Adjusted Prospective Gas Resources, 10^6m^3	589,323	807,934	832,800	1,107,696

Note: Recovery efficiency is applied to prospective resources in this table.

The gross truncated, TEFS-adjusted, P_e-adjusted best estimate prospective resources, should these prospects result in successful discoveries and development, as of December 31, 2005, is summarized as follows, thousands of barrels (10^3bbl), thousands of tons (10^3tons), millions of cubic feet (10^6ft^3), and millions of cubic meters (10^6m^3):

	Best Estimate
Gross Truncated, TEFS-Adjusted, P_e-Adjusted Prospective Oil Resources, 10^3bbl	13,364,044
Gross Truncated, TEFS-Adjusted, P_e-Adjusted Prospective Oil Resources, 10^3tons	1,843,316
Gross Truncated, TEFS-Adjusted, P_e-Adjusted Prospective Gas Resources, 10^6ft^3	5,518,893
Gross Truncated, TEFS-Adjusted, P_e-Adjusted Prospective Gas Resources, 10^6m^3	156,276

Notes:

1. Application of P_e does not equate prospective resources to contingent resources or reserves.

2. Recovery efficiency is applied to prospective resources in this table.

The following table summarizes the potential present worth that might be realized from the production and sale of Rosneft's net interest in the truncated, TEFS-adjusted, P_e-adjusted prospective resources of the various prospects evaluated herein if they were successfully discovered and developed using the present worth per prospective resources volume methodology, as of December 31, 2005, expressed in thousands of U.S. dollars (10^3 U.S.$):

	Potential Present Worth at 10 Percent			
	Low Estimate (10^3 U.S.$)	**Median Estimate (10^3 U.S.$)**	**Best Estimate (10^3 U.S.$)**	**High Estimate (10^3 U.S.$)**
Net Truncated, TEFS-Adjusted, P_e-Adjusted Prospective Oil and Gas Resources	18,621,810	20,770,240	21,035,634	23,718,750

Notes:

1. Estimated potential present worth of prospective resources are not comparable to present worth estimates of contingent resources or reserves.
2. Estimates of potential present worth for prospective resources do not consider adjustments for political uncertainties.
3. A possibility exists that the prospects will not result in successful discovery and development, in which case there would be no positive present worth.

Submitted,

DeGOLYER and MacNAUGHTON

SIGNED: May 17, 2006

Thomas A. Schob, P.E.
Senior Vice President
DeGolyer and MacNaughton

STANDARD PETROLEUM INDUSTRY TERMS for PROBABILISTIC RESOURCES QUANTITIES

Low Estimate—In accordance with SPE definitions, the low estimate is the P_{90} quantity. P_{90} means there is a 90-percent chance that an estimated quantity, such as a prospective resources volume or associated value, will be equaled or exceeded.

Median Estimate—In accordance with SPE definitions, the median estimate is the P_{50} quantity. P_{50} means there is a 50-percent chance that an estimated quantity, such as a prospective resources volume or associated value, will be equaled or exceeded.

High Estimate—In accordance with SPE definitions, the low estimate is the P_{10} quantity. P_{10} means there is a 10-percent chance that an estimated quantity, such as a prospective resources volume or associated value, will be equaled or exceeded.

Best Estimate—In accordance with SPE definitions, the best estimate is the probability-weighted average, which typically has a probability in the P_{45} to P_{15} range, depending on the variance of prospective resources volume or associated value. Therefore, the probability of a prospect or accumulation containing the probability weighted average volume or greater is usually between 45 and 15 percent. The best estimate is the preferred probabilistic estimate of prospective resources.

Probability of Geologic Success (P_g)—The probability of geologic success is defined as the probability of discovering reservoirs that flow hydrocarbons at a measurable rate. P_g is estimated by quantifying with a probability each of the following individual geologic chance factors: trap, source, reservoir, and migration. The product of the probabilities of these four chance factors is P_g.

P_g-adjusted Best Estimate—The P_g-adjusted best estimate, or "geologic risk-adjusted best estimate," is a probability-weighted average of the hydrocarbon quantities potentially recoverable if a prospect portfolio were drilled, or if a family of similar prospects were drilled. The P_g-adjusted best estimate is a "blended" quantity. It is a mean estimation of both volumetric uncertainty and geological risk (chance). This statistical measure considers and quantifies the geological success and geological failure outcomes. Consequently, it represents the average or mean "geologic" outcome of a drilling and exploration program. The P_g-adjusted best estimate is calculated as follows:

$$P_g\text{-adjusted best estimate} = P_g \times \text{best estimate}$$

Probability of Economic Success (P_e)—The probability of economic success is defined as the probability that a given discovery will be economically viable. It takes into account capital costs, operating expenses, the proposed development plan, the economic model (discounted cash flow analyses), and other business and economic factors.

P_e-adjusted Best Estimate—The P_e-adjusted best estimate, or "economic risk-adjusted best estimate," is a probability-weighted average of the hydrocarbon quantities potentially recoverable if a prospect portfolio were drilled, or if a family of similar prospects were drilled. The P_e-adjusted best estimate is a "blended" quantity. It is a mean estimation of volumetric uncertainty, geologic (P_g), and economic risk (chance). This statistical measure considers and quantifies the economic success and economic failure outcomes. Consequently, it represents the average or mean "economic" volumes resulting from economically viable drilling and exploration. The P_e-adjusted best estimate is calculated as follows:

$$P_e\text{-adjusted best estimate} = P_e \times \text{best estimate}$$

GLOSSARY of PROBABILISTIC TERMS

Accumulation—The term accumulation is used to identify an individual body of moveable petroleum. A known accumulation (one determined to contain reserves or contingent resources) must have been penetrated by a well. The well must have clearly demonstrated the existence of moveable petroleum by flow to the surface or at least some recovery of a sample of petroleum though the well. However, log and/or core data from the well may establish an accumulation, provided there is a good analogy to a nearby and geologically comparable known accumulation.

Contingent Resources—Those quantities of petroleum that are estimated, on a given date, to be potentially recoverable from known (drilled) or discovered accumulations, but which are not currently considered to be commercially recoverable or for which the degree of commitment is not such that the accumulation is expected to be developed and placed on production within a reasonable time frame. Contingent resources include accumulations for which there is currently no viable market, or where commercial recovery is dependent on the development of new technology, or where evaluation of the accumulation is still at an early stage.

Expected Value—The expected value (EV) is the probability-weighted average of the parameter being estimated, where probability values from the probability distribution are used as the weighting factors. Parameter values (abscissa) and probabilities (ordinate) are the Cartesian pairs (e.g., gross recoverable volumes and P_{90}), which define the probability distribution. These parameters are probability-weighted and summed to yield the resulting expected value. The equation for computing the expected value is as follows:

$$EV = \sum_{i=I}^{n} (P_i)(V_i)$$

where: P = probability from probability distribution, ordinate
V = parameter value, abscissa
i = a specific value in an ordered sequence of values
n = the total number of samples

The expected value is the algebraic sum of all of the products obtained by multiplying the parameter quantity and its associated probability of occurrence. The expected value is sometimes called the mean, best estimate, or the statistical mean. In a probabilistic analysis, the expected value is the only quantity that can be treated arithmetically (by addition, subtraction, multiplication, or division). All other quantities, such as median (P_{50}), mode, P_{90}, and P_{10}, require probabilistic techniques for scaling or aggregation.

The probability associated with the statistical mean depends on the variance of the distribution from which the mean is calculated. The best estimate is the statistical mean (the probability-weighted average), which typically has a probability in the P_{45} to P_{15} range. Therefore, if a successful discovery occurs, the probability of the accumulation containing the statistical mean volume or greater is usually between 45 and 15 percent.

The expected value is the preferred quantity to use for the best estimate in probabilistic estimates of prospective resources. The P_{90} and P_{10} quantity is often used for the low and high estimates, respectively, of prospective resources. Aggregation or scaling of P_{90}, P_{50}, and P_{10} quantities should be done probabilistically, not arithmetically.

Geometric Correction Factor—The geometric correction factor (GCF) is a geometry adjustment correction that takes into account the relationship of the potential fluid contact to the geometry of the reservoir and trap. Input parameters used to estimate the geometric correction factor include trap shape, length-to-width ratio, potential reservoir thickness, and the height of the potential trapping closure (potential hydrocarbon column height).

Immature Prospect—An immature prospect is less well defined and requires additional data and/or evaluation to be classified as a mature prospect. An example would be a poorly defined closure mapped using sparse regional seismic data in a basin containing favorable source and reservoir(s). An immature prospect may or may not be elevated to mature prospect status depending on the results of additional technical work. An immature prospect must have a P_g equal to or less than 0.05 to reflect the inherent technical uncertainty.

Mature Prospect—A mature prospect is a potential accumulation that is sufficiently well defined to be a viable drilling target. For a mature prospect, sufficient data and analyses exist to identify and quantify the technical uncertainties, determine reasonable ranges of geologic chance factors, engineering and petrophysical parameters, and estimate prospective resources.

Median—Median is the P_{50} quantity, where the P_{50} means there is a 50-percent chance that a given variable (such as prospective resources, porosity, or water saturation) is equaled or exceeded. The median of a data set is a number such that half the measurements are below the median and half are above.

The median is an acceptable, but not preferred, quantity to use for the best estimate in probabilistic estimations of prospective resources. Aggregation or scaling of P_{50} quantities should be done probabilistically, not arithmetically.

Migration Chance Factor—Migration chance factor ($P_{migration}$) is defined as the probability that a trap either predates or is coincident with petroleum migration and that there exists vertical and/or lateral migration pathways linking the source to the trap.

Mode—The mode (MO) is the quantity that occurs with the greatest frequency in the data set and therefore is the quantity that has the greatest probability of occurrence. However, the mode may not be uniquely defined, as is the case in multimodal distributions.

The mode is an acceptable, but not preferred, quantity to use for the best estimate in probabilistic estimations of prospective resources.

P_n Nomenclature—This report uses the convention of denoting probability with asubscript representing the greater than cumulative probability distribution. As such, the notation P_n indicates the probability that there is an *n*-percent chance that a specific input or output quantity will be equaled or exceeded. For example, P_{90} means there is a 90-percent chance that a variable (such as prospective resources, porosity, or water saturation) is equaled or exceeded.

Potential Present Worth—Potential present worth (PPW) is defined as potential future net revenue discounted at 10 percent compounded monthly over the expected period of realization. The estimation is probabilistically modeled using distributions (except NRI, a constant) in the following equation:

$$PPW_{10} = \left[\left(P_e \times EV_t \times NRI \times \frac{PW}{BOE}\right) - (P_e \times CWCE \times NRI)\right] - (P_f \times DHC \times NRI)$$

where:
- PPW_{10} = potential present worth at 10 percent
- P_e = probability of economic success
- EV_t = best estimate, potential gross recoverable volume, truncated, TEFS-adjusted
- NRI = net revenue interest
- PW/BOE = present worth at 10 percent per barrel of oil equivalent
- CWCE = completed well cost estimate
- P_f = probability of economic failure
- DHC = dry hole cost estimate

Predictability versus Portfolio Size—The number of prospects in a prospect portfolio influences the reliability of the forecast of drilling results. The relationship between predictability versus portfolio size (PPS) is also known in the petroleum industry literature as "Gambler's Ruin." The relationship of probability to portfolio size is described by the binomial probability equation given as follows:

$$P_x^n = (C_x^n)(p)^x(1 - p)^{n-x}$$

$$C_x^n = \frac{n!}{x!(n - x)!}$$

where:
- P_x^n = the probability of *x* successes in *n* trials
- C_x^n = the number of mutually exclusive ways that *x* successes can be arranged in *n* trials
- p = the probability of success for a given trial (for petroleum exploration, this is P_g)
- x = the number of successes (e.g., the number of discoveries)
- n = the number of trials (e.g., the number of wells to be drilled)

Note: For the case of *n* successive dry holes, C_x^n and p each equals 1, so the probability of failure is the quantity $(1 - p)$ raised to the number of trials.

Probability of Economic Success—The probability of economic success (P_e) is defined as the probability that a given discovery will be economically viable. It takes into account P_g, P_{TEFS}, TEFS, capital costs, operating expenses, the proposed development plan, the economic model (discounted cash flow analyses), and other business and economic factors. P_e is calculated as follows:

$$P_e = P_g \times P_{TEFS}$$

Probability of Geologic Success—The probability of geologic success (P_g) is defined as the probability of discovering reservoirs that flow petroleum at a measurable rate. P_g is estimated by quantifying with a probability each of the following individual geologic chance factors: trap, source, reservoir, and migration. The product of the probabilities of these four chance factors is P_g.

Probability of TEFS—The probability of threshold economic field size (P_{TEFS}) is defined as the probability of discovering an accumulation that is large enough to be economically viable. P_{TEFS} is estimated by using the prospective resources recoverable volumes distribution in conjunction with the TEFS. The probability associated with the TEFS can be determined graphically from the prospective gross recoverable volumes distribution.

Prospective Resources—Those quantities of petroleum that are estimated, on a given date, to be potentially recoverable from undiscovered (undrilled) accumulations.

Reservoir Chance Factor—The reservoir chance factor ($P_{reservoir}$) is defined as the probability associated with the presence of porous and permeable reservoir quality rock.

Source Chance Factor—The source chance factor (P_{source}) is defined as the probability associated with the presence of a hydrocarbon source rock rich enough, of sufficient volume, and in the proper spatial position to charge the prospective area or areas.

Standard Deviation—Standard deviation (SD) is a measure of distribution spread. It is the positive square root of the variance. The variance is the summation of the squared distance from the mean of all possible values. Since the units of standard deviation are the same as those of the sample set, it is the most practical measure of population spread.

$$\sigma = \sqrt{\sigma^2} = \sqrt{\frac{\sum_{i=1}^{n}(x_i-\mu)^2}{n-1}}$$

where: σ = standard deviation
σ^2 = variance
n = sample size
x_i = value in data set
μ = sample set mean

Threshold Economic Field Size—The threshold economic field size (TEFS) is the minimum amount of producible petroleum required to recover the total capital expenditure used to establish the prospect as having a positive potential present worth greater than zero. These investments include expenditures required to establish and prove profitable production and to conduct delineation or confirmation drilling. All geologic, geophysical, lease and/or contract-area acquisition costs and other anticipated field delineation costs are included in the estimation of TEFS as well. The potential present worth per resources volume methodology is a standard industry practice used to estimate prospective resources value. This methodology is directly formulated from the discounted cash flow analysis, which is fundamental to the potential present worth estimation. Accordingly, where the potential present worth per barrel methodology is being employed to estimate TEFS, no additional provision should be made for field development costs.

$$\text{TEFS} = \frac{\text{Geology + Geophysics + Drilling + Land + Transportation + Overhead}}{\text{Potential Present Worth per Barrel}}$$

Trap Chance Factor—The trap chance factor (P_{trap}) is defined as the probability associated with the presence of a structural closure and/or a stratigraphic trapping configuration with competent vertical and lateral seals, and the lack of any post migration seal integrity events or breaches.

Truncated Best Estimate—The truncated best estimate is the resulting expected value calculated from the truncation of the resources distribution by the threshold economic field size. This truncated distribution produces a new set of statistical metrics.

Variance—The variance (σ^2) is a measure of how much the distribution is spread from the mean. The variance sums up the squared distance from the mean of all possible values of x. The variance has units that are the squared units of x. The use of these units limits the intuitive value of variance.

$$\sigma = \sqrt{\frac{\sum_{i=1}^{n}(x_i-\mu)^2}{n-1}}$$

where: σ^2 = variance
n = sample size
x_i = value in data set
μ = sample set mean

TABLE 1

ESTIMATE of the GROSS PROSPECTIVE OIL RESOURCES

as of

DECEMBER 31, 2005

for

ROSNEFT

in

CERTAIN OIL PROSPECTS
VARIOUS LICENSES
VARIOUS COUNTRIES

				Gross Prospective Oil Resources Summary					
Prospect	Country	Area Basin	License/Block	Low Estimate (10^3bbl)	Median Estimate (10^3bbl)	High Estimate (10^3bbl)	Best Estimate (10^3bbl)	Probability of Geologic Success, P_g (decimal)	P_g-Adjusted Best Estimate (10^3bbl)
Amaninskaya	Russia	West Kamchatsky Offshore	West Kamchatky	164,093.5	384,192.9	812,491.8	445,229.2	0.245	109,081.2
BN	Russia	West Kamchatsky Offshore	West Kamchatky	52,064.0	112,857.7	210,807.1	126,221.5	0.245	30,924.3
Bolsheretskaya	Russia	West Kamchatsky Offshore	West Kamchatky	91,735.4	177,641.3	311,781.2	190,760.5	0.245	46,736.3
Central 1	Russia	West Kamchatsky Offshore	West Kamchatky	23,753.8	53,308.5	119,668.4	64,172.1	0.245	15,722.2
Central 2	Russia	West Kamchatsky Offshore	West Kamchatky	30,624.7	56,525.0	100,426.9	62,293.2	0.245	15,261.8
E.Kalavayamskaya-2	Russia	West Kamchatsky Offshore	West Kamchatky	284,937.6	429,949.1	666,289.2	455,797.0	0.245	111,670.3
East Sukhanovskaya	Russia	West Kamchatsky Offshore	West Kamchatky	48,648.5	104,423.2	209,153.8	118,985.6	0.245	29,151.5
Evenskaya	Russia	West Kamchatsky Offshore	West Kamchatky	309,964.4	503,240.8	834,856.7	544,164.6	0.245	133,320.3
Inushskaya Dome I	Russia	West Kamchatsky Offshore	West Kamchatky	8,365.7	17,724.7	35,193.2	20,021.4	0.245	4,905.3
Inushskaya Dome2	Russia	West Kamchatsky Offshore	West Kamchatky	6,244.7	13,602.9	26,561.8	15,422.1	0.245	3,778.4
Kalavayamskaya-1	Russia	West Kamchatsky Offshore	West Kamchatky	262,094.8	469,424.4	851,425.2	521,133.2	0.245	127,677.6
Kalavayamskaya-2	Russia	West Kamchatsky Offshore	West Kamchatky	727,289.8	1,183,393.0	1,918,985.0	1,275,843.0	0.245	312,581.5
Krutogorovska	Russia	West Kamchatsky Offshore	West Kamchatky	408,361.9	916,063.5	2,020,021.0	1,109,673.0	0.245	271,869.9
Kunzhikskaya	Russia	West Kamchatsky Offshore	West Kamchatky	182,499.8	301,748.3	487,403.7	320,917.5	0.245	78,624.8
Morosechnaya	Russia	West Kamchatsky Offshore	West Kamchatky	14,389.7	32,278.1	70,115.4	38,690.9	0.245	9,479.3
Noname 2	Russia	West Kamchatsky Offshore	West Kamchatky	4,771.8	11,236.0	22,043.6	12,774.7	0.245	3,129.8
Noname I Dome I	Russia	West Kamchatsky Offshore	West Kamchatky	6,147.4	13,794.9	26,584.1	15,344.1	0.245	3,759.3
Noname I Dome 2	Russia	West Kamchatsky Offshore	West Kamchatky	7,484.1	15,606.6	31,175.3	17,956.3	0.245	4,399.3
Oblukovinskaya-1	Russia	West Kamchatsky Offshore	West Kamchatky	198,538.3	317,143.9	518,969.4	342,759.2	0.245	83,976.0
Prievenskaya	Russia	West Kamchatsky Offshore	West Kamchatky	108,860.5	195,846.2	337,430.0	213,156.9	0.245	52,223.4
South Kamchatka Dome 2	Russia	West Kamchatsky Offshore	West Kamchatky	6,465.4	13,758.0	27,268.8	15,502.3	0.245	3,798.1
South Kamchatka Dome I	Russia	West Kamchatsky Offshore	West Kamchatky	11,254.6	23,525.2	48,217.5	27,430.6	0.245	6,720.5
Sukhanovskaya	Russia	West Kamchatsky Offshore	West Kamchatky	146,449.8	309,333.2	621,720.9	357,946.6	0.245	87,696.9
Tigilskaya	Russia	West Kamchatsky Offshore	West Kamchatky	63,933.3	116,253.6	226,386.8	133,878.7	0.245	32,800.3
Tundrovaya-1	Russia	West Kamchatsky Offshore	West Kamchatky	308,778.9	498,707.3	801,487.0	534,261.8	0.245	130,894.1

TABLE 1—GROSS PROSPECTIVE OIL RESOURCES—*(Continued)*

Prospect	Country	Area Basin	License/Block	Gross Prospective Oil Resources Summary: Low Estimate (10^3bbl)	Median Estimate (10^3bbl)	High Estimate (10^3bbl)	Best Estimate (10^3bbl)	Probability of Geologic Success, P_g (decimal)	P_g-Adjusted Best Estimate (10^3bbl)
Tundrovaya-2	Russia	West Kamchatsky Offshore	West Kamchatky	175,713.9	287,913.2	473,051.0	308,815.2	0.245	75,659.7
Uikanskaya	Russia	West Kamchatsky Offshore	West Kamchatky	49,604.5	91,720.0	164,892.7	100,902.6	0.245	24,721.1
Ust-Tigilskaya	Russia	West Kamchatsky Offshore	West Kamchatky	40,787.4	70,151.1	130,736.0	80,128.7	0.245	19,631.5
West Sukhanovskaya	Russia	West Kamchatsky Offshore	West Kamchatky	10,043.8	21,191.3	43,267.0	24,426.2	0.245	5,984.4
Aiyashskaya	Russia	Veninsky Block	Sakhalin 3	114,395.0	180,331.7	281,153.2	190,463.6	0.392	74,661.7
Niyskaya	Russia	Veninsky Block	Sakhalin 3	10,925.4	30,141.1	77,914.3	39,216.8	0.392	15,373.0
North Veninskaya	Russia	Veninsky Block	Sakhalin 3	32,211.6	51,905.3	84,118.0	55,721.1	0.392	21,842.7
South Ayashskaya	Russia	Veninsky Block	Sakhalin 3	70,828.7	151,381.3	324,303.3	179,832.8	0.392	70,494.5
Veninskaya Northern Pericline	Russia	Veninsky Block	Sakhalin 3	227,726.0	324,018.4	461,203.4	336,885.2	0.392	132,059.0
West Aiyashskaya	Russia	Veninsky Block	Sakhalin 3	246,458.5	402,562.7	631,105.0	425,643.0	0.392	166,852.1
East Sakhalinskaya (Krolik)	Russia	West Schmidtovsky	Sakhalin 4	309,641.9	566,646.8	1,016,511.0	620,438.1	0.245	152,007.3
Espenbergskaya (WS-Lead 1)	Russia	West Schmidtovsky	Sakhalin 4	5,954.5	10,684.7	20,346.9	12,090.8	0.245	2,962.3
Medved	Russia	West Schmidtovsky	Sakhalin 4	52,722.2	112,348.0	234,873.4	129,272.2	0.245	31,671.7
Monchigarskaya (WS-Lead 2)	Russia	West Schmidtovsky	Sakhalin 4	1,940.6	3,331.2	6,040.4	3,754.1	0.245	919.8
North Astrakhanovskaya	Russia	West Schmidtovsky	Sakhalin 4	16,985.8	25,800.7	39,109.7	27,134.3	0.245	6,647.9
North Espenbergskaya	Russia	West Schmidtovsky	Sakhalin 4	76,073.8	152,611.6	304,240.0	175,221.5	0.245	42,929.3
South Tayezhnaya	Russia	West Schmidtovsky	Sakhalin 4	52,958.6	96,519.2	160,214.4	102,676.1	0.245	25,155.6
Tayezhnaya	Russia	West Schmidtovsky	Sakhalin 4	22,534.0	59,057.4	154,404.7	75,434.7	0.245	18,481.5
Toyskaya	Russia	West Schmidtovsky	Sakhalin 4	41,916.8	84,173.1	158,250.1	95,199.1	0.245	23,323.8
Tsentralno-Astrakhanovskaya	Russia	West Schmidtovsky	Sakhalin 4	45,273.5	68,541.9	101,921.6	72,262.9	0.245	17,704.4
Glenskaya	Russia	East Schmidtovsky	Sakhalin 5	53,467.1	91,888.9	167,917.2	103,968.0	0.245	25,472.2
Kuegdinskaya	Russia	East Schmidtovsky	Sakhalin 5	13,656.8	24,692.0	46,077.7	27,700.9	0.245	6,786.7
Lisa	Russia	East Schmidtovsky	Sakhalin 5	472,379.9	840,600.4	1,637,070.0	963,186.0	0.245	235,980.6
North Schmidtovsky	Russia	East Schmidtovsky	Sakhalin 5	428,288.9	697,587.7	1,105,363.0	740,175.6	0.245	181,343.0
Talikskaya	Russia	East Schmidtovsky	Sakhalin 5	226,746.1	392,895.0	680,393.7	428,298.7	0.245	104,933.2
Uzornaya	Russia	East Schmidtovsky	Sakhalin 5	293,131.4	513,730.0	963,129.2	584,437.4	0.245	143,187.2
Yelizavetinskaya	Russia	East Schmidtovsky	Sakhalin 5	71,373.2	118,460.8	210,286.2	131,945.4	0.245	32,326.6
Chukskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	463,735.1	759,172.1	1,181,608.0	798,787.9	0.398	317,598.1
East Kaiganskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	1,020,794.0	1,634,001.0	2,679,370.0	1,760,309.0	0.398	699,898.9
Kaiganskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	334,079.5	504,174.9	753,422.7	526,895.9	0.398	209,493.8
Loni	Russia	Kaygansko Vasyukanski	Sakhalin 5	156,533.2	246,504.8	392,034.8	264,312.5	0.398	105,090.7
North Kaiganskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	188,017.4	351,265.4	691,178.6	401,731.7	0.398	159,728.5
North Odoptinskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	760,269.0	1,115,110.0	1,673,748.0	1,181,722.0	0.398	469,852.7
Ombinskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	67,073.7	96,096.4	137,853.4	100,254.8	0.398	39,861.3
Savitskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	1,553,412.0	2,495,050.0	4,014,336.0	2,662,097.0	0.398	1,058,449.8

TABLE 1—GROSS PROSPECTIVE OIL RESOURCES—*(Continued)*

				Gross Prospective Oil Resources Summary					
Prospect	Country	Area Basin	License/Block	Low Estimate (10^3bbl)	Median Estimate (10^3bbl)	High Estimate (10^3bbl)	Best Estimate (10^3bbl)	Probability of Geologic Success, P_g (decimal)	P_g-Adjusted Best Estimate (10^3bbl)
South Ombinskaya	Russia	Kayg ansko Vasyukanski	Sakhalin 5	56,398.8	87,897.6	136,960.1	92,901.4	0.398	36,937.6
South-Vasyukanskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	65,621.3	105,816.2	171,379.8	112,796.7	0.398	44,848.0
Teni	Russia	Kaygansko Vasyukanski	Sakhalin 5	338,309.6	532,955.0	854,536.1	568,036.0	0.398	225,851.1
Troptunskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	3,580.0	5,429.1	8,385.1	5,754.5	0.398	2,288.0
West Khanguzinskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	12,035.0	21,601.1	40,712.8	24,561.6	0.398	9,765.7
Kurmangazy	Kazakhstan	Caspian Sea	Caspian Sea	5,431,516.2	11,733,046.3	22,798,977.0	13,141,482.2	0.289	3,795,297.5
Aprelska	Russia	Sea of Azov	Temryuksko-Akhtarsky	21,288.9	45,523.9	92,967.7	52,556.6	0.245	12,876.4
East Gelendzhik	Russia	Sea of Azov	Temryuksko-Akhtarsky	824.7	2,033.8	4,874.9	2,524.6	0.245	618.5
Gelendzhik	Russia	Sea of Azov	Temryuksko-Akhtarsky	72,840.5	115,165.0	174,798.7	120,035.9	0.245	29,408.8
Pribrezhnaya	Russia	Sea of Azov	Temryuksko-Akhtarsky	12,956.8	35,057.5	87,738.4	44,299.2	0.245	10,853.3
Tizdar	Russia	Sea of Azov	Temryuksko-Akhtarsky	16,783.6	31,676.3	62,349.5	36,730.4	0.245	8,999.0
BB Folds	Russia	Black Sea Offshore	Tuapse Trough	440,955.2	797,013.9	1,485,306.0	898,367.1	0.168	150,925.7
C1-1	Russia	Black Sea Offshore	Tuapse Trough	257,377.2	450,027.2	847,665.9	513,013.6	0.210	107,732.9
C1-2	Russia	Black Sea Offshore	Tuapse Trough	265,083.5	470,139.7	919,378.0	540,116.8	0.210	113,424.5
C1-3	Russia	Black Sea Offshore	Tuapse Trough	143,378.8	254,191.5	468,075.5	285,919.3	0.210	60,043.1
D1	Russia	Black Sea Offshore	Tuapse Trough	67,639.7	122,106.3	219,785.4	134,584.0	0.210	28,262.6
F1-1	Russia	Black Sea Offshore	Tuapse Trough	107,339.0	195,536.8	351,037.5	214,253.0	0.210	44,993.1
F1-2	Russia	Black Sea Offshore	Tuapse Trough	106,053.7	190,695.7	362,753.9	215,576.6	0.210	45,271.1
F2-1	Russia	Black Sea Offshore	Tuapse Trough	83,069.9	142,523.5	258,322.1	160,653.6	0.210	33,737.3
F2-2	Russia	Black Sea Offshore	Tuapse Trough	158,226.0	284,705.0	531,846.2	322,857.9	0.210	67,800.2
F2-3	Russia	Black Sea Offshore	Tuapse Trough	71,133.0	127,675.1	239,673.3	143,678.3	0.210	30,172.4
F3-3	Russia	Black Sea Offshore	Tuapse Trough	176,991.3	320,396.1	594,099.6	359,702.9	0.210	75,537.6
Kerch Taman Trough	Russia	Black Sea Offshore	Tuapse Trough	90,808.7	161,230.4	292,855.9	178,727.3	0.196	35,030.6
T4	Russia	Black Sea Offshore	Tuapse Trough	178,912.5	318,965.8	570,404.7	356,703.8	0.210	74,907.8
East Pravdinskaya	Russia	Yugansk	East Pravdinsky	6,782.9	21,616.5	39,068.1	23,800.9	0.567	13,495.1
East Surgutskaya	Russia	Yugansk	East Surgutsky	301.8	562.4	1,048.2	630.3	0.567	357.4
East Surgutskaya 1	Russia	Yugansk	East Surgutsky	1,163.3	2,076.8	3,947.6	2,373.8	0.567	1,345.9
East Surgutskaya 2	Russia	Yugansk	East Surgutsky	1,589.6	2,876.3	5,173.6	3,193.2	0.567	1,810.5
Nikonovskaya	Russia	Yugansk	East Surgutsky	7,737.2	12,148.7	19,081.6	12,943.2	0.567	7,338.8
Mid Asomkinskaya	Russia	Yugansk	Fainsky	9,688.6	15,493.6	25,599.2	16,765.0	0.567	9,505.8
Kinyaminskaya	Russia	Yugansk	Kinyaminsky	2,348.6	4,295.4	7,962.8	4,839.9	0.567	2,744.2
Kudrinskaya	Russia	Yugansk	Kudrinsky	8,942.9	15,738.9	29,352.7	17,958.1	0.567	10,182.3
Cheplyntorskaya	Russia	Yugansk	Malobalyksky	1,300.1	2,444.7	4,526.7	2,693.5	0.567	1,527.2

TABLE 1—GROSS PROSPECTIVE OIL RESOURCES—*(Continued)*

				Gross Prospective Oil Resources Summary					
Prospect	Country	Area Basin	License/Block	Low Estimate (10^3bbl)	Median Estimate (10^3bbl)	High Estimate (10^3bbl)	Best Estimate (10^3bbl)	Probability of Geologic Success, P_g (decimal)	P_g-Adjusted Best Estimate (10^3bbl)
Sorskaya	Russia	Yugansk	Malobalyksky	2,883.9	5,152.4	10,029.6	5,929.7	0.567	3,362.1
Karyoganskaya	Russia	Yugansk	Mamontovsky	4,081.1	7,361.1	13,540.4	8,175.4	0.567	4,635.4
Mamontovskaya	Russia	Yugansk	Mamontovsky	163,292.3	242,836.2	347,957.2	252,267.6	0.567	143,035.7
Mid Balykskaya	Russia	Yugansk	Mid Balyksky	838.8	1,521.2	2,865.7	1,725.7	0.567	978.5
South Balykskaya	Russia	Yugansk	Mid Balyksky	6,242.2	9,531.9	14,452.0	10,081.9	0.567	5,716.4
North Salymskaya	Russia	Yugansk	North Salymsky	21,170.0	33,695.5	58,419.7	37,352.9	0.567	21,179.1
Kryuchovskaya	Russia	Yugansk	Petelinsky	9,066.8	14,349.9	23,984.4	15,662.9	0.567	8,880.9
Mid Salymskaya	Russia	Yugansk	Petelinsky	4,502.9	7,959.6	15,315.5	9,152.6	0.567	5,189.5
Petelinskaya	Russia	Yugansk	Petelinsky	35,118.4	54,545.6	87,502.1	58,431.9	0.567	33,130.9
Poikinskaya	Russia	Yugansk	Pravdinsky	121,288.2	209,023.5	362,458.3	229,286.6	0.567	130,005.5
East Seliyarovskaya	Russia	Yugansk	Priobsky	2,448.1	4,498.7	8,681.0	5,130.5	0.567	2,909.0
Priobskaya	Russia	Yugansk	Priobsky	11,659.0	20,937.2	39,437.1	23,421.5	0.567	13,280.0
Priobskaya 1 Trap	Russia	Yugansk	Priobsky	3,612.6	6,568.8	13,052.7	7,492.3	0.567	4,248.1
Priobskaya 2 Trap	Russia	Yugansk	Priobsky	10,531.4	18,686.9	35,262.4	21,234.5	0.567	12,040.0
Priobskaya 1	Russia	Yugansk	Priobsky	579.9	1,052.1	1,892.7	1,169.2	0.567	662.9
South Seliyarovskaya	Russia	Yugansk	Priobsky	24,577.8	41,141.1	67,394.7	43,692.6	0.567	24,773.7
Varovaya	Russia	Yugansk	Priobsky	2,388.4	4,377.3	8,182.3	4,902.3	0.567	2,779.6
West Gorshkovskaya	Russia	Yugansk	Priobsky	3,227.5	5,771.7	10,937.0	6,592.6	0.567	3,738.0
West Sakhalinskaya	Russia	Yugansk	Priobsky	6,456.6	10,334.4	16,230.1	10,995.2	0.567	6,234.3
E. Shapinskaya	Russia	Yugansk	Prirazlomny	19,178.7	33,537.5	57,528.9	36,854.5	0.567	20,896.5
Malosalymskaya	Russia	Yugansk	Prirazlomny	5,951.5	10,757.7	19,389.1	11,971.5	0.567	6,787.8
Malosalymskaya 1	Russia	Yugansk	Prirazlomny	3,115.6	5,619.9	10,717.7	6,289.8	0.567	3,566.3
Malosalymskaya Trap	Russia	Yugansk	Prirazlomny	8,885.7	14,451.0	23,631.3	15,618.5	0.567	8,855.7
Prirazlomnaya	Russia	Yugansk	Prirazlomny	253,360.2	420,470.2	686,696.6	450,224.6	0.567	255,277.3
Prirazlomnaya 1	Russia	Yugansk	Prirazlomny	6,782.9	12,370.9	23,000.7	13,823.9	0.567	7,838.1
Prirazlomnaya 2	Russia	Yugansk	Prirazlomny	4,707.7	8,584.4	15,533.0	9,540.8	0.567	5,409.7
Relyerskaya	Russia	Yugansk	Prirazlomny	2,114.7	3,786.0	7,158.4	4,329.1	0.567	2,454.6
South Lempinskaya	Russia	Yugansk	Prirazlomny	2,114.7	8,622.3	15,632.5	9,604.8	0.567	5,445.9
Lempinskaya	Russia	Yugansk	Salymsky	4,255.0	7,031.8	11,772.2	7,600.5	0.567	4,309.5
Lempinskaya strat trap	Russia	Yugansk	Salymsky	7,143.0	13,101.0	25,042.1	14,846.7	0.567	8,418.1
Malo Salymskaya	Russia	Yugansk	Salymsky	9,030.5	16,449.8	29,675.6	18,231.6	0.567	10,337.3
Middle Lempinskaya	Russia	Yugansk	Salymsky	10,498.1	19,509.8	36,295.6	21,829.3	0.567	12,377.2
Salymskaya 1	Russia	Yugansk	Salymsky	1,926.3	3,319.0	6,267.3	3,788.3	0.567	2,148.0
Salymskaya 2	Russia	Yugansk	Salymsky	19,480.4	34,865.9	65,020.6	39,403.3	0.567	22,341.6
Salymskaya strat trap	Russia	Yugansk	Salymsky	22,669.2	40,835.7	77,141.5	45,903.2	0.567	26,027.1
V. Lempinskaya	Russia	Yugansk	Salymsky	8,864.2	14,047.8	22,163.8	14,975.8	0.567	8,491.3

TABLE 1—GROSS PROSPECTIVE OIL RESOURCES—*(Continued)*

				Gross Prospective Oil Resources Summary					
Prospect	Country	Area Basin	License/Block	Low Estimate (10^3bbl)	Median Estimate (10^3bbl)	High Estimate (10^3bbl)	Best Estimate (10^3bbl)	Probability of Geologic Success, P_g (decimal)	P_g-Adjusted Best Estimate (10^3bbl)
Vladigorskaya	Russia	Yugansk	Salymsky	9,105.4	16,182.8	29,888.2	18,143.8	0.567	10,287.5
Solkinskaya	Russia	Yugansk	Solkinsky	3,667.6	6,348.9	10,138.0	6,671.7	0.567	3,782.9
South Surgutskaya Trap	Russia	Yugansk	South Surgutsky	572.3	1,046.5	1,992.1	1,184.9	0.567	671.8
Teplovskaya	Russia	Yugansk	Teplovskaya	4,707.7	26,910.4	45,548.0	29,417.6	0.567	16,679.8
Ugutskaya	Russia	Yugansk	Ugutsky	6,649.7	12,176.4	22,862.3	13,728.0	0.567	7,783.8
Ust Balykskaya Trap	Russia	Yugansk	Ust Balyksky	14,325.0	26,375.2	49,617.3	29,661.0	0.567	16,817.8
West Ust Balykskaya Trap	Russia	Yugansk	Ust Balyksky	615.3	1,135.3	2,132.7	1,279.7	0.567	725.6
West Ugutskaya	Russia	Yugansk	West Ugutsky	11,560.0	20,757.6	39,776.3	23,723.5	0.567	13,451.2
West Ugutskaya Trap	Russia	Yugansk	West Ugutsky	6,762.1	12,135.1	22,553.2	13,585.1	0.567	7,702.7
Yu-Ugutskoye 119	Russia	Yugansk	Ugutsky	937.4	1,936.8	4,067.1	2,268.1	0.567	1,286.0
Yu-Ugutskoye 115	Russia	Yugansk	Ugutsky	1,362.2	2,689.2	5,453.1	3,086.0	0.567	1,749.8
Yu-Ugutskoye 117	Russia	Yugansk	Ugutsky	1,267.2	2,645.9	5,137.5	3,038.3	0.567	1,722.7
Yu-Ugutskoye 118	Russia	Yugansk	Ugutsky	1,054.0	2,198.4	5,068.3	2,674.6	0.567	1,516.5
Yu-East Surgutsky 1274	Russia	Yugansk	Ugutsky	629.3	1,679.2	4,148.2	2,070.2	0.567	1,173.8
Yu-East Surgutsky 1275	Russia	Yugansk	Ugutsky	781.6	2,120.6	5,112.3	2,645.9	0.567	1,500.2
Yu-East Surgutsky 1279	Russia	Yugansk	Ugutsky	474.5	1,251.3	3,079.9	1,553.7	0.567	880.9
Yu-Ust Balykskoye 2003	Russia	Yugansk	Ugutsky	591.8	1,514.1	3,769.8	1,908.2	0.567	1,082.0
Yu-Ust Balykskoye 2004	Russia	Yugansk	East Surgutsky	652.4	1,698.4	3,896.2	2,063.2	0.567	1,169.8
Yu-Mammantov 1231	Russia	Yugansk	East Surgutsky	3,936.8	8,252.3	15,890.5	9,204.9	0.567	5,219.2
Yu-Mammantov 1232	Russia	Yugansk	East Surgutsky	12,864.8	25,871.1	49,983.2	29,188.5	0.567	16,549.9
Yu-Mammantov 1234	Russia	Yugansk	Ust Balyksky	1,363.4	3,556.5	8,635.7	4,394.2	0.567	2,491.5
Kharampur-Tarkinskoye	Russia	West Siberian Basin	Purneftegas	274,782.9	416,440.4	644,694.1	439,582.3	0.420	184,624.5
Middle Tanlovskaya	Russia	West Siberian Basin	Purneftegas	21,549.2	39,907.4	72,676.0	43,909.1	0.420	18,441.8
North Apeiyakhinskaya	Russia	West Siberian Basin	Purneftegas	68,282.0	101,957.8	156,046.3	107,959.4	0.420	45,343.0
North Kharampur 2-II	Russia	West Siberian Basin	Purneftegas	1,619.9	3,748.0	7,999.6	4,415.1	0.420	1,854.3
North Kharampur II-V	Russia	West Siberian Basin	Purneftegas	488.2	1,145.9	2,386.6	1,328.6	0.420	558.0
North Kharampur I-VII	Russia	West Siberian Basin	Purneftegas	4,166.8	10,908.2	26,587.8	13,579.5	0.420	5,703.4
North Kharampur I-XV	Russia	West Siberian Basin	Purneftegas	1,010.1	2,484.8	5,235.9	2,876.5	0.420	1,208.1
North Tarasovskoye	Russia	West Siberian Basin	Purneftegas	36,523.6	98,476.5	246,446.7	123,905.6	0.420	52,040.4
North Upper Purpeiskaya	Russia	West Siberian Basin	Purneftegas	241,764.8	445,535.1	823,742.7	496,962.7	0.420	208,724.3
Upper Tanlovskaya	Russia	West Siberian Basin	Purneftegas	20,681.3	36,927.2	69,598.1	41,786.2	0.420	17,550.2
West Rechnaya	Russia	West Siberian Basin	Purneftegas	68,726.8	215,837.9	603,821.4	290,285.2	0.420	121,919.8
West Upper Purpeiskoye	Russia	West Siberian Basin	Purneftegas	18,999.5	61,514.1	170,127.7	82,065.5	0.420	34,467.5
Yangyakhatoiskaya	Russia	West Siberian Basin	Purneftegas	7,103.0	18,733.5	43,101.5	22,467.9	0.420	9,436.5

TABLE 1—GROSS PROSPECTIVE OIL RESOURCES—*(Continued)*

				Gross Prospective Oil Resources Summary					
Prospect	**Country**	**Area Basin**	**License/Block**	**Low Estimate (10^3bbl)**	**Median Estimate (10^3bbl)**	**High Estimate (10^3bbl)**	**Best Estimate (10^3bbl)**	**Probability of Geologic Success, P_g (decimal)**	**P_g-Adjusted Best Estimate (10^3bbl)**
Baikalovskoye	Russia	Vankor/Krasnoyarsk Area	Baikolovskaya	45,677.5	165,494.6	716,329.2	313,533.2	0.100	31,353.3
Yakovlevskoye	Russia	Vankor/Krasnoyarsk Area	Baikolovskaya	264,559.5	561,937.2	1,235,151.9	679,334.5	0.100	67,933.4
East Lodochni	Russia	Vankor/Krasnoyarsk Area	East Lodochni	40,748.0	163,244.4	723,605.8	310,497.2	0.049	15,214.4
Lebyazhi	Russia	Vankor/Krasnoyarsk Area	Lebyazhi	40,106.7	164,250.6	691,597.9	299,574.7	0.049	14,679.2
Nizhnebaikhsky	Russia	Vankor/Krasnoyarsk Area	Nizhnebaikhsky	41,738.4	165,787.2	744,920.9	310,132.8	0.049	15,196.5
Peschani	Russia	Vankor/Krasnoyarsk Area	Peschani	42,732.2	166,024.9	712,106.0	297,923.3	0.049	14,598.2
Polyarni	Russia	Vankor/Krasnoyarsk Area	Polyarni	39,503.3	155,877.9	742,390.3	311,626.9	0.049	15,269.7
Protochni	Russia	Vankor/Krasnoyarsk Area	Protochny	40,381.8	170,085.1	738,157.4	314,825.8	0.049	15,426.5
Noskovskaya	Russia	Vankor/Krasnoyarsk Area	Protochny	241,658.9	571,569.9	1,217,838.7	673,085.7	0.049	32,981.2
Samoedski	Russia	Vankor/Krasnoyarsk Area	Samoedski	39,061.8	168,666.6	678,430.7	307,951.6	0.049	15,089.6
Sovetski	Russia	Vankor/Krasnoyarsk Area	Sovetski	41,318.0	175,749.1	689,265.5	306,198.4	0.049	15,003.7
West Lodochni	Russia	Vankor/Krasnoyarsk Area	West Lodochni	17,059.9	57,864.8	203,585.2	89,767.5	0.281	25,247.1
East Sugdinsky	Russia	Irkutsk Oblast	East Sugdinsky — Block1	525,576.3	940,202.4	1,745,132.2	1,048,445.1	0.320	335,502.4
Statistical Aggregate				**23,405,738.3**	**42,875,041.8**	**78,546,673.9**	**47,935,754.0**	**0.288**	**13,790,532.6**

Notes:

1. Low, median, best, and high estimates follow the SPE/WPC/AAPG guidelines for prospective resources.
2. Application of P_g does not equate prospective resources to contingent resources or reserves.
3. Low, median, best, and high estimates in this table are P_{90}, P_{50}, EV, and P_{10}, respectively.
4. Only EV's can be arithmetically summed; P_{90}, P_{50}, and P_{10} are not additive.
5. P_g is defined as the probability of discovering reservoirs which flow petroleum at a measurable rate.
6. Recovery efficiency is applied to prospective resources in this table.
7. P_g has been rounded for presentation purposes.

TABLE 2

ESTIMATE of the GROSS PROSPECTIVE OIL RESOURCES
TRUNCATED and ADJUSTED for TEFS

as of

DECEMBER 31, 2005

for

ROSNEFT

in

CERTAIN OIL PROSPECTS
VARIOUS LICENSES
VARIOUS COUNTRIES

				Gross Prospective Oil Resources Summary					
Prospect	Country	Area Basin	License/Block	Low Estimate (10^3bbl)	Median Estimate (10^3bbl)	High Estimate (10^3bbl)	Best Estimate (10^3bbl)	Probability of Geologic Success, P_g (decimal)	P_g-Adjusted Best Estimate (10^3bbl)
Amaninskaya	Russia	West Kamchatsky Offshore	West Kamchatky	184,208.5	392,109.7	834,750.8	466,537.1	0.218	101,548.6
BN	Russia	West Kamchatsky Offshore	West Kamchatky	61,073.0	118,217.2	228,853.1	135,010.2	0.220	29,643.5
Bolsheretskaya	Russia	West Kamchatsky Offshore	West Kamchatky	99,493.4	177,354.4	316,176.0	196,350.7	0.233	45,654.2
Central 1	Russia	West Kamchatsky Offshore	West Kamchatky	25,733.1	55,247.6	118,627.6	65,995.5	0.233	15,367.9
Central 2	Russia	West Kamchatsky Offshore	West Kamchatky	33,489.0	58,693.5	102,876.4	64,599.2	0.231	14,900.0
E.Kalavayamskaya-2	Russia	West Kamchatsky Offshore	West Kamchatky	297,416.7	444,302.2	663,771.7	466,641.3	0.232	108,480.9
East Sukhanovskaya	Russia	West Kamchatsky Offshore	West Kamchatky	53,677.6	106,919.8	212,995.4	123,553.1	0.231	28,563.8
Evenskaya	Russia	West Kamchatsky Offshore	West Kamchatky	326,772.3	521,863.9	833,491.3	557,879.2	0.231	128,977.5
Inushskaya Dome I	Russia	West Kamchatsky Offshore	West Kamchatky	9,023.0	17,790.4	35,080.7	20,470.9	0.233	4,773.5
Inushskaya Dome2	Russia	West Kamchatsky Offshore	West Kamchatky	6,966.0	13,805.7	27,364.0	15,919.8	0.231	3,684.3
Kalavayamskaya-1	Russia	West Kamchatsky Offshore	West Kamchatky	280,239.4	488,987.5	853,304.5	537,380.5	0.232	124,608.5
Kalavayamskaya-2	Russia	West Kamchatsky Offshore	West Kamchatky	783,578.4	1,239,214.3	1,959,934.1	1,321,085.3	0.228	301,541.8
Krutogorovska	Russia	West Kamchatsky Offshore	West Kamchatky	469,065.7	998,009.9	2,123,670.5	1,187,197.0	0.219	260,331.2
Kunzhikskaya	Russia	West Kamchatsky Offshore	West Kamchatky	193,134.8	307,221.5	488,735.9	328,054.5	0.233	76,545.4
Morosechnaya	Russia	West Kamchatsky Offshore	West Kamchatky	15,902.0	33,606.9	71,032.5	39,854.6	0.233	9,290.4
Noname 2	Russia	West Kamchatsky Offshore	West Kamchatky	5,463.8	11,258.9	23,203.1	13,201.6	0.230	3,040.4
Noname I Dome I	Russia	West Kamchatsky Offshore	West Kamchatky	6,773.4	13,529.0	27,025.3	15,651.7	0.229	3,586.3
Noname I Dome 2	Russia	West Kamchatsky Offshore	West Kamchatky	8,151.7	15,997.1	31,396.6	18,371.8	0.232	4,257.1
Oblukovinskaya-1	Russia	West Kamchatsky Offshore	West Kamchatky	209,751.7	330,280.3	520,104.5	351,676.1	0.233	81,907.6
Prievenskaya	Russia	West Kamchatsky Offshore	West Kamchatky	118,255.9	201,814.7	344,444.3	220,157.9	0.230	50,735.0
South Kamchatka Dome 2 . . .	Russia	West Kamchatsky Offshore	West Kamchatky	6,970.1	13,758.7	27,162.1	15,839.4	0.231	3,653.3
South Kamchatka Dome I . . .	Russia	West Kamchatsky Offshore	West Kamchatky	12,098.9	24,060.3	47,852.4	27,784.3	0.230	6,391.9
Sukhanovskaya	Russia	West Kamchatsky Offshore	West Kamchatky	161,101.5	319,022.6	631,814.6	367,751.3	0.236	86,712.5
Tigilskaya	Russia	West Kamchatsky Offshore	West Kamchatky	68,432.4	124,368.6	226,047.9	138,646.4	0.231	32,057.0
Tundrovaya-1	Russia	West Kamchatsky Offshore	West Kamchatky	330,330.3	518,401.2	813,606.0	551,472.9	0.230	127,098.8

TABLE 2—ESTIMATE of the GROSS PROSPECTIVE OIL RESOURCES TRUNCATED and ADJUSTED for TEFS—*(Continued)*

Prospect	Country	Area Basin	License/Block	Gross Prospective Oil Resources Summary: Low Estimate (10^3bbl)	Median Estimate (10^3bbl)	High Estimate (10^3bbl)	Best Estimate (10^3bbl)	Probability of Geologic Success, P_g (decimal)	P_g-Adjusted Best Estimate (10^3bbl)
Tundrovaya-2	Russia	West Kamchatsky Offshore	West Kamchatky	187,038.8	298,633.8	476,845.7	319,221.4	0.231	73,581.2
Uikanskaya	Russia	West Kamchatsky Offshore	West Kamchatky	54,038.1	95,314.7	168,135.0	105,135.6	0.229	24,072.0
Ust-Tigilskaya	Russia	West Kamchatsky Offshore	West Kamchatky	43,312.6	75,100.3	130,228.5	82,357.2	0.233	19,162.1
West Sukhanovskaya	Russia	West Kamchatsky Offshore	West Kamchatky	10,962.2	21,856.1	43,580.8	25,266.2	0.231	5,843.7
Aiyashskaya	Russia	Veninsky Block	Sakhalin 3	120,621.0	184,486.8	282,186.7	194,914.4	0.375	73,160.6
Niyskaya	Russia	Veninsky Block	Sakhalin 3	12,775.4	32,307.5	81,713.9	41,989.3	0.351	14,723.3
North Veninskaya	Russia	Veninsky Block	Sakhalin 3	34,143.6	53,737.2	84,580.6	57,210.6	0.369	21,121.3
South Ayashskaya	Russia	Veninsky Block	Sakhalin 3	80,645.8	165,435.8	339,411.1	193,599.4	0.352	68,080.9
Veninskaya Northern Pericline	Russia	Veninsky Block	Sakhalin 3	240,020.4	334,995.6	467,576.5	346,528.1	0.366	126,780.5
West Aiyashskaya	Russia	Veninsky Block	Sakhalin 3	265,133.1	413,427.9	644,711.9	439,035.7	0.369	162,043.2
East Sakhalinskaya (Krolik)	Russia	West Schmidtovsky	Sakhalin 4	333,997.0	585,662.1	1,027,045.5	644,701.4	0.230	148,202.9
Espenbergskaya (WS-Lead 1)	Russia	West Schmidtovsky	Sakhalin 4	10,741.9	19,120.9	34,039.0	21,158.4	0.052	1,110.2
Medved	Russia	West Schmidtovsky	Sakhalin 4	58,869.5	119,211.2	241,430.2	138,724.7	0.220	30,467.8
Monchigarskaya (WS-Lead 2)	Russia	West Schmidtovsky	Sakhalin 4	4,575.7	7,789.5	13,261.7	8,490.6	0.012	103.0
North Astrakhanovskaya	Russia	West Schmidtovsky	Sakhalin 4	18,878.7	27,984.1	41,483.5	29,335.9	0.202	5,912.7
North Espenbergskaya	Russia	West Schmidtovsky	Sakhalin 4	84,624.1	162,851.1	313,423.9	185,550.3	0.219	40,581.2
South Tayezhnaya	Russia	West Schmidtovsky	Sakhalin 4	59,323.0	100,063.0	168,794.8	108,747.5	0.219	23,862.7
Tayezhnaya	Russia	West Schmidtovsky	Sakhalin 4	24,336.5	60,393.4	149,893.8	77,667.6	0.217	16,837.3
Toyskaya	Russia	West Schmidtovsky	Sakhalin 4	47,942.4	89,783.8	168,158.6	101,217.4	0.219	22,186.1
Tsentralno-Astrakhanovskaya	Russia	West Schmidtovsky	Sakhalin 4	48,201.1	70,725.6	103,782.1	73,963.7	0.232	17,179.5
Glenskaya	Russia	East Schmidtovsky	Sakhalin 5	57,123.7	98,094.3	168,464.3	107,228.0	0.231	24,794.5
Kuegdinskaya	Russia	East Schmidtovsky	Sakhalin 5	15,443.6	27,417.2	48,678.2	30,310.3	0.203	6,139.0
Lisa	Russia	East Schmidtovsky	Sakhalin 5	490,887.0	883,095.1	1,588,814.6	980,865.8	0.228	224,113.1
North Schmidtovsky	Russia	East Schmidtovsky	Sakhalin 5	457,346.5	715,809.9	1,120,418.7	760,916.4	0.231	175,825.8
Talikskaya	Russia	East Schmidtovsky	Sakhalin 5	242,927.9	408,276.2	686,224.0	443,201.1	0.231	102,593.5
Uzornaya	Russia	East Schmidtovsky	Sakhalin 5	311,068.2	545,715.9	957,449.0	600,826.0	0.233	140,016.2
Yelizavetinskaya	Russia	East Schmidtovsky	Sakhalin 5	75,270.2	125,415.0	208,982.7	135,775.1	0.231	31,412.1
Chukskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	495,940.9	771,549.2	1,200,403.7	818,829.2	0.377	309,059.1
East Kaiganskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	1,075,244.4	1,696,405.8	2,676,598.6	1,807,275.0	0.377	681,456.4
Kaiganskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	352,047.5	516,985.5	759,244.1	540,759.5	0.376	203,353.8
Loni	Russia	Kaygansko Vasyukanski	Sakhalin 5	165,675.2	255,660.4	394,547.0	270,739.9	0.380	102,890.5
North Kaiganskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	198,854.7	367,853.9	680,544.7	412,774.2	0.375	154,687.1
North Odoptinskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	799,667.4	1,161,033.4	1,685,797.1	1,211,242.9	0.377	456,628.8
Ombinskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	70,126.2	98,563.5	138,539.9	102,103.4	0.378	38,639.6

TABLE 2—ESTIMATE of the GROSS PROSPECTIVE OIL RESOURCES TRUNCATED and ADJUSTED for TEFS—*(Continued)*

				Gross Prospective Oil Resources Summary					
Prospect	Country	Area Basin	License/Block	Low Estimate (10^3bbl)	Median Estimate (10^3bbl)	High Estimate (10^3bbl)	Best Estimate (10^3bbl)	Probability of Geologic Success, P_g (decimal)	P_g-Adjusted Best Estimate (10^3bbl)
Savitskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	1,633,316.1	2,558,035.5	4,006,575.0	2,719,714.9	0.379	1,031,287.4
South Ombinskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	59,649.2	90,710.6	137,955.8	95,696.7	0.374	35,819.7
South-Vasyukanskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	69,185.7	108,895.4	171,408.7	115,936.1	0.377	43,754.4
Teni	Russia	Kaygansko Vasyukanski	Sakhalin 5	354,459.9	549,178.9	850,923.0	582,190.1	0.378	220,183.0
Troptunskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	3,927.2	5,869.2	8,771.9	6,164.9	0.339	2,089.7
West Khanguzinskaya	Russia	Kaygansko Vasyukanski	Sakhalin 5	13,548.1	24,084.8	42,820.1	26,639.0	0.338	9,015.2
Kurmangazy	Kazakhstan	Caspian Sea	Caspian Sea	5,944,184.6	11,707,432.0	23,060,937.0	13,465,403.3	0.274	3,685,430.9
Aprelska	Russia	Sea of Azov	Temryuksko-Akhtarsky	26,655.4	53,419.9	107,070.3	61,889.6	0.183	11,322.7
East Gelendzhik	Russia	Sea of Azov	Temryuksko-Akhtarsky	1,582.7	2,474.9	3,870.2	2,630.2	0.231	607.0
Gelendzhik	Russia	Sea of Azov	Temryuksko-Akhtarsky	102,766.3	121,850.0	144,481.4	122,931.3	0.232	28,512.3
Pribrezhnaya	Russia	Sea of Azov	Temryuksko-Akhtarsky	16,681.9	41,124.8	101,396.5	52,694.9	0.189	9,970.9
Tizdar	Russia	Sea of Azov	Temryuksko-Akhtarsky	26,629.8	36,822.2	50,918.2	38,018.8	0.232	8,804.9
BB Folds	Russia	Black Sea Offshore	Tuapse Trough	472,688.3	839,009.8	1,489,354.6	927,484.6	0.158	146,656.3
C1-1	Russia	Black Sea Offshore	Tuapse Trough	272,435.6	478,481.1	840,434.6	527,005.1	0.200	105,363.0
C1-2	Russia	Black Sea Offshore	Tuapse Trough	275,007.1	494,914.0	890,749.1	549,780.1	0.196	107,730.7
C1-3	Russia	Black Sea Offshore	Tuapse Trough	153,418.0	268,303.6	469,261.2	295,083.0	0.195	57,592.9
D1	Russia	Black Sea Offshore	Tuapse Trough	72,168.6	125,947.2	219,819.6	138,419.4	0.201	27,806.0
F1-1	Russia	Black Sea Offshore	Tuapse Trough	115,571.1	202,289.2	354,106.4	222,544.7	0.197	43,876.5
F1-2	Russia	Black Sea Offshore	Tuapse Trough	112,238.6	200,671.1	358,811.7	222,398.7	0.198	43,972.7
F2-1	Russia	Black Sea Offshore	Tuapse Trough	88,699.0	151,608.6	259,158.5	165,472.4	0.199	32,878.7
F2-2	Russia	Black Sea Offshore	Tuapse Trough	169,482.8	300,532.5	532,962.0	332,110.3	0.198	65,725.8
F2-3	Russia	Black Sea Offshore	Tuapse Trough	75,268.3	133,617.9	237,222.7	147,715.3	0.197	29,146.0
F3-3	Russia	Black Sea Offshore	Tuapse Trough	187,349.9	332,007.6	588,411.6	366,812.5	0.198	72,804.9
Kerch Taman Trough	Russia	Black Sea Offshore	Tuapse Trough	96,457.2	167,730.4	291,693.1	184,116.1	0.186	34,181.6
T4	Russia	Black Sea Offshore	Tuapse Trough	195,102.1	337,419.0	583,598.9	369,704.9	0.198	73,131.8
East Pravdinskaya	Russia	Yugansk	East Pravdinsky	9,502.1	21,702.1	49,572.3	26,712.0	0.425	11,365.7
East Surgutskaya	Russia	Yugansk	East Surgutsky	323.7	583.0	1,050.0	647.8	0.534	346.0
East Surgutskaya 1	Russia	Yugansk	East Surgutsky	1,241.5	2,211.6	3,939.8	2,447.8	0.539	1,318.5
East Surgutskaya 2	Russia	Yugansk	East Surgutsky	1,722.6	3,008.3	5,254.1	3,307.0	0.535	1,769.2
Nikonovskaya	Russia	Yugansk	East Surgutsky	8,254.3	12,644.4	19,370.7	13,364.5	0.533	7,122.8
Mid Asomkinskaya	Russia	Yugansk	Fainsky	10,209.2	16,157.0	25,571.8	17,227.9	0.534	9,202.5
Kinyaminskaya	Russia	Yugansk	Kinyaminsky	2,532.7	4,509.4	8,029.6	4,990.4	0.534	2,666.0
Kudrinskaya	Russia	Yugansk	Kudrinsky	9,600.9	16,834.5	29,520.7	18,531.3	0.538	9,965.8
Cheplyntorskaya	Russia	Yugansk	Malobalyksky	1,404.2	2,531.5	4,564.3	2,814.0	0.529	1,487.4

TABLE 2—ESTIMATE of the GROSS PROSPECTIVE OIL RESOURCES TRUNCATED and ADJUSTED for TEFS—*(Continued)*

Prospect	Country	Area Basin	License/Block	Gross Prospective Oil Resources Summary					
				Low Estimate (10^3bbl)	Median Estimate (10^3bbl)	High Estimate (10^3bbl)	Best Estimate (10^3bbl)	Probability of Geologic Success, P_g (decimal)	P_g-Adjusted Best Estimate (10^3bbl)
Sorskaya	Russia	Yugansk	Malobalyksky	3,060.0	5,514.0	9,937.0	6,128.1	0.533	3,269.3
Karyoganskaya	Russia	Yugansk	Mamontovsky	4,345.7	7,658.5	13,498.2	8,445.2	0.534	4,507.2
Mamontovskaya	Russia	Yugansk	Mamontovsky	173,715.7	248,359.6	355,096.9	258,213.4	0.536	138,503.6
Mid Balykskaya	Russia	Yugansk	Mid Balyksky	898.1	1,604.8	2,867.8	1,778.2	0.534	950.4
South Balykskaya	Russia	Yugansk	Mid Balyksky	6,663.3	9,907.0	14,730.7	10,393.1	0.533	5,541.6
North Salymskaya	Russia	Yugansk	North Salymsky	22,084.8	35,676.8	57,638.2	38,265.4	0.535	20,473.4
Kryuchovskaya	Russia	Yugansk	Petelinsky	9,478.6	15,009.7	23,770.1	16,007.2	0.540	8,645.0
Mid Salymskaya	Russia	Yugansk	Petelinsky	4,770.8	8,507.4	15,172.0	9,419.8	0.539	5,081.6
Petelinskaya	Russia	Yugansk	Petelinsky	36,854.1	56,730.8	87,333.6	60,037.9	0.536	32,181.7
Poikinskaya	Russia	Yugansk	Pravdinsky	130,541.7	218,963.6	367,307.3	237,546.7	0.532	126,319.0
East Seliyarovskaya	Russia	Yugansk	Priobsky	2,605.7	4,738.9	8,619.2	5,284.2	0.537	2,835.7
Priobskaya	Russia	Yugansk	Priobsky	12,281.2	21,843.2	38,853.5	24,163.8	0.540	13,043.7
Priobskaya 1 Trap	Russia	Yugansk	Priobsky	3,730.0	6,843.6	12,557.8	7,656.0	0.532	4,071.9
Priobskaya 2 Trap	Russia	Yugansk	Priobsky	11,198.5	19,820.8	35,084.9	21,889.3	0.532	11,638.6
Priobskaya 1	Russia	Yugansk	Priobsky	629.5	1,100.9	1,925.5	1,210.8	0.535	647.9
South Seliyarovskaya	Russia	Yugansk	Priobsky	26,122.3	42,071.8	67,764.7	45,084.7	0.534	24,053.4
Varovaya	Russia	Yugansk	Priobsky	2,542.9	4,550.0	8,142.0	5,044.0	0.537	2,707.6
West Gorshkovskaya	Russia	Yugansk	Priobsky	3,452.3	6,145.4	10,940.3	6,800.3	0.538	3,660.1
West Sakhalinskaya	Russia	Yugansk	Priobsky	6,875.7	10,628.6	16,431.1	11,260.7	0.541	6,096.7
E. Shapinskaya	Russia	Yugansk	Prirazlomny	20,867.4	35,063.5	58,921.8	38,060.4	0.529	20,126.9
Malosalymskaya	Russia	Yugansk	Prirazlomny	6,451.2	11,271.8	19,696.0	12,392.9	0.535	6,635.9
Malosalymskaya 1	Russia	Yugansk	Prirazlomny	3,264.6	5,852.7	10,493.5	6,492.6	0.539	3,502.7
Malosalymskaya Trap	Russia	Yugansk	Prirazlomny	9,481.1	15,051.2	23,895.5	16,062.7	0.537	8,619.1
Prirazlomnaya	Russia	Yugansk	Prirazlomny	270,740.2	433,650.0	694,637.1	463,966.8	0.531	246,591.6
Prirazlomnaya 1	Russia	Yugansk	Prirazlomny	7,212.4	12,842.7	22,870.2	14,212.8	0.536	7,620.8
Prirazlomnaya 2	Russia	Yugansk	Prirazlomny	5,111.3	8,984.0	15,792.3	9,897.7	0.532	5,263.9
Relyerskaya	Russia	Yugansk	Prirazlomny	2,265.9	4,031.6	7,173.6	4,460.4	0.539	2,404.7
South Lempinskaya	Russia	Yugansk	Prirazlomny	3,505.9	9,000.0	23,107.4	11,797.5	0.375	4,425.2
Lempinskaya	Russia	Yugansk	Salymsky	4,530.6	7,327.7	11,852.5	7,862.1	0.533	4,194.1
Lempinskaya strat trap	Russia	Yugansk	Salymsky	7,626.0	13,794.2	24,953.7	15,351.5	0.534	8,193.1
Malo Salymskaya	Russia	Yugansk	Salymsky	9,758.5	17,120.3	30,038.4	18,849.5	0.537	10,115.5
Middle Lempinskaya	Russia	Yugansk	Salymsky	11,234.6	20,188.5	36,281.8	22,414.8	0.534	11,960.8
Salymskaya 1	Russia	Yugansk	Salymsky	2,030.5	3,545.5	6,191.6	3,897.4	0.538	2,096.8
Salymskaya 2	Russia	Yugansk	Salymsky	20,812.2	36,781.9	65,011.5	40,599.6	0.533	21,650.4
Salymskaya strat trap	Russia	Yugansk	Salymsky	23,988.3	42,786.3	76,322.0	47,379.0	0.540	25,570.5
V. Lempinskaya	Russia	Yugansk	Salymsky	9,405.1	14,501.9	22,362.4	15,354.1	0.540	8,293.4
Vladigorskaya	Russia	Yugansk	Salymsky	9,677.2	16,968.9	29,757.7	18,679.6	0.538	10,049.9

TABLE 2—ESTIMATE of the GROSS PROSPECTIVE OIL RESOURCES TRUNCATED and ADJUSTED for TEFS—*(Continued)*

				Gross Prospective Oil Resources Summary					
Prospect	Country	Area Basin	License/Block	Low Estimate (10^3bbl)	Median Estimate (10^3bbl)	High Estimate (10^3bbl)	Best Estimate (10^3bbl)	Probability of Geologic Success, P_g (decimal)	P_g-Adjusted Best Estimate (10^3bbl)
Solkinskaya	Russia	Yugansk	Solkinsky	3,929.7	6,353.2	10,272.0	6,815.7	0.533	3,634.9
South Surgutskaya Trap	Russia	Yugansk	South Surgutsky	611.8	1,102.9	1,988.4	1,225.9	0.533	654.0
Teplovskaya	Russia	Yugansk	Teplovskaya	10,047.0	29,234.4	85,079.8	41,377.0	0.285	11,780.4
Ugutskaya	Russia	Yugansk	Ugutsky	7,074.9	12,680.2	22,728.6	14,065.3	0.535	7,522.1
Ust Balykskaya Trap	Russia	Yugansk	Ust Balyksky	15,277.9	27,477.4	49,423.1	30,516.8	0.532	16,229.1
West Ust Balykskaya Trap	Russia	Yugansk	Ust Balyksky	658.2	1,184.3	2,130.9	1,315.4	0.534	702.0
West Ugutskaya	Russia	Yugansk	West Ugutsky	12,311.3	22,073.8	39,581.3	24,488.5	0.537	13,160.0
West Ugutskaya Trap	Russia	Yugansk	West Ugutsky	7,179.7	12,684.8	22,413.0	13,999.8	0.538	7,530.6
Yu-Ugutskoye 119	Russia	Yugansk	Ugutsky	1,011.0	2,022.5	4,046.3	2,341.3	0.534	1,249.3
Yu-Ugutskoye 115	Russia	Yugansk	Ugutsky	1,441.6	2,776.3	5,347.4	3,164.3	0.536	1,696.7
Yu-Ugutskoye 117	Russia	Yugansk	Ugutsky	1,404.2	2,720.7	5,271.8	3,108.3	0.538	1,672.6
Yu-Ugutskoye 118	Russia	Yugansk	Ugutsky	1,090.7	2,290.6	4,811.1	2,708.7	0.534	1,445.9
Yu-East Surgutsky 1274	Russia	Yugansk	Ugutsky	668.5	1,629.7	3,973.2	2,075.4	0.530	1,099.2
Yu-East Surgutsky 1275	Russia	Yugansk	Ugutsky	888.5	2,158.0	5,242.0	2,742.8	0.535	1,468.6
Yu-East Surgutsky 1279	Russia	Yugansk	Ugutsky	521.7	1,262.4	3,055.3	1,601.3	0.534	854.3
Yu-Ust Balykskoye 2003	Russia	Yugansk	Ugutsky	643.2	1,542.8	3,701.2	1,947.8	0.536	1,044.1
Yu-Ust Balykskoye 2004	Russia	Yugansk	East Surgutsky	731.3	1,701.4	3,959.0	2,114.0	0.538	1,137.8
Yu-Mammantov 1231	Russia	Yugansk	East Surgutsky	4,299.8	8,313.2	16,074.3	9,489.6	0.533	5,061.3
Yu-Mammantov 1232	Russia	Yugansk	East Surgutsky	14,050.0	26,678.0	50,660.9	30,236.2	0.532	16,083.1
Yu-Mammantov 1234	Russia	Yugansk	Ust Balyksky	1,453.6	3,477.2	8,318.9	4,383.6	0.530	2,322.5
Kharampur-Tarkinskoye	Russia	West Siberian Basin	Purneftegas	286,683.7	428,940.3	641,827.2	450,680.1	0.397	179,046.2
Middle Tanlovskaya	Russia	West Siberian Basin	Purneftegas	23,402.6	41,560.1	73,812.1	45,950.8	0.390	17,915.8
North Apeiyakhinskaya	Russia	West Siberian Basin	Purneftegas	71,384.1	105,488.4	155,895.7	110,502.9	0.398	44,010.9
North Kharampur 2-II	Russia	West Siberian Basin	Purneftegas	1,770.2	3,764.9	8,008.0	4,477.7	0.397	1,775.7
North Kharampur II-V	Russia	West Siberian Basin	Purneftegas	540.0	1,142.9	2,419.3	1,356.3	0.395	535.6
North Kharampur I-VII	Russia	West Siberian Basin	Purneftegas	4,575.6	10,983.1	26,367.2	13,871.4	0.393	5,454.6
North Kharampur I-XV	Russia	West Siberian Basin	Purneftegas	1,135.3	2,470.3	5,375.7	2,969.5	0.394	1,170.8
North Tarasovskoye	Russia	West Siberian Basin	Purneftegas	39,830.0	98,167.8	241,985.5	125,770.7	0.395	49,647.2
North Upper Purpeiskaya	Russia	West Siberian Basin	Purneftegas	257,221.8	459,053.9	819,330.1	508,432.5	0.396	201,508.6
Upper Tanlovskaya	Russia	West Siberian Basin	Purneftegas	22,005.7	39,041.0	69,270.0	43,150.7	0.391	16,888.8
West Rechnaya	Russia	West Siberian Basin	Purneftegas	77,102.8	215,275.9	601,160.0	296,770.1	0.396	117,597.9
West Upper Purpeiskoye	Russia	West Siberian Basin	Purneftegas	21,373.3	60,211.4	169,651.1	83,472.2	0.394	32,901.3
Yangyakhatoiskaya	Russia	West Siberian Basin	Purneftegas	7,850.3	18,401.7	43,140.7	22,952.6	0.394	9,041.9
Baikalovskoye	Russia	Vankor/Krasnoyarsk Area	Baikolovskaya	52,157.8	191,481.3	703,107.3	320,480.0	0.094	30,226.2
Yakovlevskoye	Russia	Vankor/Krasnoyarsk Area	Baikolovskaya	283,468.3	587,115.0	1,216,161.6	689,977.7	0.095	65,724.1

TABLE 2—ESTIMATE of the GROSS PROSPECTIVE OIL RESOURCES TRUNCATED and ADJUSTED for TEFS—*(Continued)*

				Gross Prospective Oil Resources Summary					
Prospect	**Country**	**Area Basin**	**License/Block**	**Low Estimate (10^3bbl)**	**Median Estimate (10^3bbl)**	**High Estimate (10^3bbl)**	**Best Estimate (10^3bbl)**	**Probability of Geologic Success, P_g (decimal)**	**P_g-Adjusted Best Estimate (10^3bbl)**
East Lodochni	Russia	Vankor/Krasnoyarsk Area	East Lodochni	45,591.9	177,518.4	691,338.8	311,609.6	0.047	14,504.6
Lebyazhi	Russia	Vankor/Krasnoyarsk Area	Lebyazhi	45,606.8	175,132.5	672,659.7	303,932.8	0.047	14,191.7
Nizhnebaikhsky	Russia	Vankor/Krasnoyarsk Area	Nizhnebaikhsky	45,506.9	177,595.7	693,233.5	312,340.2	0.046	14,453.5
Peschani	Russia	Vankor/Krasnoyarsk Area	Peschani	47,860.8	180,815.2	683,250.7	309,654.5	0.046	14,284.7
Polyarni	Russia	Vankor/Krasnoyarsk Area	Polyarni	43,368.5	173,439.8	693,772.8	311,336.5	0.046	14,469.8
Protochni	Russia	Vankor/Krasnoyarsk Area	Protochny	45,159.3	178,240.4	703,652.5	316,435.7	0.046	14,627.4
Noskovskaya	Russia	Vankor/Krasnoyarsk Area	Protochny	271,286.8	582,518.8	1,250,958.6	695,887.6	0.047	32,381.0
Samoedski	Russia	Vankor/Krasnoyarsk Area	Samoedski	52,328.8	201,311.1	774,614.5	349,885.2	0.041	14,183.2
Sovetski	Russia	Vankor/Krasnoyarsk Area	Sovetski	48,708.0	184,109.0	696,048.5	315,424.2	0.046	14,548.8
West Lodochni	Russia	Vankor/Krasnoyarsk Area	West Lodochni	18,877.9	60,917.9	196,614.1	92,523.5	0.268	24,778.7
East Sugdinsky	Russia	Irkutsk Oblast	East Sugdinsky — Block1	554,094.1	976,903.4	1,722,495.7	1,077,396.3	0.304	327,400.3
Statistical Aggregate				**31,041,494.4**	**46,866,702.7**	**70,764,282.1**	**49,352,663.1**	**0.271**	**13,364,043.5**

Notes:

1. Low, median, best, and high estimates follow the SPE/WPC/AAPG guidelines for prospective resources.
2. Application of Pg and/or Pe does not equate prospective resources to contingent resources or reserves.
3. Low, median, best, and high estimates in this table are P90, P50, EV, and P10, respectively.
4. Only EV's can be arithmetically summed; P90, P50, and P10 are not additive.
5. Pe is defined as the probability of discovering economic resources.
6. Recovery efficiency is applied to prospective resources in this table.
7. Fraction of Pe has been rounded for presentation purposes.
8. TEFS is defined as the threshold economic field size.

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 800 East
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as of
DECEMBER 31, 2005
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CONTINGENT RESOURCES
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OAO ROSNEFT
in
VARIOUS LICENSES
in
RUSSIA

SUMMARY

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SUMMARY

FOREWORD

Scope of Investigation This report presents estimates, as of December 31, 2005, of the contingent petroleum resources of certain accumulations owned by subsidiaries of OAO Rosneft (Rosneft). Rosneft's subsidiaries own various interests in these contingent resources under the terms of exploration and production licenses. This report has been prepared at the request of Rosneft.

The contingent resources in this report are expressed as gross contingent resources. Gross contingent resources are defined as the total estimated petroleum that is potentially recoverable from known accumulations after December 31, 2005.

The contingent resources estimated herein are those volumes of petroleum that are potentially recoverable from known accumulations but which are not currently considered to be commercially recoverable. The definitions of contingent resources applied are in agreement with the petroleum resources definitions approved in February 2000 by the Society of Petroleum Engineers, the World Petroleum Congresses, and the American Association of Petroleum Geologists and are discussed in detail in the Classification of Resources section of this report. Because of the uncertainty of commerciality, the contingent resources estimated herein cannot be classified as reserves. The contingent resources estimates in this report are provided as a means of comparison to other contingent resources and do not provide a means of direct comparison to reserves.

At the request of Rosneft, a model was prepared to estimate quantities that might be realized from the contingent resources estimated herein should these resources be commercially developed.

Estimates of contingent resources should be regarded only as estimates that may change as additional information becomes available. Not only are such contingent resources estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information. Contingent resources volumes should not be confused with those volumes that are associated with reserves due to the additional risks involved. The volumes that might actually be recovered may differ significantly from the estimates presented herein. Estimates of contingent resources should be regarded only as estimates that may change as additional information becomes available. A possibility exists that the accumulations will not result in successful development, in which case there could be no positive potential present worth.

Authority This report was authorized by Mr. Sergei M. Bogdanchikov, President of Rosneft.

Source of Information In the preparation of this report we have relied, without independent verification, upon information furnished by or on behalf of Rosneft with respect to the property interests to be evaluated, subsurface data as they pertain to the target objectives and accumulations, and various other information and technical data that were accepted as represented.

CLASSIFICATION of RESOURCES

Petroleum resources included in this report are classified as contingent resources. Because of the lack of commerciality or sufficient development drilling, the contingent resources estimated herein cannot be classified as reserves. The petroleum resources are classified as follows:

> *Contingent Resources*—Those quantities of petroleum that are estimated, on a given date, to be potentially recoverable from known or discovered accumulations, but which are not currently considered to be commercially recoverable or for which the degree of commitment is not such that the accumulation is expected to be developed and placed on production within a reasonable time frame. Contingent resources include accumulations for which there is currently no viable market, or where commercial recovery is dependent on the development of new technology, or where evaluation of the accumulation is still at an early stage.

The estimation of resources quantities for an accumulation is subject to both technical and commercial uncertainties and, in general, may be quoted as a range. The range of uncertainty reflects a reasonable range of estimated potentially recoverable volumes. In all cases, the range of uncertainty is dependent on the amount and quality of both technical and commercial data that are available and may change as more data become available.

> *Low, Median, Best, and High Estimates*—Estimates of petroleum resources in this report are expressed using the terms low estimate, median estimate, best estimate, and high estimate to reflect the range of uncertainty.

A detailed explanation of the probabilistic terms used herein and identified with an asterisk (*) is included in the Glossary of Probabilistic Terms in the appendix bound with this report. For probabilistic estimates of petroleum resources, the expected value* (EV), an outcome of the probabilistic analysis, is used for the best estimate. The low estimate reported herein is the P_{90}* quantity derived from probabilistic analysis. This means that there is at least a 90-percent probability that, assuming the accumulation is developed, the quantities actually recovered will equal or exceed the low estimate. The median estimate is the P_{50}* quantity derived from probabilistic analysis. This means that there is at least a 50-percent probability that, assuming the accumulation is discovered and developed, the quantities actually recovered will equal or exceed the median estimate. The high estimate is the P_{10}* quantity derived from probabilistic analysis. This means that there is at least a 10-percent probability that, assuming the accumulation is developed, the quantities actually recovered will equal or exceed the high estimate.

Probability of Geologic Success—The probability of geologic success (P_g) is defined as the probability of discovering reservoirs that flow petroleum at a measurable rate. P_g is estimated by quantifying the probability of each of the following individual geologic factors: trap, source, reservoir, and migration. The product of these four probabilities or chance factors is computed as P_g. For contingent resources, the P_g is unity, since the wells have encountered petroleum that flows at a measurable rate.

Threshold Economic Field Size—The threshold economic field size (TEFS) is the minimum amount of producible petroleum required to recover the total capital expenditure used to establish the prospect as having a present worth greater than zero. These investments include expenditures required to establish and prove profitable production and to conduct delineation or confirmation drilling. All geologic, geophysical, lease and/or contract-area acquisition costs and other anticipated field delineation costs are included in the estimation of TEFS as well. The potential present worth per resources volume methodology is a standard industry practice used to estimate contingent resources value. This methodology is directly formulated from the discounted cash flow analysis, which is fundamental to the potential present worth estimation. Accordingly, where this methodology is employed to estimate TEFS, no additional provision should be made for field development costs.

$$\text{TEFS} = \frac{\text{Geology} + \text{Geophysics} + \text{Drilling} + \text{Land} + \text{Transportation} + \text{Overhead}}{\text{Potential Present Worth per Barrel}}$$

Probability of Economic Success—The probability of economic success (P_e) is defined as the probability that a given discovery will be economically viable. It takes into account P_g, TEFS, P_{TEFS}, capital costs, operating expenses, the proposed development plan, the economic model (discounted cash flow analysis), and other business and economic factors. P_e is calculated as follows:

$$P_e = P_g \times P_{TEFS}$$

ESTIMATION of RESOURCES

Estimates of contingent resources were prepared by the use of standard geological and engineering methods generally accepted by the petroleum industry. The method or combination of methods used in the analysis of the reservoirs was tempered by experience with similar reservoirs, stage of development, and quality and completeness of basic data.

The probabilistic analysis of the contingent resources in this report considered the uncertainty in the amount of petroleum that may be produced. The uncertainty analysis addresses the range of possibilities for any given hydrocarbon volume. Low, median, best, and high estimates of contingent resources were estimated to address this uncertainty. P_e analysis has not been applied, and P_e-adjusted and TEFS-adjusted contingent resources have not been estimated herein.

Contingent resources were evaluated using probabilistic analysis of certain parameters related to the quantity of petroleum present and recoverable in discovered accumulations. These discovered accumulations may be developed in the future depending on economic and market conditions, additional well data, or seismic information. For the contingent resources, the P_g is unity, since the wells have encountered petroleum that flows at a measurable rate.

Standard probabilistic methods were used in the uncertainty analysis. These representations were prepared based on known data, analogy, and other standard estimation methods including experience. Statistical measures describing the probability distributions of these representations were identified and input to a Monte Carlo simulation to produce low estimate, median estimate, best estimate, and high estimate contingent resources for each accumulation.

Quantitative Risk Assessment and the Application of P_g Minimum, modal, and maximum representations of productive area were interpreted from maps, available seismic data, and/or analogy. Low, mean, and high representations for the petrophysical parameters (porosity, petroleum saturation, and net hydrocarbon thickness), and engineering parameters (recovery efficiency and fluid properties) were also made based on available well data, regional data, analog field data, and global experience.

The distributions for the variables were derived from (1) scenario-based interpretations, (2) the geologic, geophysical, petrophysical, and engineering data provided, (3) local, regional, and global knowledge, and (4) field and case studies in the literature. Minimum, mean, and maximum representations were used to statistically model and shape the input P_{90}, P_{50}, and P_{10} parameters. Latin hypercube sampling was used to better represent the tails of the distributions. The Monte Carlo simulation makes 10,000 iterations to create the output distributions.

Each individual volumetric parameter was investigated using a probabilistic approach with attention to variability. Deterministic data were used to anchor and shape the various distributions. For the contingent resources (associated with the accumulations that have been drilled), the P_g is unity, since the wells have encountered petroleum that flows at a measurable rate.

Application of any risk factor to contingent resources volumes does not equate contingent resources with reserves. Risk adjusted estimates of contingent resources volumes cannot be compared directly to or aggregated with reserves.

SUMMARY and CONCLUSIONS

Rosneft owns interests in contingent resources in various accumulations located in various licenses. Should these accumulations result in commercial development, the estimated gross contingent resources, as of

May 31, 2005, are summarized as follows, as of December 31, 2005, expressed in thousands of barrels (10^3bbl), and thousands of tons (10^3tons).

	Low Estimate	**Median Estimate**	**Best Estimate**	**High Estimate**
Gross Contingent Gas Resources, 10^6m^3	36,819.4	67,446.4	75,407.4	123,561.3
Gross Contingent Oil Resources, 10^3tons	16,944.7	31,039.6	34,703.3	56,864.2

Notes:

(1) Low, best, and high estimates follow the SPE/WPC/AAPG guidelines for contingent resources.

(2) Only EV's can be arithmetically summed; P_{90}, P_{50}, and P_{10} can not be arithmetically summed.

(3) Low, median, best, and high estimates in this table are P_{90}, P_{50}, EV, and P_{10}, respectively.

(4) P_g is defined as the probability of discovering reservoirs which flow petroleum at a measurable rate.

(5) Recovery factor is applied to contingent resources in this table.

(6) P_g is unity for contingent resources.

(7) Application of P_g and/or P_e does not equate contingent resources to reserves.

Submitted,

/s/ DeGolyer and MacNaughton

DeGOLYER and MacNAUGHTON

SIGNED: May 17, 2006

/s/ Thomas A. Schob, P.E.

Thomas A. Schob, P.E.
Senior Vice President
DeGolyer and MacNaughton

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THE COMPANY

OJSC OC Rosneft
26/1 Sofiyskaya Embankment
Moscow 115035
Russian Federation

SELLING SHAREHOLDER

OJSC Rosneftegaz
18/1 Ovchinnikovskaya Embankment
Moscow 115324
Russian Federation

AUDITORS TO THE COMPANY

Ernst & Young LLC
77/1 Sadovnichestkaya Embankment
Moscow 115035
Russian Federation

RESERVOIR ENGINEERS

DeGolyer and MacNaughton
5001 Spring Valley Road
Suite 500 East
Dallas, Texas 75244
United States of America

LEGAL ADVISERS TO THE COMPANY AND THE SELLING SHAREHOLDER

As to U.S. and English law
Cleary Gottlieb Steen & Hamilton LLP
City Place House
55 Basinghall Street
London EC2V 5EH
United Kingdom

As to Russian law
Cleary Gottlieb Steen & Hamilton LLP
(CGS&H Limited Liability Company)
2/3 Paveletskaya Square
Moscow 115054
Russian Federation

LEGAL ADVISERS TO THE MANAGERS

As to U.S. and English law
Linklaters
One Silk Street
London EC2Y 8HQ
United Kingdom

As to Russian law
Linklaters CIS
2/2 Paveletskaya Square
Moscow 115054
Russian Federation

DEPOSITARY

J.P. Morgan Europe Limited
60 Victoria Embankment
London EC4Y OJP
United Kingdom

CUSTODIAN

Sberbank
19 Vavilova Street
Moscow 117997
Russian Federation

Merrill Corporation Ltd, London
06LON1799