



ROSNEFT

O I L C O M P A N Y

OPEN JOINT STOCK COMPANY

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE MONTHS AND TWELVE MONTHS ENDED
31 DECEMBER 2008, 2007 AND 2006**

*The following discussion of Rosneft's financial condition and results of operations is based on, and should be read in conjunction with, the Company's financial statements and the notes thereto for the periods ended 31 December 2008, 2007 and 2006 (the "Consolidated **Financial Statements**"). Such terms as "**Rosneft**," "**Company**" and "**Group**" in their different forms in this report mean OJSC Oil Company Rosneft and its consolidated subsidiaries and affiliated companies. This report presents Rosneft's financial condition and results of operations on a consolidated basis. This report contains forward-looking statements that involve risks and uncertainties. Rosneft's actual results may materially differ from those discussed in such forward-looking statements as a result of various factors.*

Oil and gas reserves are presented pro-rata for companies accounted for on an equity basis or under the proportionate consolidation method and 100% for fully consolidated companies. Except where expressly indicated otherwise, references to crude oil and gas production include 100% of fully consolidated companies and the pro-rata share of proportionally consolidated companies. References to crude oil and gas production include the pro-rata share of equity consolidated companies, only when expressly noted.

Except as otherwise indicated, all amounts are provided in millions of US dollars. All figures are rounded; however, the fluctuations in percentage are provided based on the actual data.

Overview

Rosneft is a vertically integrated oil and gas company with upstream and downstream operations located principally in Russia. Rosneft is one of the world's largest publicly traded oil companies in terms of proved crude oil reserves and among the top ten in terms of crude oil production. According to DeGolyer and MacNaughton (“D&M”), Rosneft's independent reservoir engineers, as of 31 December 2008, on the basis of the standards set forth by the Society of Petroleum Engineers, Petroleum Reserves Management System (“PRMS”), Rosneft had proved reserves of approximately 22.30 billion barrels of oil equivalent (“boe”), including proved crude oil reserves of approximately 17.69 billion barrels (2.42 billion tonnes) and proved gas reserves of approximately 783.79 billion cubic metres (“bcm”). Also according to D&M, as of 31 December 2008, Rosneft had proved and probable crude oil reserves of approximately 28.55 billion barrels (3.90 billion tonnes) and proved and probable gas reserves of approximately 1,318.77 bcm. Rosneft's reserves are located in Western Siberia, the Russian Far East, Southern and Central Russia, Privolzhye and Eastern Siberia. Rosneft also has significant prospective crude oil and gas resources in Western Siberia, the Russian Far East, Southern Russia and Eastern Siberia.

Rosneft produced 2,127.39 thousand barrels of crude oil per day (26.76 million tonnes) in the fourth quarter of 2008 and 2,233.41 thousand barrels of crude oil per day (28.09 million tonnes) in the fourth quarter of 2007, respectively. In the twelve months ended 31 December 2008, 2007 and 2006, Rosneft produced 2,121.04 thousand of barrels of crude oil per day (106.12 million tonnes for the twelve months), 2,027.31 thousand of barrels of crude oil per day (101.16 million tonnes for the twelve months) and 1,596.43 thousand of barrels of crude oil per day (79.68 million tonnes for the twelve months), respectively. Rosneft also produced 3.32 bcm of gas and 4.06 bcm of gas in the fourth quarters of 2008 and 2007, respectively. For the twelve months of 2008, 2007 and 2006, Rosneft produced 12.38 bcm, 15.71 bcm and 13.58 bcm of gas, respectively.

Since 27 December 2007 when Rosneft closed the sale of 50.0% of its producing subsidiary, OJSC Tomskneft VNK (“Tomskneft”), Rosneft accounts for Tomskneft via the equity method and 50.0% of Tomskneft production in the amount of 113.24 thousand barrels of crude oil per day (1.42 million tonnes) for the fourth quarter of 2008 and 113.78 thousand of barrels of crude oil per day (5.69 million tonnes) for the twelve months of 2008 and 0.25 bcm of gas in the fourth quarter of 2008 and 0.86 bcm of gas for the twelve months of 2008 are included in Rosneft's production. 100% of Tomskneft crude oil production was 226.48 thousand barrels of crude oil per day (2.84 million tonnes) for the fourth quarter of 2008 and 227.56 thousand barrels of crude oil per day (11.38 million tonnes) for the twelve months of 2008. 100% of Tomskneft gas production was 0.50 bcm for the fourth quarter of 2008 and 1.72 bcm for the twelve months of 2008. Tomskneft crude oil production was 233.37 thousand barrels of crude oil per day (2.78 million tonnes) for the fourth quarter of 2007¹ and 232.84 thousand barrels of crude oil per day (7.42 million tonnes) in the twelve months of 2007¹. Tomskneft gas production was 0.46 bcm for the fourth quarter of 2007¹ and 1.01 bcm for the twelve months of 2007¹.

In the twelve months of 2008, 2007 and 2006 Rosneft sold approximately 50.8%, 60.3% and 70%, respectively, of the crude oil it produced or purchased from third parties to customers outside Russia, including sales to other countries in the Commonwealth of Independent States (“CIS”) and exports to international markets other than the CIS. The remainder was refined in Russia at Rosneft's refineries, including LLC Rosneft-Tuapse refinery (“**Tuapse refinery**”) and LLC Rosneft-Komsomolsk refinery (“**Komsomolsk refinery**”), as well as OJSC Angarsk Petrochemical Company (“**Angarsk refinery**”), OJSC Achinsk refinery (“**Achinsk refinery**”), OJSC Kuibyshev refinery (“**Kuibyshev refinery**”), OJSC NovoKuibyshevsk refinery (“**NovoKuibyshev refinery**”) and OJSC Syzran refinery (“**Syzran refinery**”), acquired from Yukos in the second quarter of 2007. Rosneft sells the petroleum products produced by these refineries in international and domestic markets. Rosneft has an integrated production, transportation, refining and marketing strategy and seeks to maximise netbacks by optimising its product mix, sales destinations and available transport routes.

Rosneft's total revenues decreased to US\$ 10,799 million in the fourth quarter of 2008 from US\$ 16,493 million in the fourth quarter of 2007, such decrease primarily resulted from lower crude oil and petroleum products prices following the global economic downturn.

Rosneft's total revenues increased to US\$ 68,991 million in the twelve months of 2008 from US\$ 49,216 million in the twelve months of 2007. Rosneft's revenue amounted to US\$ 33,099 in 2006.

¹ The production data is calculated as Tomskneft crude oil production since the date of acquisition in May 2007 till the date of sale in December 2007.

This increase resulted primarily from an increase in crude oil and petroleum products prices in the first half of 2008, an increase in sales volumes driven by organic production growth and a change in product mix, namely, an increase in the share of petroleum products.

Rosneft's net income amounted to US\$ 775¹ million in the fourth quarter of 2008 and US\$ 2,976 million in the fourth quarter of 2007, and to US\$ 11,120¹ million in the twelve months of 2008 and to US\$ 12,862 million in the twelve months of 2007. In 2006 Rosneft's net income amounted to US\$ 3,533 million. Net income in the twelve months of 2007 included the income arising from Yukos bankruptcy proceeds (net of income tax) of US\$ 6.8 billion received by Rosneft in June 2007. Rosneft's net income excluding Yukos bankruptcy proceeds and interest accrued in relation to OJSC Yuganskneftegaz ("Yuganskneftegaz") tax liabilities for 1999-2004 was US\$ 2,193² million in the fourth quarter of 2007 and US\$ 6,497² million in the twelve months of 2007. The increase in Rosneft's net income in the twelve months of 2008 compared to the net income of 2007 adjusted for Yukos bankruptcy proceeds resulted from an increase in petroleum products and oil production, an increase in sales efficiency due to the increase in oil prices together with low customs duties (not applicable to the fourth quarter of 2008) effected by time lag, an optimization of logistics and improved margins.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. 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.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Company and its counterparties, which could affect the Company's financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances, further market deterioration could negatively affect the Company's consolidated results and financial position in a manner not currently determinable.

Post Balance Sheet Events

In January 2009, Rosneft raised a syndicated floating rate loan in the amount of US\$ 1.35 billion which is repayable within 15 months and secured by oil export contracts.

In February 2009, Rosneft secured and agreed principle terms of a long-term floating rate loan from a foreign bank in the amount of up to US\$ 15 billion. The loan is repayable within 20 years and secured by oil export contracts.

Business Segments and Intersegment Sales

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

¹ Not adjusted for the effect of the income tax rate change and effect of assets impairment and loss from interests SWAP operation in 2008.

² Also adjusted for the effect of interests SWAP operations in the amount of US\$ 14 million in 2007.

Business Segments

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

- *Exploration and production (“upstream”)*. Geological exploration and development of fields, and crude oil and gas production;
- *Refining, marketing and distribution (“downstream”)*. Refining of crude oil, as well as the purchase, transportation, sale and transshipment of crude oil and petroleum products.

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

Intersegment Sales and Segment Presentation

Rosneft’s two main business segments are interconnected: the majority of the revenues of one main segment is included in the expenses of the other main segment. In particular, the holding company, OJSC Oil Company Rosneft, buys crude oil from its production subsidiaries, part of which it sells domestically in and outside Russia while the remainder is delivered to its proprietary or third-party refineries in Russia for processing. Petroleum products are then either sold by the holding company through wholesale sales on the international or domestic markets or sold to the Company’s marketing and transshipment Business Units (as defined below) and subsidiaries for subsequent wholesale and retail sales in Russia. Following the share swap (the “**Share Swap**”), the Company became the producer and owner of the crude oil previously produced by the merged subsidiaries.

It is difficult to determine market prices of crude oil in the Russian domestic market, mainly due to the significant intragroup turnover within the vertically integrated oil companies that dominate the market. Moreover, to the extent they exist, crude oil market prices in Russia can be significantly lower than they might otherwise be due to seasonal oversupply and regional imbalances. Prior to the Share Swap in 2006, transaction prices for crude oil between Rosneft’s subsidiaries were established taking into consideration market prices and transportation costs, but were also affected to a considerable degree by the capital investment requirements of different enterprises within the upstream segment. Accordingly, an analysis of individual segments in isolation from the analysis of other activities may present a distorted view of Rosneft’s financial and operating performance. For this reason, the Company’s management does not analyse each main business segment in isolation. The Company does, however, provide financial data by segments in Note 25 to the Consolidated Financial Statements.

On 1 October 2006, twelve subsidiaries, Yuganskneftegaz, OJSC Purneftegaz (“Purneftegaz”), OJSC Selkupneftegaz, OJSC Severnaya Neft (“Severnaya Neft”), OJSC Krasnodarneftegaz (“Krasnodarneftegaz”), OJSC Stavropolneftegaz, OJSC Sakhalinmorneftegaz, OJSC Komsomolsk refinery, OJSC Tuapse refinery, OJSC Arkhangelsknefteprodukt, OJSC Nakhodkanefteprodukt and OJSC Tuapsenefteprodukt (the “Merged Subsidiaries”) were merged into the Company by means of the Share Swap. Following the merger, the Company became the legal successor to the rights and obligations of the Merged Subsidiaries to the extent provided by Russian law. The Company leases the business units, which are the assets previously owned by the Merged Subsidiaries (the “Business Units”), to wholly owned subsidiaries of the Company, which are limited liability operating and service companies each corresponding to a Merged Subsidiary and which operate these assets under service agreements. Revenues and costs from operations of the seven Merged Subsidiaries previously engaged in exploration and production were and continue to be accounted for under the upstream segment. Revenues and costs from operations of the five Merged Subsidiaries previously involved in refining and marketing were and continue to be accounted for under the downstream segment.

Significant Acquisitions and disposals in 2008 and in 2007

2008

Sales of the shares in OJSC Daltransgaz

In December 26, 2008 the Company completed the sales of 25% of shares in OJSC Daltransgaz to Gazprom. OJSC Daltransgaz is an operator for the program to supply gas to the Sakhalin Region and the Khabarovsk and Primorye Territories.

Additional number of shares of OJSC Okhinskaya TETS

In April-June 2008, the Company purchased 35,048,921 ordinary shares of OJSC Okhinskaya TETS (“**Okhinskaya TETS**”) for RUB 367 million (US\$ 15.5 million at the CBR exchange rate in effect at the transaction date). Okhinskaya TETS is a combined heat and power plant, mainly servicing the production activities of RN-Sakhalinmorneftegaz LLC, Rosneft’s wholly owned exploration and production subsidiary (See “Other significant acquisitions”).

Lease rights

In January 2008, RN-Trade, a 99.99% owned subsidiary of the Company won an auction for a three-year lease right to nine land plots in Saint Petersburg for a total consideration of RUB 103 million (US\$ 4.2 million at the CBR exchange rate in effect as at the transaction date). The land plots are expected to be used for the construction of fuelling stations.

2007

Purchase of Yukos Assets

In April-August 2007, Rosneft acquired upstream, downstream and other assets of Yukos, shares and promissory notes of Yuganskneftegaz, through auctions held in connection with Yukos’ bankruptcy proceedings. In June-July 2007, Rosneft also acquired further Yukos assets from the winners of other Yukos auctions. Rosneft paid approximately RUB 687.7 billion (US\$ 26.6 billion) in aggregate for the Yukos assets, Company shares and promissory notes of Yuganskneftegaz it acquired in the auctions and thereafter (including US\$ 7.65 billion (at the CBR exchange rate in effect as at the date of payment) for a 9.44% equity interest in the Company and promissory notes of Yuganskneftegaz) and borrowed approximately US\$ 22.0 billion to help finance these acquisitions. Based on the final allocation of the purchase price of assets accounted for as business combinations in 2008, total goodwill of US\$ 5.06 billion is attributable to the downstream segment (US\$ 3.61 billion), and to the upstream segment (US\$ 1.45 billion), both of which Rosneft expects will benefit from synergies resulting from the acquisitions.

Rosneft received approximately US\$ 11.5 billion (including proceeds received by the subsidiaries recently acquired from Yukos) in June and December 2007 as a Yukos creditor, out of which US\$ 9.2 billion has been used to repay the US\$ 22.0 billion of the Company’s borrowings referred to above. Rosneft also received US\$ 3.4 billion as an advance payment following the agreement to sell 50% of Tomskneft in late June 2007. The advance payment was used by Rosneft to finance the acquisition of new assets, including Yukos assets. Rosneft reimbursed the advance payment, together with interests accrued from June 2007, on the date of the completion of the sale of 50% of Tomskneft and other related assets in December 2007.

On 27 December 2007, Rosneft sold 50% of Tomskneft and other related assets, including the Strezhevskoy mini-refinery to Gazpromneftfinance, a subsidiary of Gazprom Neft, for RUB 88.2 billion (US\$ 3.4 billion at the CBR exchange rate in effect as at the transaction date). Rosneft used these funds to reimburse the advance payment received in June 2007 following the agreement to sell 50% of Tomskneft as well as the interest paid by Rosneft on the advance payment. The difference of U.S.\$ 1,745 million between the proceeds from the sale of 50% of Tomskneft and other related assets and the carrying value, including interest accrued on the advance payment, was reflected as additional capital contribution, net of tax, as the sale is a related-party transaction, Gazpromneftfinance being a related party under common control with Rosneft. Since the date of sale, Rosneft accounts for Tomskneft using the equity method.

Rights and Receivables

On 15 August 2007, Rosneft won the auction for the sale of Yukos’ accounts receivables, including accounts receivable of Rosneft’s subsidiaries such as Tomskneft and OJSC Samaraneftegaz (“Samaraneftegaz”), loans receivable and other receivable. Rosneft purchased these assets for a total consideration of RUB 11.56 billion (US\$ 0.45 billion at the CBR exchange rate in effect at the date of payment).

Transportation assets and Other Assets

On 8 August 2007, Rosneft won the auction for the sale of Yukos’ transportation assets and other property and property rights relating to the upstream segment. Rosneft purchased these assets for a total consideration of RUB 18.58 billion (US\$ 0.72 billion at the CBR exchange rate in effect at the date of payment).

Equipment and Geological Information

On 12 July 2007, the Company won an auction for the sale of certain assets of Yukos which primarily include property, plant and equipment, as well as licences related to the exploration and production of crude oil in Western and Eastern Siberia and in the Samara region of the Russian Federation. Rosneft purchased these assets and licences for a total consideration of RUB 6.90 billion (US\$ 0.27 billion at the CBR exchange rate in effect at the date of payment).

Southern Russia Marketing and Power Generation Assets

On 2 July 2007, LLC Neft-Aktiv purchased marketing and power generation companies formerly owned by Yukos and located in Southern Russia sold in auctions after the initial winning bidder was disqualified. Neft-Aktiv purchased these assets for a total consideration of RUB 4.90 billion (US\$ 0.19 billion at the CBR exchange rate in effect at the transaction date).

Marketing and Management Assets

In late June 2007, Neft-Aktiv (“Neft-Aktiv”) purchased from LLC Prana various working capital, real estate, marketing and management assets formerly owned by Yukos, including LLC Yukos-M Trading House (“**Yukos-M Trading House**”). Rosneft and Neft-Aktiv purchased these assets for a total consideration of RUB 87.58 billion (US\$ 3.38 billion at the CBR exchange rate in effect at the transaction date).

European Russia Downstream Assets

On 15 June 2007, Neft-Aktiv purchased from LLC Unitex retail and small wholesale marketing assets formerly owned by Yukos and located in European Russia. Neft-Aktiv purchased these assets for a total consideration of RUB 16.32 billion (US\$ 0.63 billion at the CBR exchange rate in effect at the transaction date).

Upstream Service and IT Companies

On 16 May 2007, Neft-Aktiv won the auction for the sale of certain upstream services and information technology companies of Yukos. Neft-Aktiv purchased these assets for a total consideration of RUB 1.80 billion (US\$ 0.07 billion at the CBR exchange rate in effect at the date of payment).

Samara Upstream and Downstream Assets

On 10 May 2007, Neft-Aktiv won the auction for the sale of certain exploration and production and refining and marketing assets of Yukos in the Samara region. Neft-Aktiv purchased these assets for a total consideration of RUB 165.53 billion (US\$ 6.42 billion at the CBR exchange rate in effect at the date of the payment).

Western and Eastern Siberia Upstream and Downstream Assets

On 3 May 2007, Neft-Aktiv won the auction for the sale of shares previously held by Yukos in various exploration and production and refining and marketing companies in Western and Eastern Siberia. Neft-Aktiv purchased these assets for a total consideration of RUB 175.70 billion (US\$ 6.82 billion at the CBR exchange rate in effect at the date of the payment).

Yuganskneftegaz Service Companies

On 18 April 2007, Neft-Aktiv won the auction for the sale of certain service companies of Yuganskneftegaz, previously owned by Yukos. Neft-Aktiv purchased these assets for a total consideration of RUB 1.03 billion (US\$ 0.04 billion at the CBR exchange rate in effect at the date of the payment).

Treasury Stock

On 27 March 2007, RN-Razvitie, a wholly owned subsidiary of the Company, won the tender for the purchase of 9.44% of the share capital of the Company and promissory notes of Yuganskneftegaz with a face value of RUB 3,558 million (US\$ 138 million at the CBR exchange rate in effect at the date of payment) from Yukos for a total consideration of RUB 197.84 billion (US\$ 7.65 billion at the CBR exchange rate in effect at the date of payment). For purposes of Rosneft’s reporting, the total consideration was allocated to the assets acquired pro rata to their respective fair values and amounted to RUB 194.05 billion for the Company’s shares, or RUB 194.05 per share (US\$ 7.52 billion, or US\$ 7.52 per share, at the CBR exchange rate in effect at the date of the transaction). Title to the shares and promissory notes was transferred to RN-Razvitie on 17 April 2007.

Financing of the Purchases

In March 2007, the Company and its wholly owned subsidiary RN-Razvitie entered into loan agreements with a syndicate of international banks. The agreements provided for US\$ 22 billion of borrowings, the longest tranche of which had a maximum eighteen-month term. These loan agreements bore interest at “**LIBOR**” plus 0.25-0.50% per annum, depending on the final repayment date. These loans were drawn to finance the purchase of the treasury stock and other Yukos assets in the course of the auctions described above. The total amount of US\$ 22.0 billion was drawn down through May 2007.

In June and October 2007, Rosneft received approximately US\$ 11.5 billion (including proceeds received by the subsidiaries recently acquired from Yukos) as a Yukos creditor, out of which US\$ 9.2 billion has been used as prepayment to reduce the US\$ 22.0 billion in Company borrowings referred to above. See “—Liquidity and Capital Resources—Debt Obligations.”

In June 2007, the Company received US\$ 3.4 billion as an advance payment for the sale of 50% of Tomskneft shares. On 27 December 2007, Rosneft sold a 50% stake in Tomskneft as well as other related assets to Gazpromneftfinance, a subsidiary of Gazprom Neft. Since the date of sale, Rosneft accounts for Tomskneft using the equity method. The advance payment received by Rosneft was used to help finance the acquisition of Yukos assets.

These bridge loans were fully repaid or refinanced by September 30, 2008. See “—Liquidity and Capital Resources—Debt Obligations.”

Other Significant Acquisitions

Verkhnechonskneftegaz

In January 2007, the Company purchased 339,582 newly issued ordinary shares of OJSC Verkhnechonskneftegaz (“**Verkhnechonskneftegaz**”), an exploration and production company, for a total consideration of RUB 201 million (US\$ 8 million at the CBR exchange rate in effect at the transaction date). In December 2007, the Company purchased 237,572 newly issued ordinary shares of Verkhnechonskneftegaz for a total consideration of RUB 285 million (US\$ 11.7 million at the CBR exchange rate in effect at the transaction date). As a result, the Company maintained its 25.94% share in this company. The other shareholders of Verkhnechonskneftegaz are OJSC TNK-BP (“**TNK-BP**”), which holds 68.36%, OJSC East Siberian Gas Company, which holds 5.64%, and other minority shareholders, which hold the remaining 0.06%.

E&P VankorLtd

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

Fuelling Stations in the Moscow Region

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

In August 2007, Rosneft International Limited purchased 100% of shares of OJSC JV Antares (“**JV Antares**”) for US\$ 55 million. JV Antares owns a network of 20 fuelling stations and a tank farm in the Moscow region.

Fuelling Stations in the Stavropol Region

In August 2007, OJSC NK Rosneft-Stavropolye, a wholly owned subsidiary of the Company, bought 100% of the shares of LLC Rokada-Market for RUB 1,482 million (US\$ 57.8 million at the CBR exchange rate at the transaction date), the owner of a network of 29 fuelling stations and an oil tank farm in the Stavropol region.

Vlakra

In late June 2007, the Company acquired 50% of the ordinary shares of CJSC Vlakra for a total cash consideration of US\$ 108 million. The acquisition price was fully allocated to the fair value of the acquired assets and liabilities. CJSC Vlakra is a joint venture between Rosneft and a foreign participant for which the Company accounts for using the equity method. CJSC Vlakra's main activity is to lease office premises in Moscow.

Yukos-Mamontovo

On 3 April 2007, the Company received the title to a 100% interest in CJSC Yukos-Mamontovo ("**Yukos-Mamontovo**") for no consideration. The title to this asset was transferred in accordance with a court ruling of the Moscow Arbitration Court. Yukos-Mamontovo owns wells and service facilities leased by Yuganskneftegaz and used in crude oil production.

Okhinskaya TETS

In January 2007, the Company purchased 85.61% of the ordinary shares of Okhinskaya TETS for RUB 629 million (US\$ 24 million at the CBR exchange rate in effect at the transaction date).

In April 2007, the Company purchased 9,876,869 newly issued ordinary shares of Okhinskaya TETS, for a total consideration of RUB 112 million (US\$ 4 million at the CBR exchange rate in effect at the transaction date). As a result, the Company increased its share in Okhinskaya TETS to 87.52%.

Truboprovodny Consortium Burgas-Alexandroupolis

In January 2007, the Company participated in the creation of a joint venture, LLC Truboprovodny Consortium Burgas-Alexandroupolis, with equal equity contributions from the Company, OJSC AK Transneft ("**Transneft**") and Gazprom Neft. This joint venture was registered with a share capital of RUB 9 million (US\$ 0.4 million at the CBR exchange rate in effect as at the registration date). The joint venture is expected to design, construct and operate crude oil terminals in Burgas (Bulgaria) and Alexandroupolis (Greece), which will be connected by a pipeline crossing the territories of Greece and Bulgaria. The Company has no funding commitments in connection with this joint venture.

Licences Won at Auctions

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

2008

Umotkinsky Block

In February 2008, the Company won an auction for a licence for the exploration and production of crude oil and gas in the Umotkinsky Block located in the Irkutsk region. The total cost of the licence amounted to RUB 1.12 billion (US\$ 46.7 million at the CBR exchange rate in effect at the date of payment). The licence was granted in May 2008 and expires in April 2033.

2007

Uzhno-Teplovsky Block

In December 2007, the Company won an auction for a licence for the exploration of and development and production of crude oil and gas in the Uzhno-Teplovsky Block in the Khanty-Mansiysk Autonomous District. The total cost of the licence amounted to RUB 147 million (US\$ 6.0 million at the CBR exchange rate in effect at the auction date). The licence was granted in April 2008 and expires in April 2033.

Preobrazhensky Block

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

Zapadno-Chonsky and Verkhneichersky Blocks

In July 2007, LLC Vostok-Energy, a joint venture in which the Company owns 51% and China National Petroleum Corporation (“CNPC”) owns 49%, won an auction for licences for the exploration of and development and production of crude oil and gas in the Zapadno-Chonsky Block and Verkhneichersky Block in the Irkutsk region, approximately 90-120 kilometres away from the Eastern Siberia Pacific Ocean pipeline that Transneft plans to construct. The cost of the Zapadno-Chonsky licence was RUB 399.5 million (US\$ 16 million at the CBR exchange rate in effect at the auction date) and the cost of the Verkhneichersky licence was RUB 780.0 million (US\$ 30 million at the CBR exchange rate in effect at the auction date). The licences were granted in October 2007 and expire in September 2032.

Sovetsky and Biryukovsky Blocks

In June 2007, Samaraneftgaz, a wholly owned subsidiary of the Company, won an auction for licences for the exploration of and production of crude oil and gas in the Sovetsky Block and the Biryukovsky Block in the Samara region. The total cost of the licences amounted to RUB 932 million (US\$ 36 million at the CBR exchange rate in effect at the auction date). The licences were granted in June 2007 and expire in June 2027 and 2032, respectively.

Main Factors Affecting Results of Operations

The main factors that have affected Rosneft’s results of operations during the periods being analysed, and that can be expected to affect its results of operations in the future, are:

- Changes in crude oil, petroleum product and gas prices;
- Changes in the production of crude oil gas and petroleum products;
- RUB/US\$ exchange rate movements and inflation;
- Taxation, including changes in mineral extraction tax and export customs duty;
- Changes in transport tariffs of natural monopolies (for pipeline and railway transport); and
- Acquisitions of upstream, downstream and other assets from Yukos as a result of the April-August 2007 auctions described above under —“Significant Acquisitions —2007 — Purchase of Yukos Assets.”

Changes in prices, export customs duty and transport tariffs can have a significant impact on the mix of products and the sales channels the Company selects, as it seeks to maximise netback prices of the crude oil the Company elects to produce. Rosneft’s net income was significantly affected by drastic changes in crude oil, petroleum products and gas prices in the twelve months of 2008.

Changes in Crude Oil, Petroleum Products and Gas Prices

World prices of crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand. The crude oil that Rosneft exports through the Transneft pipeline system is blended with crude 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 of crude oil are difficult to determine, mainly due to the significant intragroup turnover between upstream and downstream segments 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 products 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 and competition in the different markets.

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

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2008 (US\$ per barrel)	2007 (US\$ per barrel)	2008 (US\$ per barrel)	2007 (US\$ per barrel)	2006 (US\$ per barrel)	2008 - 2007 (%)	2008 -2007 (%)	2007-2006 (%)
World market								
Brent	54.91	88.69	96.99	72.52	65.14	(38.1)%	33.7%	11.3%
Urals (average Med+NWE)	54.06	85.91	94.52	69.39	61.27	(37.1)%	36.2%	13.3%
Dubai-Oman	52.60	82.12	93.80	68.27	62.01	(35.9)%	37.4%	10.1%
	(US\$ per tonne)		(US\$ per tonne)					
Premium gasoline (average NWE)	470.76	793.61	846.26	703.91	625.86	(40.7)%	20.2%	12.5%
Regular gasoline (average NWE)	458.40	788.73	839.10	624.00	611.12	(41.9)%	34.5%	2.1%
Naphtha (average Med)	344.98	784.10	769.51	656.85	546.83	(56.0)%	17.2%	20.1%
Fuel oil (average Med)	246.64	443.59	463.20	346.00	286.12	(44.4)%	33.9%	20.9%
Jet (average NWE)	632.47	865.90	1,002.90	710.51	646.46	(27.0)%	41.2%	9.9%
Gasoil (average Med)	555.59	799.87	910.06	652.49	586.63	(30.5)%	39.5%	11.2%
Russian market⁽¹⁾	(US\$ per tonne)		(US\$ per tonne)					
Crude oil	159.00	341.93	336.85	278.91	254.06	(53.5)%	20.8%	9.9%
Fuel oil	204.08	316.19	334.45	219.43	204.38	(35.5)%	52.4%	7.4%
Diesel fuel (Gasoil)	585.66	717.23	855.32	587.16	557.79	(18.3)%	45.7%	5.3%
High octane gasoline	736.67	908.45	962.16	787.71	740.10	(18.9)%	22.1%	6.4%
Low octane gasoline	585.48	745.96	813.15	656.74	597.17	(21.5)%	23.8%	10.0%

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

(1) Market prices include VAT of 18% and relevant excise tax.

Rosneft's gas sales have been limited to date, but the Company's strategy anticipates a significant increase in its gas business. Gazprom controls access to the Unified Gas Supply System (UGSS) and is the dominant supplier of gas in Russia and the only exporter of gas produced in Russia. Rosneft sells the gas it produces to Gazprom from time to time and is currently in the process of negotiating a long-term agreement to secure Rosneft's access to the UGSS for gas sales to third parties and to sell additional gas to Gazprom, consistent with the Strategic Partnership Agreement entered into between the Company and Gazprom on 28 November 2006. The Russian Government regulates the prices of the gas Gazprom sells in Russia. While the regulated price has been rising in Russia and is expected to continue to rise to a level closer to parity with export netbacks, it is currently still significantly below world levels. The regulated price has affected, and is likely to continue to affect, the pricing of the gas Rosneft sells to Gazprom from time to time or pursuant to the contract it is negotiating. Rosneft's average gas sale price was RUB 915 (US\$ 33.57) per thousand cubic meters and RUB 780 (US\$ 31.63) per thousand cubic meters in the fourth quarter of 2008 and 2007, respectively, and RUB 952 (US\$ 38.32) per thousand cubic meters, RUB 757 (US\$ 29.61) per thousand cubic meters and RUB 560 (US\$ 20.59) per thousand cubic meters in the twelve months of 2008, 2007 and 2006.

RUB/US\$ Exchange Rate Movements and Inflation

The rouble-US dollar exchange rate and inflation trends in the Russian Federation affect Rosneft's results since most of Rosneft's revenues from sales of crude oil and petroleum products are denominated in US dollars, while a substantial portion of its expenses is denominated in Russian roubles. Accordingly, any real appreciation of the rouble versus the US dollar negatively affects Rosneft's margins. The rouble appreciated against the US dollar in real and nominal terms throughout the twelve months of 2006, 2007 and throughout the first half of 2008. In view of the drop in oil prices in the recession period the rouble is depreciating in real term in the third quarter and the fourth quarter of 2008. The Company began to use currency hedging mechanisms in January 2007 in order to mitigate the effects of fluctuations in the rouble US dollar exchange rate.

Whether the rouble appreciates or depreciates in real terms is a function of the relationship between movements in the nominal exchange rate and inflation. The table below provides information on exchange rate movements and inflation during the analysed periods:

	For 3 months ended 31 December		For 12 months ended 31 December		
	2008	2007	2008	2007	2006
Rouble inflation (CPI) for the specified period ⁽¹⁾	2.7%	3.9%	13.3%	11.9%	9.0%
Rouble/US dollar exchange rate at the beginning of the period ⁽¹⁾	25.25	24.95	24.55	26.33	28.78
Rouble/US dollar exchange rate at the end of the period ⁽¹⁾	29.38	24.55	29.38	24.55	26.33
Average rouble/US dollar exchange rate during the period ⁽¹⁾	27.27	24.65	24.86	25.58	27.19
Real appreciation/(depreciation) of the rouble against the US dollar for the period ⁽²⁾	(11.8)%	5.6%	(5.3)%	20.0%	19.1%
Real appreciation/(depreciation) of the rouble against the US dollar, as calculated by Rosneft for the specified period ⁽³⁾	(5.3)%	20.0%	(5.3)%	20.0%	19.1%

(1) Source: CBR, Federal State Statistics Service of Russia.

(2) Rosneft uses the following formula to determine the real appreciation of the rouble against the USD dollar: ratio of the CBR exchange rate in effect at the beginning of the period to the CBR exchange rate in effect at the end of the period multiplied by the inflation index minus 1.

(3) The Company's estimation of the real rouble appreciation/(depreciation) of the rouble against the US dollar in 2008, 2007 and 2006.

Taxation, including changes in Mineral Extraction Tax and Export Customs Duty

Rosneft pays a significant portion of its revenues in taxes, as set out in the following table:

	For the three months ended 31 December				For the twelve months ended 31 December					
	2008		2007		2008		2007		2006	
	\$US million	% of total revenue	\$US million	% of total revenue	\$US million	% of total revenue	\$US million	% of total revenue	\$US million	% of total revenue
Total revenues	10,799	100.0%	16,493	100.0%	68,991	100.0%	49,216	100.0%	33,099	100.0%
Export customs duty (for oil and gas sales)	3,694	34.2%	3,467	21.0%	17,200	24.9%	10,754	21.9%	9,763	29.5%
Export customs duty (for petroleum product sales)	987	9.1%	868	5.3%	4,806	7.0%	2,278	4.6%	1,377	4.2%
Mineral extraction tax	1,806	16.7%	3,163	19.2%	12,817	18.6%	9,323	18.9%	6,342	19.2%
Excise tax	236	2.2%	277	1.7%	1,120	1.6%	861	1.7%	329	1.0%
Other taxes (including property tax)	210	2.0%	228	1.3%	873	1.2%	706	1.5%	319	0.9%
Income tax	(1,458)	(13.5)%	1,711	10.4%	1,904	2.8%	4,906	10.0%	540	1.6%
Total taxes	5,475	50.7%	9,714	58.9%	38,720	56.1%	28,828	58.6%	18,670	56.4%

The mineral extraction tax and the export customs duty accounted for approximately 50% of Rosneft's total revenues during the twelve months of 2008, 45% and 53% of Rosneft's total revenues during the twelve months of 2007 and 2006, respectively.

The table below provides information on the mineral extraction tax and the export customs duty for the periods indicated:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2008	2007	2008	2007	2006	2008-2007	2008-2007	2007-2006
Mineral production tax						(%)	(%)	(%)
Crude oil (RUB per tonne)	1,907	3,039	3,329	2,470	2,264	(37.2)%	34.8%	9.0%
Crude oil (US\$ per barrel)	9.56	16.85	18.31	13.20	11.47	(43.3)%	38.7%	15.1%
Gas (RUB per thousand cubic meters)	147	147	147	147	147	0%	0%	0%
Export customs duty								
Crude oil (US\$ per tonne)	283.87	258.67	355.23	206.49	196.86	9.7%	72.0%	4.9%
Crude oil (US\$ per barrel)	38.81	35.26	48.56	28.23	26.91	10.1%	72.0%	4.9%
Light and medium distilled products (US\$ per tonne)	203.60	186.60	251.63	151.45	143.66	9.1%	66.1%	5.4%
Fuel oil (US\$ per tonne)	109.67	100.53	135.57	81.57	77.41	9.1%	66.2%	5.4%

Mineral Extraction Tax

The rate of mineral extraction tax for crude oil in the fourth quarter of 2008 and 2007 and in the twelve months of 2008, 2007 and 2006, respectively, was calculated by multiplying the base rate per tonne of crude oil produced by the adjustment ratio equal to $(P - 9) * R_t / 261$, where “P” is the average Urals price per barrel in the respective period, and “R_t” is the average rouble/US dollar exchange rate established by the CBR in the previous month. The base rate was RUB 419 in the fourth quarters of 2008 and 2007 and in the twelve months of 2008, 2007 and 2006.

In the light of economic slowdown in the period starting from September 2008, the Government revised and made the change to the calculation above. The most recent change effective from January 01, 2009, entails raising the (Urals) crude price above the price at which the tax kick in to US\$15 per barrel (from US\$ 9 per barrel) resulting in the reduction of the headline rate of tax.

In the fourth quarter of 2008, the rate of mineral extraction tax for crude oil decreased by 37.2%, primarily due to a 37.1% decrease in average crude oil prices as compared to the fourth quarter of 2007.

Actual¹ mineral extraction tax was US\$ 10.13 per barrel of crude oil produced and US\$ 9.20 per barrel of oil equivalent (“boe”) produced in the fourth quarter of 2008 and US\$ 15.96 per barrel of crude oil produced and US\$ 14.26 per boe produced in the fourth quarter of 2007.

In the twelve months of 2008, the rate of mineral extraction tax for crude oil increased by 34.8%, primarily due to a 36.2% increase in average crude oil prices as compared the twelve months of 2007.

Actual mineral extraction tax was US\$ 18.11 per barrel of crude oil produced and US\$ 16.53 per barrel of oil equivalent (“boe”) produced in the twelve months of 2008, US\$ 13.08 per barrel of crude oil produced and US\$ 11.58 per boe produced in the twelve months of 2007 and US\$ 11.00 per barrel of crude oil produced and US\$ 9.67 per boe produced in the twelve months of 2006.

The rate of mineral extraction tax for gas remained unchanged during the periods being analyzed and amounted to RUB 147 per thousand cubic meters of gas produced in the fourth quarters of 2008 and 2007, and in the twelve months of 2008, 2007 and 2006, respectively.

On 27 July 2006, the Russian Government adopted the Federal law No. 151–FZ, effective from 1 January 2007, and on 30 December 2006, it adopted the Federal law No. 268–FZ, effective from 31 January 2007. These laws amended the mineral extraction tax regime. The key provisions of the laws are:

- Certain mineral extraction tax-free periods for “greenfield” crude oil projects in the Republic of Sakha (Yakutya), the Irkutsk region and the Krasnoyarsk territory for up to 10 years for new production licences and 15 years for new combined exploration and production licences, or up to 25 million tonnes of crude oil per licence during the tax-free period without paying mineral extraction tax.

¹ The amount is calculated basing on the accounting data for the period divided by the volume of crude oil produced for the period.

- Certain mineral extraction tax-free periods for crude oil losses within normative limits, approved for the previous years, if the new norms are not approved by 25 February of the current year.
- Inclusion of a depletion ratio in the formula for calculating mineral extraction tax rates, which enables correction of the tax rate depending on the degree of depletion of each field. The lower mineral extraction tax rates apply to “brownfield” interests that are depleted by more than 80%.
- Zero mineral extraction tax rate for high viscosity crude oil (more than 200 Megapascal second under reservoir conditions).

Rosneft expects to benefit from this legislation as the Group has extensive “greenfield” interests in Eastern Siberia and has material “brownfield” interests that are over 80% depleted.

Export Customs Duty

As described in the following table, the rate of export customs duty is linked to the average Urals price in the international oil markets of northwest Europe and the Mediterranean in US dollars per barrel of exported crude oil (expressed in US dollars per tonne).

The table below sets forth the calculation of the maximum export customs duty in the fourth quarters and in the twelve months of 2008 and 2007.

<u>Urals price</u> <u>(US\$ per tonne)</u>	<u>Export customs duty</u> <u>(US\$ per tonne)</u>
Below and including 109.5 (15 US\$ per barrel).....	Export customs duty is not levied
Above 109.5 and including 146 (15 to 20 US\$ per barrel)	35% of the difference between the average Urals price in US\$ per tonne and US\$ 109.5
Above 146 to and including 182.5 (20 to 25 US\$ per barrel)	US\$ 12.78 plus 45% of the difference between the average Urals price in US\$ per tonne and US\$ 146
Above 182.5 (25 US\$ per barrel).....	US\$ 29.2 plus 65% of the difference between the average Urals price in US\$ per tonne and US\$ 182.5

The average Urals prices decreased by 37.1% to US\$ 54.06 per barrel in the fourth quarter of 2008 from US\$ 85.91 per barrel in the fourth quarter of 2007, and the export customs duty for crude oil increased by 9.7% to US\$ 283.87 per tonne (US\$ 38.81 per barrel) of crude oil in the fourth quarter of 2008 from US\$ 258.67 per tonne (US\$ 35.26 per barrel) in the fourth quarter of 2007.

The average Urals prices increased by 36.2% to US\$ 94.52 per barrel for the twelve months of 2008 from US\$ 69.39 per barrel for the twelve months of 2007, and the export customs duty for crude oil increased by 72.0% to US\$ 355.23 per tonne (US\$ 48.56 per barrel) of crude oil for the twelve months of 2008 from US\$ 206.49 per tonne (US\$ 28.23 per barrel) for the twelve months of 2007.

The difference in the significant growth between the oil price and export duty in the periods being analysed is primarily due to the Russian Government setting the rate of export customs duty every two months and with a time lag to the average world prices of Urals crude oil. Export duties for petroleum products are established by the Russian Government depending on world crude oil prices.

In light of the recent slowdown in economic growth and the significant drop in oil prices in the second half of 2008, the Russian Government approved a number of amendments to the export duty methodology including shift to one-month change period (instead of two-month period previously) and reduction of price monitoring period for export duty calculation from two months to one month. This allows to normalize export duties, i. e. significantly reduce time lag effect. The possible revision of structural changes in the export customs duty may be revised by the Government basing on the significant price fluctuations.

Effective¹ average export customs duty with respect to oil sales was US\$ 37.90 per barrel of crude oil exported in the fourth quarter of 2008 and US\$ 31.52 per barrel of crude oil exported in the fourth quarter of 2007. In the twelve months of 2008, 2007 and 2006, the effective average export customs duty with respect to oil sales were US\$ 46.17 per barrel of crude oil exported, US\$ 25.34 per barrel of crude oil exported and US\$ 27.24 per barrel of crude oil exported, respectively.

Prior to 1 January 2007, export duties were not payable on exports of crude oil and petroleum products to all CIS countries that were members of the Customs Union including Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. Starting from 1 January 2008, export customs duties are levied on crude oil exports to Belarus at the fractional rate of 0.335 from export custom duties as calculated pursuant to the table above.

¹Effective average customs duty is calculated basing on the accounting data for the period divided by the volume of taxable sales for the period.

Crude oil exports to Belarus were 5.65 million barrels in the fourth quarter of 2008 and 10.48 million barrels in the fourth quarter of 2007. Crude oil exports to Belarus were 26.69 million barrels in the twelve months of 2008 and 38.44 million barrels in the twelve months of 2007.

Crude oil sales to countries that are exempt from the export customs duty were US\$ 49 million (2.55 million barrels) for the three months ended 31 December 2008 and US\$ 433 million (10.01 million barrels) for the twelve months of 2008. Crude oil sales to countries that are exempt from the export customs duty were US\$ 119 million (2.44 million barrels) for the three months ended 31 December 2007 and US\$ 318 million (7.71 million barrels) for the twelve months of 2007. Sales of crude oil produced pursuant to the Production Sharing Agreement (“PSA”) “Sakhalin 1” are exempt from export customs duties. Crude oil sales within the Sakhalin 1 project were 4.29 million barrels in the fourth quarter of 2008, and 13.64 million barrels in the twelve months of 2008, and 4.03 million barrels in the fourth quarter of 2007 and 16.99 million barrels in the twelve months of 2007.

Changes in Transport Tariffs of Pipeline and Railway Monopolies

The Company depends on the infrastructure of the country's transport monopolies, particularly its pipeline and railway networks, to ship its crude oil and petroleum products.

AK Transneft and RZD set tariffs for each separate route in the pipeline and railroad networks depending on the length of the relevant routes. The table below presents ranges of tariffs applied for major transportation routes.

	For the three months ended 31 December		For the twelve months ended 31 December			Change ⁽¹⁾		
	2008	2007	2008	2007	2006	3 months ended 31 December	12 months ended 31 December	12 months ended 31 December
						2008 - 2007	2008 - 2007	2007 - 2006
CRUDE OIL								
Export sales								
Transneft tariff (RUB per tonne)	338.06 - 913.21	201.31 - 702.53	389.01 - 842.36	200.90 - 687.17	201.40 - 651.81	29.8%	22.7%	9.9%
Transneft tariff (US\$ per tonne)	12.40 - 33.49	8.17 - 28.50	15.65 - 33.89	7.85 - 26.87	7.41 - 23.98	17.3%	26.2%	16.9%
Railroad tariff (RUB per tonne)	647.96 - 1,654.49	508.21 - 1,645.40	627.48 - 1,655.63	537.02 - 1,646.01	466.55 - 1,644.91	11.4%	5.4%	5.6%
Railroad tariff (US\$ per tonne)	23.76 - 60.68	20.62 - 66.76	25.25 - 66.61	21.00 - 64.36	17.16 - 60.51	0.7%	8.4%	12.3%
Transportation to refineries and domestic sales								
Transneft tariff (RUB per tonne)	386.74 - 1,116.68	363.79 - 816.80	358.12 - 1,040.45	337.84 - 816.98	307.56 - 726.14	26.4%	22.6%	5.7%
Transneft tariff (US\$ per tonne)	14.18 - 40.95	14.76 - 33.14	14.41 - 41.86	13.21 - 31.94	11.31 - 26.71	14.3%	26.1%	12.3%
Railroad tariff (RUB per tonne)	2,441.38	1,921.66	2,295.90	287.15	260.59	27.0%	21.1%	9.3%
Railroad tariff (US\$ per tonne)	89.54	77.97	93.84	11.23	9.59	14.8%	24.6%	16.1%
PETROLEUM PRODUCTS								
Export sales								
Transnefteprodukt tariff (RUB per tonne)	300.00 - 1,269.53	216.48 - 1,102.05	287.21 - 1,233.28	216.48 - 1,102.05	199.38 - 1,025.68	36.4%	27.4%	9.2%
Transnefteprodukt tariff (US\$ per tonne)	11.00 - 46.56	8.78 - 44.71	11.56 - 49.62	8.46 - 43.09	7.33 - 37.73	23.3%	31.1%	16.1%
Railroad tariff (RUB per tonne)	566.55 - 3,700.03	452.96 - 2,724.77	167.84 - 3,355.70	455.13 - 2,737.16	401.53 - 2,479.78	17.1%	12.0%	9.4%
Railroad tariff (US\$ per tonne)	20.78 - 135.70	18.38 - 110.55	6.75 - 135.01	17.79 - 107.02	14.77 - 91.22	5.8%	15.2%	16.3%

Source: AK Transneft, NK Rosneft, RZD.

- (1) The change is calculated based on the average tariff, which is the simple average of tariffs applied at major transportation routes, and does not account for share of each direction. Change in cost per tonne transported is presented in section “—Results of Operations—Costs and Expenses—Pipeline Tariffs and Transportation Costs”.

Rosneft transports most of its crude oil through the pipeline network owned and operated by Transneft, a state-owned oil pipeline monopoly, engaged in the transportation of crude oil through its pipeline network in Russia and abroad. The Federal Tariff Service (the “FTS”), a governmental body regulating natural monopolies, annually sets Transneft's base tariff for the transportation of crude oil via trunk pipelines, which includes a dispatch tariff, a pumping tariff, and loading, charge-discharge, transshipment and other tariffs. The tariff is set in roubles and is not linked to an exchange rate. The overall expense per tonne for the transport of crude oil depends on the length of the transportation route from the producing field to the ultimate destination and the number of Transneft “districts” through which the crude oil is transported.

Rosneft seeks to utilise alternative means of transportation to optimise netbacks, including the Northern route via Rosneft's Belokamenka export transshipment facility, the Southern route via the Caspian Pipeline Consortium (“CPC”) pipeline, the Far Eastern route via Rosneft's pipeline Okha-Komsomolsk-on-Amur located on the Sakhalin Island and the Nakhodka export transshipment facility, through which the petroleum products are exported to Asia.

For a detailed information on actual transportation cost per tonne transported through Transneft's and Transnefteprodukt's pipelines and by railroad, see section “—Results of Operations—Cost and Expenses—Pipeline Tariffs and Transportation Costs”.

Production of Crude Oil, Gas and Petroleum Products

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

Production of Crude Oil

Rosneft produces crude oil at seven production Business Units and six fully consolidated production and development subsidiaries. In addition, Rosneft participates in five crude oil production joint ventures (including Tomskneft), which Rosneft accounts for using the equity method.

The following table sets forth Rosneft's crude oil production for the three months ended 31 December of 2008 and 2007 and for the twelve months ended 31 December of 2008, 2007 and 2006:

	For the three months ended 31 December		For the twelve months ended 31 December			Change		
	2008	2007	2008	2007	2006	3 months ended 31 December 2008-2007	12 months ended 31 December 2008 - 2007	12 months ended 31 December 2007 - 2006
	(millions of barrels)		(millions of barrels)			(%)		
Yuganskneftegaz	122.03	118.27	480.29	441.77	409.61	3.2%	8.7%	7.9%
Samaraneftegaz	18.30	17.58	70.27	43.86	-	4.1%	60.2%	-
Purneftegaz	14.72	16.08	60.61	67.17	71.88	(8.5)%	(9.8)%	(6.6)%
Severnaya Neft	9.59	10.26	39.13	41.08	41.04	(6.5)%	(4.7)%	0.1%
Sakhalin-1 ⁽¹⁾	2.82	3.77	11.95	14.72	1.96	(25.2)%	(18.8)%	651.0%
Tomskneft (till the date of sale in December 2007) ⁽²⁾	-	20.30	-	54.25	-	(100.0)%	(100.0)%	-
Other	10.88	11.87	45.43	49.98	51.82	(8.3)%	(9.1)%	(3.6)%
Crude oil production by Business Units and fully and proportionately consolidated subsidiaries	178.34	198.13	707.68	712.83	576.31	(10.0)%	(0.7)%	23.7%
Tomskneft (after the date of sale in December 2007) ⁽²⁾	10.42	0.58	41.64	0.58	-	1,696.6%	7,079.3%	-
Udmurtneft	5.79	5.64	22.77	22.21	1.86	2.7%	2.5%	1,094.1%
Polar Lights	0.88	1.11	3.89	4.27	4.39	(20.7)%	(8.9)%	(2.7)%
Other	0.29	0.01	0.32	0.08	0.14	2,800.0%	300.0%	(42.9)%
Total production of joint ventures	17.38	7.34	68.62	27.14	6.39	136.8%	152.8%	324.7%
Total crude oil production	195.72	205.47	776.30	739.97	582.70	(4.7)%	4.9%	27.0%

(1) The Company has a 20% share in the Sakhalin-1 project, which Rosneft has consolidated under the proportionate consolidation method, in which Rosneft recovered the right to receive its pro rata share of the project's income following the repayment of the carried interest to the Oil and Natural Gas Corporation Videsh Ltd. starting from 31 July 2006.

(2) On 27 December, 2007, Rosneft sold 50.0% of Tomskneft to Gazprom Neft. Tomskneft was consolidated in Rosneft's financial statements from the date of its acquisition in the second quarter of 2007. Since the date of sale, the Company accounts for Tomskneft's production on a 50.0% equity basis.

In the fourth quarter of 2008 total production of crude oil by Rosneft's subsidiaries, business units and share in joint ventures decreased by 4.7%, to 195.72 million barrels from 205.47 million barrels in the fourth quarter of 2007. This resulted primarily from the disposal of Tomskneft and the decrease in production at certain upstream units which was partially offset by the increase in production at Yuganskneftegaz by 3.2% and at Samaraneftegaz by 4.1%. Excluding production of crude oil by Samaraneftegaz, Tomskneft and VSNK, Rosneft's crude oil production remained almost unchanged in the fourth quarter of 2008 compared to the fourth quarter of 2007.

Rosneft increased its total production of crude oil by 4.9%, to 776.30 million barrels for the twelve months of 2008 from 739.97 million barrels in the twelve months of 2007. This increase resulted primarily from the inclusion of production of crude oil by Samaraneftgaz and VSNK for the full year of 2008, increase in production at Yuganskneftgaz by 8.7%, which was partially offset by the transfer of Tomskneft from subsidiaries and business units to associates (the Company accounts for Tomskneft's production on a 50.0% equity basis) and the decrease in production at certain upstream units. Excluding production of crude oil by Samaraneftgaz, Tomskneft and VSNK, Rosneft increased production of crude oil by 3.6%.

Rosneft increased its total production of crude oil by 27.0%, to 739.97 million barrels for the twelve months of 2007 from 582.70 million barrels in the twelve months of 2006. This increase resulted primarily from the acquisition of Samaraneftgaz, Tomskneft and VSNK, increase in production at Yuganskneftgaz by 7.9% and due to raise of production at Sakhalin-1, increase in production by Udmurtneft, which was partially offset by the decrease in production at certain upstream units and subsidiaries. Excluding production of crude oil by Samaraneftgaz, Tomskneft and VSNK, Rosneft increased production of crude oil by 10.0%.

Production of Gas

The table below sets forth Rosneft's gas production for the periods indicated:

	For the three months ended 31 December		For the twelve months ended 31 December			Change ⁽¹⁾		
	2008	2007	2008	2007	2006	3 months ended 31 December	12 months ended 31 December	12 months ended 31 December
						2008-2007	2008 - 2007	2007 -2006
	(bcm)		(bcm)			(%)		
Yuganskneftgaz	0.62	0.44	1.92	1.52	1.50	40.9%	26.3%	1.3%
Samaraneftgaz	0.09	0.07	0.33	0.17	-	28.6%	94.1%	-
Purneftgaz	0.98	1.59	3.94	7.61	6.96	(38.4)%	(48.2)%	9.3%
Krasnodarneftgaz	0.80	0.83	3.02	2.90	2.56	(3.6)%	4.1%	13.3%
Severnaya Neft	0.07	0.10	0.32	0.34	0.25	(30.0)%	(5.9)%	36.0%
Sakhalin-1 ⁽¹⁾	0.08	0.07	0.26	0.22	0.05	14.3%	18.2%	340.0%
Tomskneft (till the date of sale in December 2007) ⁽²⁾	-	0.46	-	1.01	-	(100.0)%	(100.0)%	-
Other	0.42	0.48	1.68	1.88	2.25	(12.5)%	(10.6)%	(16.4)%
Gas production by Business Units and fully and proportionately consolidated subsidiaries	3.06	4.04	11.47	15.65	13.57	(24.3)%	(26.7)%	15.3%
Tomskneft (after the date of sale in December 2007) ⁽²⁾	0.25	0.01	0.86	0.01	-	2,400.0%	8,500.0%	-
Udmurtneft	0.01	0.01	0.03	0.03	0.00	0.0%	0.0%	-
Polar Lights	0.00	0.00	0.02	0.02	0.01	-	0.0%	100.0%
Total production of joint ventures	0.26	0.02	0.91	0.06	0.01	1,200.0%	1,416.7%	500.0%
Total gas production⁽³⁾	3.32	4.06	12.38	15.71	13.58	(18.2)%	(21.2)%	15.7%

(1) The Company has a 20% share in the Sakhalin-1 project, which Rosneft has consolidated under the proportionate consolidation method, in which Rosneft recovered the right to receive its pro rata share of the project's income following the repayment of the carried interest to the Oil and Natural Gas Corporation Videsh Ltd. starting from 31 July 2006.

(2) On 27 December, 2007, Rosneft sold 50.0% of Tomskneft to Gazprom Neft. Tomskneft was consolidated in Rosneft's financial statements from the date of its acquisition in the second quarter of 2007. Since the date of sale, the Company accounts for Tomskneft's production on a 50.0% equity basis.

(3) Production of natural gas by Rosneft comprised 1.40 bcm and 2.05 bcm in the fourth quarter of 2008 and 2007 respectively and 5.48, 9.12 and 8.53 in the twelve months of 2008, 2007 and 2006 respectively. Production of associated gas by Rosneft comprised 1.92 bcm and 2.01 bcm in the fourth quarter of 2008 and 2007 respectively and 6.90, 6.59 and 5.05 in the twelve months of 2008, 2007 and 2006 respectively.

Rosneft's total gas production decreased to 3.32 bcm in the fourth quarter of 2008 compared to 4.06 bcm in the fourth quarter of 2007, a decrease of 18.2%. This decrease resulted primarily from a reduction in gas production by Purneftgaz and Selkupneftgaz in an effort to reduce flaring at the Kynskoye and Fakhirovskoye fields.

In addition, Rosneft did not increase its production in the periods being analysed as it has only a limited access to the UGSS. Excluding production of gas by Samaraneftegaz, Tomskneft and VSNK, Rosneft decreased production of gas by 8.9%.

Rosneft's total gas production decreased to 12.38 bcm in the twelve months of 2008 compared to 15.71 bcm in the twelve months of 2007, a decrease of 21.2%. This decrease resulted primarily from a reduction in gas production by Purneftegaz and Selkupneftegaz in an effort to reduce flaring at the Kynskoye and Fakhirovskoye fields. In addition, Rosneft did not increase its production in the periods being analysed as it has only a limited access to the UGSS. Excluding production of gas by Samaraneftegaz, Tomskneft and VSNK, Rosneft decreased production of gas by 17.0%.

Rosneft's total gas production increased to 15.71 bcm in the twelve months of 2007 compared to 13.58 bcm in the twelve months of 2006, a decrease of 15.7%. This increase resulted primarily from an increase in gas production by Yuganskneftegaz and Sakhalin-1 and other producing entities and subsidiaries, and acquisition of Tomskneft and Samaraneftegaz. Excluding production of gas by Samaraneftegaz, Tomskneft and VSNK, Rosneft increased production of gas by 6.9%.

Rosneft has started developing a programme to increase the level of associated gas utilisation. This programme envisages the construction of associated gas gathering facilities, booster compression stations and underground gas storage facilities, building of own power stations at Yuganskneftegaz, Purneftegaz and Krasnodarneftegaz. In addition, Rosneft plans to improve gas quality by constructing oil and gas separation equipment and gas treatment facilities.

Production of Petroleum Products

Rosneft refines the crude oil it produces and purchases at its refineries, including the Tuapse refinery on the Black Sea in the South of Russia, the Komsomolsk refinery in the Russian Far East, the Achinsk and Angarsk refineries in Eastern Siberia and the Kuibyshev, NovoKuibyshev and Syzran refineries in the Samara region (European part of Russia). Rosneft previously arranged for the crude oil it produced to be processed under processing contracts at the refineries formerly controlled by Yukos, namely the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries, which Rosneft acquired in May 2007. See “—Significant Acquisitions in 2008 and in 2007—2007—Purchase of Yukos Assets.” In December 2007, the Company sold 100% of the Strezhevskoy mini-refinery to Tomskneft. In 2008, crude oil was refined at Strezhevskoy mini-refinery pursuant to a processing agreement as a result of the Company selling its 50.0% stake in Tomskneft to Gazprom Neft on 27 December 2007.

Rosneft also owns OJSC Rosneft-MZ Nefteprodukt, a lubricant plant in Moscow and mini-refineries in Gubkin in the Yamalo-Nenets autonomous region, Usinsk in the Komi Republic and in Nalchik in the Kabardino-Balkar Republic, as well as OJSC Angarsk polymer plant, Angarsk-30 in the Irkutsk region, and LLC NovoKuibyshev lubricants and additives plant, NovoKuibyshevsk in the Samara region.

The following table sets forth Rosneft's petroleum products production for the periods analyzed:

	For the three months ended 31 December		For the twelve months ended 31 December			Change ⁽¹⁾		
	2008	2007	2008	2007	2006	3 months ended 31 December 2008 - 2007	12 months ended 31 December 2008 - 2007	12 months ended 31 December 2007 - 2006
	(millions of tonnes)		(millions of tonnes)			(%)		
Petroleum products output by the Komsomolsk and Tuapse refineries and mini-refineries ⁽¹⁾	2.97	3.21	12.38	12.25	10.49	(7.5)%	1.1%	16.8%
Petroleum products output by the acquired refineries in East Siberia and Samara (mln tonnes) ⁽²⁾	8.49	8.86	34.06	26.14 ⁽³⁾	12.17	(4.2)%	30.3%	114.8%
Total	11.46	12.07	46.44	38.39	22.66	(5.1)%	21.0%	69.4%

(1) Mini-refineries include the Purovsk, Usinsk and Strezhevskoy mini-refinery in 2007 and in January 2008 at Strezhevskoy mini-refinery.

(2) Acquired by Rosneft in May 2007 as a result of auctions for the sale of certain Yukos assets. These refineries processed Rosneft-produced crude oil under processing contracts prior to their acquisition.

(3) Prior to May 2007 when Rosneft purchased from Yukos the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery, petroleum products were produced by these refineries under processing agreement.

The total output of petroleum products, including the output of Komsomolsk, Tuapse refineries, mini-refineries and the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries purchased by Rosneft in May 2007, decreased by 5.1%, to 11.46 million tonnes in the fourth quarter of 2008 from 12.07 million tonnes in the fourth quarter of 2007.

This decrease was due to planned maintenance at Komsomolskiy refinery and also due to the lower load of refineries in the fourth quarter of 2008 following the fall in demand as a result of economic slowdown.

The total output of petroleum products, including the output of Komsomolsk, Tuapse refineries, mini-refineries and the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries purchased by Rosneft in May 2007, increased by 21.0%, to 46.44 million tonnes in the twelve months of 2008 from 38.39 million tonnes in the twelve months of 2007. This increase was due to the growth in volumes of refining at Rosneft's refineries due to acquisition of refineries from Yukos in May 2007, that has been operating since the beginning of the period in the 2008.

The total output of petroleum products, including the output of Komsomolsk, Tuapse refineries, mini-refineries and the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries purchased by Rosneft in May 2007, increased by 69.4%, to 38.39 million tonnes in the twelve months of 2007 from 22.66 million tonnes in the twelve months of 2006. This increase was due to the growth in volumes of refining at Rosneft's refineries due to acquisition of refineries from Yukos in May 2007.

In the fourth quarter of 2008, the Tuapse and Komsomolsk refineries and mini-refineries processed 22.97 million barrels (3.14 million tonnes) of Rosneft-produced crude oil, yielding an aggregate of 2.97 million tonnes of petroleum products. The depth of refining at the Komsomolsk refinery decreased to 59.2% in the fourth quarter of 2008, compared to 59.6% in the fourth quarter of 2007. The depth of refining at the Tuapse refinery decreased to 55.9% for the fourth quarter of 2008 from 56.2% for the fourth quarter of 2007.

In the twelve months of 2008, the Tuapse and Komsomolsk refineries and mini-refineries processed 94.88 million barrels (12.97 million tonnes) of Rosneft-produced crude oil, yielding an aggregate of 12.38 million tonnes of petroleum products. The depth of refining at the Komsomolsk refinery decreased to 59.4% in the twelve months of 2008, compared to 60.0% in the twelve months of 2007. The depth of refining at the Tuapse refinery increased to 56.1% in the twelve months of 2008 compared to 56.0% in the twelve months of 2007.

In the twelve months of 2007, the Tuapse and Komsomolsk refineries and mini-refineries processed 91.14 million barrels (12.46 million tonnes) of Rosneft-produced crude oil. In the twelve months of 2006, the Tuapse and Komsomolsk refineries and mini-refineries processed 79.73 million barrels (10.79 million tonnes) of Rosneft-produced crude oil. The depth of refining at the Komsomolsk refinery decreased to 60.0% in the twelve months of 2007, compared to 60.7% in the twelve months of 2006. The depth of refining at the Tuapse refinery increased to 56.0% in the twelve months of 2007 compared to 56.4% in the twelve months of 2006.

In the fourth quarter of 2008, 66.93 million barrels (9.15 million tonnes) were processed at the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries, which Rosneft purchased in the course of the May 2007 auctions, yielding an aggregate of 8.49 million tonnes of petroleum for these refineries (including output at Angarsk polymer plant and NovoKuibyshev lubricants and additives plant). The depth of refining ranged from 59.9% at the Kuibyshev refinery to 77.9% at the ANHK in the fourth quarter of 2008.

In the twelve months of 2008, 267.73 million barrels (36.60 million tonnes) were processed at the Achinsk, Angarsk, Kuibyshev, NovoKuibyshevsk and Syzran refineries which Rosneft purchased in the course of the May 2007 auctions, yielding an aggregate of 34.06 million tonnes of petroleum for these refineries (including output at Angarsk polymer plant and NovoKuibyshev lubricants and additives plant). The depth of refining ranged from 59.8% at the Kuibyshev refinery to 78.1% at the ANHK refinery in the twelve months of 2008.

In the twelve months of 2007, 203.58 million barrels (27.83 million tonnes) were processed at the Achinsk, Angarsk, Kuibyshev, NovoKuibyshev and Syzran refineries, yielding an aggregate of 26.14 million tonnes of petroleum for these refineries (including output at Angarsk polymer plant and NovoKuibyshev lubricants and additives plant). The depth of refining ranged from 76.0% at the Angarsk refinery to 60.6% at the Kuibyshevsk refinery in the twelve months of 2007.

Results of Operations

The following table sets forth the statement of income information both in absolute values and as a percentage of total revenues for the periods being analysed:

	For 3 months ended 31 December			% change	For 12 months ended 31 December			% change	% change				
	2008	2007	2008-2007	2008	2007	2006	2008-2007	2007-2006					
	% of total revenue	% of total revenue	(%)	% of total revenue	% of total revenue	% of total revenue	(%)	(%)					
	(US\$ million, except %)			(US\$ million, except %)									
Revenues													
Oil and gas sales	5,448	50.5%	9,480	57.5%	(42.5)%	36,102	52.3%	29,902	60.7%	23,499	70.9%	20.7%	27.2%
Petroleum products and processing fees	5,065	46.9%	6,831	41.4%	(25.9)%	31,470	45.6%	18,531	37.7%	9,250	28.0%	69.8%	100.3%
Support services and other revenues	286	2.6%	182	1.1%	57.1%	1,419	2.1%	783	1.6%	350	1.1%	81.2%	123.7%
Total revenues	10,799	100.0%	16,493	100.0%	(34.5)%	68,991	100.0%	49,216	100.0%	33,099	100.0%	40.2%	48.7%
Cost and expenses													
Production and operating expenses	1,313	(12.2)%	1,265	(7.7)%	3.8%	4,572	(6.6)%	3,870	(7.9)%	2,197	(6.6)%	18.1%	76.1%
Cost of purchased oil, gas, petroleum products and refining costs	560	(5.2)%	407	(2.5)%	37.6%	2,942	(4.3)%	1,610	(3.3)%	1,320	(4.0)%	82.8%	22.0%
General and administrative expenses	468	(4.3)%	498	(3.0)%	(6.0)%	1,632	(2.4)%	1,341	(2.7)%	757	(2.3)%	21.7%	77.1%
Pipeline tariffs and transportation costs	1,409	(13.0)%	1,157	(7.0)%	21.8%	5,673	(8.2)%	4,226	(8.6)%	3,226	(9.7)%	34.2%	31.0%
Exploration expenses	84	(0.8)%	80	(0.5)%	5.0%	248	(0.4)%	162	(0.3)%	193	(0.7)%	53.1%	(16.1)%
Depreciation, depletion and amortisation	902	(8.4)%	862	(5.2)%	4.6%	3,983	(5.8)%	3,286	(6.7)%	1,638	(4.9)%	21.2%	100.6%
Accretion expense	20	(0.1)%	36	(0.2)%	(44.4)%	120	(0.1)%	78	(0.1)%	34	(0.1)%	53.8%	129.4%
Taxes other than income tax	2,252	(20.9)%	3,668	(22.2)%	(38.6)%	14,810	(21.4)%	10,890	(22.1)%	6,990	(21.1)%	36.0%	55.8%
Export customs duty	4,681	(43.3)%	4,335	(26.3)%	8.0%	22,006	(31.9)%	13,032	(26.5)%	11,140	(33.7)%	68.9%	17.0%
Total cost and expenses	11,689	(108.2)%	12,308	(74.6)%	(5.0)%	55,986	(81.1)%	38,495	(78.2)%	27,495	(83.1)%	45.4%	40.0%
Operating income	(890)	(8.2)%	4,185	25.4%	(121.3)%	13,005	18.9%	10,721	21.8%	5,604	16.9%	21.3%	91.3%
Other income/(expenses)													
Interest income	98	0.9%	59	0.3%	66.1%	375	0.5%	214	0.4%	135	0.4%	75.2%	58.5%
Interest expense	(388)	(3.6)%	(403)	(2.4)%	(3.7)%	(1,112)	(1.6)%	(1,470)	(3.0)%	(724)	(2.2)%	(24.4)%	103.0%
Loss on disposal of property, plant and equipment	(20)	(0.2)%	(36)	(0.2)%	(44.4)%	(58)	(0.1)%	(119)	(0.2)%	(95)	(0.2)%	(51.3)%	25.3%
Gain/(loss) on disposal of investments	18	0.2%	37	0.2%	(51.4)%	22	0.1%	36	0.1%	3	0.0%	(38.9)%	1,100%
Gain from Yukos bankruptcy proceedings	-	-	1,050	6.4%	(100.0)%	-	-	8,970	18.2%	-	-	(100.0)%	100.0%
Equity share in affiliates' profits	(213)	(2.0)%	18	0.1%	(1,283)%	(7)	0.0%	23	0.0%	17	0.1%	(130.4)%	35.3%
Dividends and income from joint ventures	(18)	(0.2)%	9	0.1%	(300.0)%	(11)	0.0%	18	0.0%	15	0.0%	(161.1)%	20.0%

	For 3 months ended 31 December			% change	For 12 months ended 31 December			% change	% change				
	2008	2007	2008-2007	2008	2007	2006	2008-2007	2007-2006					
	% of total revenue	% of total revenue	(%)	% of total revenue	% of total revenue	% of total revenue	(%)	(%)					
Assets impairment	(108)	(1.0)%	-	-	100.0%	(108)	(0.2)%	-	-	-	100.0%	-	
Other expenses/income	(69)	(0.6)%	20	0.1%	445.0%	(135)	(0.2)%	(195)	(0.4)%	(320)	(1.0)%	(30.8)%	(39.1)%
Foreign exchange income/loss	946	8.8%	(246)	(1.5)%	484.6%	1,148	1.7%	(409)	(0.8)%	(470)	(1.4)%	(380.7)%	(13.0)%
Total other income/(expenses)	246	2.3%	508	3.1%	(51.6)%	114	0.2%	7,068	14.3%	(1,439)	(4.3)%	(98.4)%	591.2%
Income before income tax and minority interest	(644)	(6.0)%	4,693	28.5%	(113.7)%	13,119	19.0%	17,789	36.2%	4,165	12.6%	(26.3)%	327.1%
Income tax expense	1,458	13.5%	(1,711)	(10.4)%	185.2%	(1,904)	(2.8)%	(4 906)	(10.0)%	(540)	(1.6)%	(61.2)%	808.5%
Income before minority interest	814	7.5%	2,982	18.1%	(72.7)%	11,215	16.3%	12,883	26.2%	3,625	11.0%	(12.9)%	255.4%
Minority interest in subsidiaries' earnings	(39)	(0.4)%	(6)	-	550.0%	(95)	(0.1)%	(21)	0.0%	(92)	(0.3)%	352.4%	(77.2)%
Net income	775	7.2%	2,976	18.0%	(74.0)%	11,120	16.1%	12,862	26.1%	3,533	10.7%	(13.5)%	264.1%
Other comprehensive income	(10)	(0.1)%			100.0%	(40)	(0.1)%	-	-	-	-	100.0%	-
Comprehensive income	765	7.1%	2,976	18.0%	(74.3)%	11,080	16.1%	12,862	26.1%	3,533	10.7%	(13.9)%	264.1%

Revenues

The table below presents revenues from sales of crude oil, gas, petroleum products and processing fees for the periods analysed.

	For 3 months ended 31 December				For 12 months ended 31 December						% change for 3 months	% change for 12 months	% change for 12 months
	2008		2007		2008		2007		2006		2008-2007	2008-2007	2007-2006
	%		%		%		%		%		(%)	(%)	(%)
	of total revenue		of total revenue		of total revenue		of total revenue		of total revenue		(%)	(%)	(%)
	(US\$ million, except %)				(US\$ million, except %)								
Crude oil													
Export, excluding CIS	5,142	47.6%	8,568	51.9%	33,463	48.5%	26,822	54.5%	21,468	64.8%	(40.0)%	24.8%	24.9%
Europe and other directions	3,932	36.4%	6,562	39.8%	25,648	37.2%	20,567	41.8%	16,323	49.3%	(40.1)%	24.7%	26.0%
Asia	1,210	11.2%	2,006	12.1%	7,815	11.3%	6,255	12.7%	5,145	15.5%	(39.7)%	24.9%	21.6%
CIS	201	1.9%	751	4.6%	2,084	3.0%	2,220	4.5%	1,620	4.9%	(73.2)%	(6.1)%	37.0%
Domestic	12	0.1%	62	0.4%	154	0.2%	521	1.0%	214	0.6%	(80.6)%	(70.4)%	143.5%
Gas	93	0.9%	99	0.6%	401	0.6%	339	0.7%	197	0.6%	(6.1)%	18.3%	72.1%
Total oil and gas	5,448	50.5%	9,480	57.5%	36,102	52.3%	29,902	60.7%	23,499	70.9%	(42.5)%	20.7%	27.2%
Petroleum products													
Export, excluding CIS	2,252	20.8%	3,559	21.6%	16,163	23.4%	9,351	19.0%	5,093	15.4%	(36.7)%	72.8%	83.6%
Europe and other directions	1,320	12.2%	2,184	13.3%	9,607	13.9%	5,875	11.9%	3,152	9.5%	(39.6)%	63.5%	86.4%
Asia	932	8.6%	1,375	8.3%	6,556	9.5%	3,476	7.1%	1,941	5.9%	(32.2)%	88.6%	79.1%
CIS	81	0.8%	173	1.0%	743	1.1%	338	0.7%	202	0.6%	(53.2)%	119.8%	67.3%
Domestic	2,660	24.6%	3,001	18.2%	14,160	20.5%	8,605	17.5%	3,953	12.0%	(11.4)%	64.6%	117.7%
Wholesale	1,826	16.9%	2,246	13.6%	10,341	15.0%	6,877	14.0%	3,239	9.8%	(18.7)%	50.4%	112.3%
Retail	834	7.7%	755	4.6%	3,819	5.5%	1,728	3.5%	714	2.2%	10.5%	121.0%	142.0%
Refining fees	0	0.0%		0.0%		0.0%	44	0.1%	2	0.0%	—	—	2,100.0%
Petrochemic products	72	0.7%	98	0.6%	404	0.6%	193	0.4%	—	0.0%	(26.5)%	109.3%	—
Total petroleum and petrochemical products and refining fees	5,065	46.9%	6,831	41.4%	31,470	45.6%	18,531	37.7%	9,250	28.0%	(25.9)%	69.8%	100.3%
Support services and other revenues	286	2.6%	182	1.1%	1,419	2.1%	783	1.6%	350	1.1%	57.1%	81.2%	123.7%
Total sales	10,799	100.0%	16,493	100.0%	68,991	100.0%	49,216	100.0%	33,099	100.0%	(34.5)%	40.2%	48.7%

The table below analyses crude oil, gas and petroleum products sales volumes for the periods analysed

	For 3 months ended 31 December				For 12 months ended 31 December						% change for 3 months	% Change for 12 months	% change for 12 months
	2008		2007		2008		2007		2006		2008-2007	2008-2007	2007-2006
	% of total sales volume		% of total sales volume		% of total sales volume		% of total sales volume		% of total sales volume		(%)	(%)	(%)
(millions of barrels)													
Crude oil													
Export excluding CIS	96.12	51.0%	99.50	50.2%	359.46	48.6%	385.94	53.6%	357.56	62.1%	(3.4)%	(6.9)%	7.9%
Europe and other directions	75.64	40.1%	76.95	38.8%	280.68	37.9%	299.53	41.6%	275.85	47.9%	(1.7)%	(6.3)%	8.6%
Asia	20.48	10.9%	22.55	11.4%	78.78	10.7%	86.41	12.0%	81.71	14.2%	(9.2)%	(8.8)%	5.8%
CIS	8.19	4.3%	12.92	6.5%	36.72	5.0%	46.16	6.4%	43.52	7.6%	(36.6)%	(20.5)%	6.1%
Domestic	0.66	0.3%	1.25	0.6%	3.88	0.5%	14.29	2.0%	6.80	1.2%	(47.2)%	(72.8)%	110.1%
Total crude oil sales	104.97	55.6%	113.67	57.3%	400.06	54.1%	446.39	62.0%	407.88	70.9%	(7.7)%	(10.4)%	9.4%
(millions of tonnes)													
Export excluding CIS	13.14	51.0%	13.60	50.2%	49.14	48.6%	52.76	53.6%	48.88	62.1%	(3.4)%	(6.9)%	7.9%
Europe and other directions	10.34	40.1%	10.52	38.8%	38.37	37.9%	40.95	41.6%	37.71	47.9%	(1.7)%	(6.3)%	8.6%
Asia	2.80	10.9%	3.08	11.4%	10.77	10.7%	11.81	12.0%	11.17	14.2%	(9.2)%	(8.8)%	5.8%
CIS	1.12	4.3%	1.77	6.5%	5.02	5.0%	6.31	6.4%	5.95	7.6%	(36.6)%	(20.5)%	6.1%
Domestic	0.09	0.3%	0.17	0.6%	0.53	0.5%	1.95	2.0%	0.93	1.2%	(47.2)%	(72.8)%	110.1%
Total crude oil sales	14.35	55.6%	15.54	57.3%	54.69	54.1%	61.02	62.0%	55.76	70.9%	(7.7)%	(10.4)%	9.4%
Petroleum products													
Export excluding CIS	6.53	25.3%	5.69	21.0%	24.89	24.6%	18.46	18.8%	12.66	16.1%	14.8%	34.8%	45.8%
Europe and other directions	4.03	15.6%	3.41	12.6%	15.43	15.2%	11.90	12.1%	7.85	10.0%	18.2%	29.7%	51.6%
Asia	2.50	9.7%	2.28	8.4%	9.46	9.4%	6.56	6.7%	4.81	6.1%	9.6%	44.2%	36.4%
CIS	0.15	0.6%	0.33	1.2%	1.05	1.0%	0.70	0.7%	0.68	0.9%	(54.5)%	50.0%	2.9%
Domestic	4.61	17.9%	5.41	19.9%	19.82	19.6%	17.96	18.2%	9.53	12.1%	(14.8)%	10.4%	88.5%
Wholesale	3.64	14.1%	4.60	16.9%	15.76	15.6%	15.65	15.9%	8.43	10.7%	(20.9)%	0.7%	85.6%
Retail	0.97	3.8%	0.81	3.0%	4.06	4.0%	2.31	2.3%	1.10	1.4%	19.8%	75.8%	110.0%
Total petroleum product sales	11.29	43.8%	11.43	42.1%	45.76	45.2%	37.12	37.7%	22.87	29.1%	(1.2)%	23.3%	62.3%
Petrochemical products	0.15	0.6%	0.15	0.6%	0.68	0.7%	0.33	0.3%	—	—	—	106.1%	—
Total crude oil petroleum and petrochemical product sales	25.79	100.0%	27.12	100.0%	101.13	100.0%	98.47	100.0%	78.63	100.0%	(4.9)%	2.7%	25.2%
Gas	billions of cubic meters												
Sales volumes	2.77		3.13		10.33		11.45		9.57		(11.5)%	(9.8)%	19.6%

Note: The total volume of sales of crude oil is different from the total volume of Rosneft's production due to changes in crude oil inventories purchase of crude oil for resale, use of crude oil in Rosneft production and losses during transportation and refining.

Average Crude Oil and Petroleum Product Sales Prices

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

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

The following table sets forth Rosneft's average export and domestic prices of crude oil, gas and petroleum products for the periods analysed.

	For 3 months ended 31 December				For 12 months ended 31 December					
	2008		2007		2008		2007		2006	
	(US\$/ barrel)	(US\$/ tonne)	(US\$/ barrel)	(US\$/ tonne)	(US\$/ barrel)	(US\$/ tonne)	(US\$/ barrel)	(US\$/ tonne)	(US\$/ barrel)	(US\$/ tonne)
Average export prices										
Crude oil, excluding CIS	53.50	391.32	86.11	630.00	93.09	680.97	69.50	508.38	60.04	439.20
Europe and other directions	51.98	380.27	85.28	623.76	91.38	668.44	68.66	502.25	59.17	432.86
Asia	59.08	432.14	88.96	651.30	99.20	725.63	72.39	529.64	62.97	460.61
CIS	24.54	179.46	58.13	424.29	56.75	415.14	48.09	351.82	37.22	272.27
Petroleum products, excluding CIS		344.87		625.48		649.38		506.55		402.29
Europe and other directions		327.54		640.47		622.62		493.70		401.53
Asia		372.80		603.07		693.02		529.88		403.53
CIS		540.00		524.24		707.62		482.86		297.06
Average domestic prices										
Crude oil	18.18	133.33	49.60	364.71	39.69	290.57	36.46	267.18	31.47	230.11
Gas (US\$/thousand cubic meter)		33.57		31.63		38.32		29.61		20.59
Petroleum products		577.01		554.71		714.43		479.12		414.80
Wholesale		501.65		488.26		656.15		439.42		384.22
Retail		859.79		932.10		940.64		748.05		649.09
Petrochemical products		480.00		653.33		594.12		584.85		—

Revenues were US\$ 10,799 million in the fourth quarter of 2008, a 34.5% decrease from US\$ 16,493 million in the fourth quarter of 2007. Revenues from the sale of crude oil and gas decreased by 42.5% and revenues from the sale of petroleum products reduced by 25.9% for the three months ended 31 December 2008 compared with the three months ended 31 December 2007. This was primarily due to a significant decrease in market prices and also due to reduced sales volumes following the sale of 50% of Tomskneft at the end of 2007 and lower domestic demand for petroleum products due to the economic slowdown.

Revenues were US\$ 68,991 million for the twelve months of 2008, a 40.2% increase from US\$ 49,216 million for the twelve months of 2007. Revenues from the sale of crude oil and gas increased by 20.7%, and revenues from the sale of petroleum products grew by 69.8%, due to increased sales volumes of petroleum products, accompanied by an increase in average prices. The growth in volumes was due to a 21.0% increase in petroleum product production in twelve months of 2008, accompanied by a 4.9% increase in crude oil production by Rosneft's subsidiaries.

Revenues were US\$ 49,216 million in 2007, a 48.7 % increase from US\$ 33,099 million in 2006. Revenues from the sale of crude oil and gas grew by 27.2%, and revenues from the sale of petroleum products by 100.3 %, in 2007 as compared with 2006. The growth in revenues was due to increased sales volumes of crude oil and petroleum products, accompanied by an increase in average prices. The growth in volumes was made possible by a 27.0 % increase in crude oil production and a 69.4 % increase in petroleum product production during the period analysed.

Crude Oil Export Sales to Non-CIS

In the fourth quarter of 2008, crude oil export revenues from exports to non-CIS countries were US\$ 5,142 million compared to US\$ 8,568 million in the fourth quarter of 2007, a decrease of US\$ 3,426 million or 40.0%. A 37.9% decrease in average prices had a negative effect on revenues of US\$ 3,136 million and was accompanied by a 3.4% decrease in sales volumes, which had a negative impact on revenues of US\$ 290 million.

The price decrease was attributable to the general fall in world prices; in particular, the average price of Urals crude oil Mediterranean dropped by 37.1%. The decrease in crude oil sales volumes was due to reduced production following the sale of 50% of Tomskneft at the end of 2007 and caused by the growth in share of refined volume.

For the twelve months of 2008, crude oil export revenues from exports to non-CIS countries were US\$ 33,463 million compared to US\$ 26,822 million for the twelve months of 2007, an increase of US\$ 6,641 million or 24.8%. A 33.9% increase in average prices had a positive effect on revenues of US\$ 8,481 million. This positive effect was partially offset by a 6.9% decrease in sales volumes, which decreased revenues by US\$ 1,840 million. The price increase was attributable to the general growth in world prices; in particular, the average price of Urals crude oil Mediterranean increased by 36.2%.

In 2007, crude oil export revenues from exports to non-CIS countries were US\$ 26,822 million comparing to US\$ 21,468 million in 2006, an increase of US\$ 5,354 million, or 24.9 %. Excluding US\$ 45 million of sales by Samaraneftegaz, the growth resulted from a 15.8 % increase in average prices, which had a positive impact on revenues of US\$ 3,649 million, and a 7.7% increase in sales volumes, which had a positive impact on revenues of US\$ 1,660 million. The price increase was attributable to the general growth in world prices; in particular, the average price of Urals crude oil Mediterranean increased 13.3%.

Crude Oil Export Sales to CIS

In the fourth quarter of 2008, revenues from sales of crude oil to the CIS were US\$ 201 million compared to US\$ 751 million in the fourth quarter of 2007, a decrease of US\$ 550 million, or 73.2%. The decrease in revenues resulted from a 36.6% decrease in volumes, which had a negative impact on revenues of US\$ 276 million, and was accompanied by a 57.7% decrease in crude oil prices, which had a negative impact on revenues of US\$ 274 million.

For the twelve months of 2008, revenues from sales of crude oil to the CIS were US\$ 2,084 million compared to US\$ 2,220 million for the twelve months of 2007, a decrease of US\$ 136 million, or 6.1%. A 20.5% decrease in sales volumes, which had a negative impact on revenues of US\$ 454 million, was partially offset by an 18.0% increase in average crude oil price which had a positive effect on revenues of US\$ 318 million. Particularly the decrease in export sales to Belarus was 1.61 million of tonnes.

In 2007, revenues from sales of crude oil to the CIS were US\$ 2,220 million compared to US\$ 1,620 million in 2006, an increase of US\$ 600 million, or 37.0 %. A 29.2 % increase in prices, which increased revenues by US\$ 502 million, was accompanied by a 6.1 % increase in volumes, which had a positive impact on revenues of US\$ 98 million.

Crude Oil Domestic Sales

In the fourth quarter of 2008, domestic crude oil sales were US\$ 12 million compared to US\$ 62 million in the fourth quarter of 2007, a decrease of 80.6% or US\$ 50 million. A 47.2 % decrease in volumes, which caused reduction in revenues of US\$ 29 million, was accompanied by a 63.4% decrease in crude oil prices, which had a negative impact on revenues of US\$ 21 million. The Company sold crude oil to local customers located in the regions of the Company's oil producing facilities.

For the twelve months of 2008, domestic crude oil sales were US\$ 154 million compared to US\$ 521 million for the twelve months of 2007, a decrease of US\$ 367 million, or 70.4%. Decrease in revenue resulted from a 72.8% decrease in sales volumes which caused reduction of revenue of US\$ 379 million, and was partially offset by an 8.8% increase in average sales prices, which had a positive effect on revenues of US\$ 12 million.

Domestic crude oil sales increased by US\$ 307 million to US\$ 521 million in 2007 as compared with 2006. This growth resulted from sales by Tomskneft and Samaraneftgaz, which contributed US\$ 346 million (including US\$ 254 million by Tomskneft and US\$ 92 million by Samaraneftgaz) of revenues in 2007.

Excluding these sales, the 33.9 % decrease in volumes, which had a negative impact on revenues of US\$ 73 million, was partially offset by a 23.8 % increase in average prices, which contributed the revenue by US\$ 34 million.

Petroleum Products Export Sales to Non-CIS

Average sales prices of petroleum products sales may significantly vary depending on the market and on the volumes dispatched. As a result average prices on the European markets differ from those on Asian markets.

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

	For the fourth quarter of						% change		
	2008			2007			US\$ million	mln of tonnes	Average price US\$/tonne
	US\$ million	millions of tonnes	Average price US\$/tonne*	US\$ million	millions of tonnes	Average price US\$/tonne*			
High octane gasoline	23	0.03	828.01	15	0.02	774.44	53.3%	50.0%	6.9%
Low octane gasoline	19	0.03	682.30	26	0.04	732.92	(26.9)%	(25.0)%	(6.9)%
Naphtha	240	0.83	290.33	618	0.79	779.61	(61.2)%	5.1%	(62.8)%
Diesel (Gasoil) fuel	1,204	2.38	506.09	1,455	1.83	795.98	(17.3)%	30.1%	(36.4)%
Fuel oil	720	3.18	226.60	1,229	2.67	459.83	(41.4)%	19.1%	(50.7)%
Jet fuel (kerosene)	29	0.05	550.76	6	0.01	824.97	383.3%	400.0%	(33.2)%
Other	17	0.03	619.92	210	0.33	642.65	(91.9)%	(90.9)%	(3.5)%
Total	2,252	6.53	344.87	3,559	5.69	625.48	(36.7)%	14.8%	(44.9)%

* Net of VAT

Revenues from the export of petroleum products to non-CIS countries were US\$ 2,252 in the fourth quarter of 2008 compared to US\$ 3,559 million in the fourth quarter of 2007, a decrease of US\$ 1,307 million, or 36.7%. A 44.9% decrease in average price led to revenue decrease of US\$ 1,832 million. While a 14.8% increase in sales volumes led to a US\$ 525 million revenue growth. The decrease in average prices was due to a decrease in world prices; in particular, the average price of fuel oil (average Med) fell by 44.4%.

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold to non-CIS countries during the twelve months ended 31 December 2008, 2007 and 2006:

	For the twelve months ended 31 December									% change			% change		
	2008			2007			2006			2008-2007			2007-2006		
	US\$ million	millions of tonnes	Average price US\$/ton	US\$ million	millions of tonnes	Average price US\$/ton	US\$ million	millions of tonnes	Average price US\$/ton	US\$ million	millions of tonnes	Average price US\$/ton	US\$ million	millions of tonnes	Average price US\$/ton
High octane gasoline	121	0.12	1000.70	82	0.11	747.23	45	0.07	636.02	47.6%	9.1%	33.9%	82.2%	57.1%	17.5%
Low octane gasoline	139	0.16	897.82	96	0.14	678.31	57	0.10	595.47	44.8%	14.3%	32.4%	68.4%	40.0%	13.9%
Naphtha	2,241	2.97	755.37	1,541	2.30	669.65	797	1.56	511.84	45.4%	29.1%	12.8%	93.4%	47.4%	30.8%
Diesel (Gasoil) fuel	7,521	8.71	863.96	3,988	6.18	645.81	2,345	4.31	544.53	88.6%	40.9%	33.8%	70.1%	43.4%	18.6%
Fuel oil	5,918	12.68	466.78	3,248	9.01	360.35	1,681	6.28	267.70	82.2%	40.7%	29.5%	93.2%	43.5%	34.6%
Jet fuel (kerosene)	51	0.05	1008.27	28	0.03	790.68	22	0.03	671.05	82.1%	66.7%	27.5%	27.3%	0.0%	17.8%
Other	172	0.20	853.02	368	0.69	554.46	146	0.31	505.15	(53.3)%	(71.0)%	53.8%	152.1%	122.6%	9.8%
Total	16,163	24.89	649.38	9,351	18.46	506.55	5,093	12.66	402.29	72.8%	34.8%	28.2%	83.6%	45.8%	25.9%

* Net of VAT

Revenue from the export of petroleum products to non-CIS countries was US\$ 16,163 million in the twelve months ended 31 December 2008 compared to US\$ 9,351 million for the twelve months ended 31 December 2007, an increase of US\$ 6,812 million, or 72.8%. The growth resulted from a 34.8% increase in average prices, which increased revenues by US\$ 3,257 million, accompanied by a 28.2% increase in sales volume, which had a positive impact on revenues of US\$ 3,555 million.

The increase in average prices was due to an increase in world prices; in particular, the average price for fuel oil Mediterranean rose by 33.9%. The growth in volumes was mainly attributable to increased sales in Europe and other non-CIS countries and Asia.

Revenue from the export of petroleum products to non-CIS countries was US\$ 9,351 million in 2007 as compared to US\$ 5,093 million in 2006, an increase of US\$ 4,258 million, or 83.6 %. The growth resulted from a 45.8% increase in sales volume, which had a positive impact on revenues of US\$ 2,333 million, accompanied by a 25.9% increase in average prices, which increased revenues by US\$ 1,925 million. The increase in average prices was due to an increase in world prices; in particular, the average price of fuel oil Mediterranean rose by 20.9%.

Petroleum Products Export Sales to CIS

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

	For the fourth quarter of						% change		
	2008			2007			US\$ million	millions of tonnes	Average price US\$/tonne
	US\$ million	millions of tonnes	Average price US\$/tonne*	US\$ million	millions of tonnes	Average price US\$/tonne*			
High octane gasoline	7	0.02	437.84	52	0.07	743.75	(86.5)%	(71.4)%	(41.1)%
Low octane gasoline	6	0.01	470.12	2	0	728.15	200.0%	—	(35.4)%
Naphtha	0	0.00	0.00	15	0.02	629.01	(100.0)%	(100.0)%	(100.0)%
Diesel (Gasoil) fuel	46	0.08	493.00	54	0.08	677.45	(14.8)%	0.0%	(27.2)%
Fuel oil	0	0.00	0.00	42	0.12	343.86	(100.0)%	(100.0)%	(100.0)%
Jet fuel (kerosene)	20	0.03	561.41	0	0	0	—	—	—
Other	2	0.01	398.25	8	0.04	204.26	(75.0)%	(75.0)%	95.0%
Total	81	0.15	540.00	173	0.33	524.24	(53.2)%	(54.5)%	3.0%

* Net of VAT

Revenue from sales of petroleum products to the CIS countries were US\$ 81 million in the fourth quarter of 2008 compared to US\$ 173 million in the fourth quarter of 2007. US\$ 92 million of the revenue reduction was attributable to a 54.5% decrease in sales volume or US\$94 million, while a 3.0% increase in average prices led to a US\$ 2 million growth.

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold to CIS countries for the twelve months of 2008, 2007 and 2006:

	For the twelve months ended 31 December									% change		% change			
	2008			2007			2006			2008-2007		2007-2006			
	US\$ million	millions of tonnes	Average price US\$/tonne	US\$ million	millions of tonnes	Average price US\$/tonne	US\$ million	millions of tonnes	Average price US\$/tonne	US\$ million	millions of tonnes	Average price US\$/tonne	US\$ million	millions of tonnes	Average price US\$/tonne
High octane gasoline	84	0.14	610.44	67	0.09	722.62	9	0.02	510.92	25.4%	55.6%	(15.5)%	644.4%	350.0%	41.4%
Low octane gasoline	9	0.02	514.31	4	0.01	666.03	-	0	-	125.0%	100.0%	(22.8)%	—	—	—
Naphtha	0	0.00	0.00	15	0.02	629.01	5	0.01	475.02	—	—	—	200.0%	100.0%	32.4%
Diesel (Gasoil) fuel	420	0.50	836.21	122	0.22	564.18	92	0.21	433.57	244.3%	127.3%	48.2%	32.6%	4.8%	30.1%
Fuel oil	124	0.23	530.69	81	0.21	380.22	66	0.36	182.48	53.1%	9.5%	39.6%	22.7%	(41.7)%	108.4%
Jet fuel (kerosene)	71	0.09	825.85	-	0	-	18	0.04	487.92	—	—	—	—	—	—
Other	35	0.07	479.86	49	0.15	331.58	12	0.04	309.26	(28.6)%	(53.3)%	44.7%	308.3%	275.0%	7.2%
Total	743	1.05	707.62	338	0.70	482.86	202	0.68	297.06	119.8%	50.0%	46.5%	67.3%	2.9%	62.5%

* Net of VAT

In the twelve months ended 31 December 2008, revenue from sales of petroleum products to the CIS were US\$ 743 million compared to US\$ 338 million for the twelve months ended 31 December 2007. This increase resulted from a 50.0% increase in volumes, which had a positive impact on revenues of US\$ 169 million, and a 46.5% increase in prices, which increased revenues by US\$ 236 million.

In 2007, revenue from sales of petroleum products to the CIS were US\$ 338 million compared to US\$ 202 million in 2006. This increase resulted primarily from a 62.5 % increase in prices, which increased revenues by US\$ 130 million, accompanied by a 2.9 % increase in volumes, which had a positive impact on revenues of US\$ 6 million.

Domestic Sales of Petroleum Products

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

	For the fourth quarter of						% change		
	2008			2007					
	US\$ million	millions of tonnes	Average price US\$/tonne*	US\$ million	millions of tonnes	Average price US\$/tonne*	US\$ million	millions of tonnes	Average price US\$/tonne
High octane gasoline	875	1.01	867.81	767	0.98	785.01	14.1%	3.1%	10.5%
Low octane gasoline	197	0.35	568.21	327	0.48	684.71	(39.8)%	(27.1)%	(17.0)%
Naphtha	0	0.00	0.00	0	0	558.79	—	—	(100.0)%
Diesel fuel	1,075	1.58	679.44	1,073	1.74	618.40	0.2%	(9.2)%	9.9%
Fuel oil	159	0.81	196.55	258	1.05	245.05	(38.4)%	(22.9)%	(19.8)%
Jet fuel (kerosene)	162	0.22	722.67	138	0.25	542.08	17.4%	(12.0)%	33.3%
Other	192	0.64	301.30	438	0.91	399.37	(56.2)%	(29.7)%	(24.6)%
Total	2,660	4.61	577.01	3,001	5.41	554.71	(11.4)%	(14.8)%	4.0%

* Net of VAT

Revenues from sales of petroleum products on the domestic market were US\$ 2,660 million in the fourth quarter of 2008 compared to US\$ 3,001 million in the fourth quarter of 2007, a decrease of US\$ 341 million, or 11.4%. This revenue reduction was attributable to a 14.8% decrease in sales volume, which had a negative impact on revenue of US\$ 444 million. Conversely, a 4.0% increase in average prices led to revenue increase of US\$ 103 million.

The table below sets forth Rosneft's revenue and average price per tonne of petroleum products sold within Russia during the twelve months of 2008, 2007 and 2006:

	For 12 months ended 31 December									% change					
	2008			2007			2006			2008-2007		2007-2006			
	US\$ million	millions of tonnes	Average price US\$/ton.	US\$ million	millions of tonnes	Average price US\$/ton.	US\$ million	millions of tonnes	Average price US\$/ton.	US\$ million	millions of tonnes	Average price US\$/ton.	US\$ million	millions of tonnes	Average price US\$/ton.
High octane gasoline	4,071	4.39	926.72	2,262	3.18	712.32	949	1.70	556.92	80.0%	38.1%	30.1%	138.4%	87.1%	27.9%
Low octane gasoline	1,238	1.63	760.54	998	1.68	594.82	583	1.20	486.84	24.0%	(3.0)%	27.9%	71.2%	40.0%	22.2%
Naphtha	0	0.00	0.00	2	0.01	389.34	5	0.01	367.03	(100.0)%	(100.0)%	(100.0)%	(60.0)%	0.0%	6.1%
Diesel fuel	5,695	7.09	803.23	3,008	5.74	524.47	1,310	2.69	487.59	89.3%	23.5%	53.2%	129.6%	113.4%	7.6%
Fuel oil	787	2.58	305.30	675	3.41	197.83	357	1.96	182.04	16.6%	(24.3)%	54.3%	89.1%	74.0%	8.7%
Jet fuel (kerosene)	912	1.11	819.20	530	1.04	510.51	280	0.57	489.96	72.1%	6.7%	60.5%	89.3%	82.5%	4.2%
Other	1,457	3.02	483.32	1,130	2.90	372.03	469	1.40	334.30	28.9%	4.1%	29.9%	140.9%	107.1%	11.3%
Total	14,160	19.82	714.43	8,605	17.96	479.12	3,953	9.53	414.80	64.6%	10.4%	49.1%	117.7%	88.5%	15.5%

* Net of VAT

Revenue from the sale of petroleum products on the domestic market was US\$ 14,160 million in the twelve months ended 31 December 2008, compared to US\$ 8,605 million in the twelve months ended 31 December 2007, an increase of US\$ 5,555 million, or 64.6%. The growth in revenue from domestic sales of petroleum products resulted from a 49.1% increase in average prices, which had a positive effect on revenues of US\$ 4,664 million, accompanied by a 10.4% increase in sales volumes, which contributed the revenues of US\$ 891 million.

Revenue from the sale of petroleum products on the domestic market was US\$ 8,605 million in 2007, compared to US\$ 3,953 million in 2006, an increase of US\$ 4,652 million, or 117.7%.

Petrochemical Products Sales

The revenues from the sale of petrochemical products in the fourth quarter and in the twelve months of 2008 were 72 and 404 US\$ million respectively. The revenues from the sale of petrochemical products in the fourth quarter and twelve month of 2007 were US\$ 98 and 193 million respectively. The Group started selling petrochemical products in May 2007 following the acquisition of petrochemical assets as a result of the Yukos bankruptcy process.

Gas Sales

The table below sets forth Rosneft's average price of gas per thousand of cubic meters sold for the periods analysed:

	For the three months ended 31 December		For the twelve months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2008	2007	2008	2007	2006	2008-2007	2008-2007	2007-2006
Revenue	(US\$ million)		(US\$ million)			(%)	(%)	(%)
Western Siberia	27	31	112	124	59	(12.9)%	(9.7)%	110.2%
South Russia	41	52	184	143	113	(21.2)%	28.7%	26.5%
Far East	8	7	30	25	25	14.3%	20.0%	0.0%
European part of Russia	17	9	75	47	—	88.9%	59.6%	—
Total Rosneft	93	99	401	339	197	(6.1)%	18.3%	72.1%
Sales	(bcm)		(bcm)					
Western Siberia	1.42	1.56	5.16	6.22	5.25	(9.0)%	(17.0)%	18.5%
South Russia	0.87	1.21	3.35	3.55	3.37	(28.1)%	(5.6)%	5.3%
Far East	0.17	0.15	0.59	0.60	0.94	13.3%	(1.7)%	(36.2)%
European part of Russia	0.31	0.21	1.23	1.08	0.01	47.6%	13.9%	10,700.0%
Total Rosneft	2.77	3.13	10.33	11.45	9.57	(11.5)%	(9.8)%	19.6%
Average price	(US\$/thousand of cubic metres)		(US\$/thousand Of cubic metres)					
Western Siberia	19.14	19.84	21.74	19.98	11.19	(3.5)%	8.8%	78.6%
South Russia	47.66	43.11	55.03	40.40	33.43	10.6%	36.2%	20.8%
Far East	50.18	45.44	51.81	41.28	26.68	10.4%	25.5%	54.7%
European part of Russia	51.51	46.27	59.83	43.04	45.10	11.3%	39.0%	(4.6)%
Total Rosneft	33.57	31.63	38.82	29.61	20.59	6.1%	31.1%	43.8%

Revenues from the sale of gas were US\$ 93 million in the fourth quarter of 2008, compared to US\$ 99 million in the fourth quarter of 2007, a decrease of US\$ 6 million, or 6.1%. This reduction was attributable to an 11.5% decrease in sales volumes, from 3.13 bcm to 2.77 bcm, which decreased revenues by US\$ 11 million, while a 6.1% increase in prices led to a US\$ 5 million increase in revenue. The fall of sales volumes resulted from decrease in gas production. (see "Gas Production"). Average prices in the fourth quarter of 2008 decreased in comparison with the third quarter of 2008 due to exclusions from the price of the mark-up on FST tariff as well as cease of the gas trading at electronic exchange market.

Revenue from the sale of gas was US\$ 401 million in the twelve months ended 31 December 2008, compared to US\$ 339 million for the twelve months ended 31 December 2007, an increase of US\$ 62 million, or 18.3%. The growth was attributable to a 31.1% increase in prices, which increased revenues by US\$ 95 million, and was partially offset by a 9.8% decrease in sales volume, from 11.45 bcm to 10.33 bcm, which had a negative impact on revenues of US\$ 33 million. See "Gas Production".

Revenue from the sale of gas was US\$ 339 million in 2007, including US\$ 4 million from sales of subsidiaries recently acquired from Yukos, compared to US\$ 197 million in 2006, an increase of US\$ 142 million, or 72.1%. The growth was attributable to a 43.8% increase in prices, which increased revenues by US\$ 103 million, and a 19.6% growth in sales volume, from 9.57 bcm to 11.45 bcm, which had a positive effect on revenues of US\$ 39 million.

Support Services and Other Revenues

Rosneft Group includes in its structure service companies which render drilling, construction, repairs and other services. The most part of services are rendered to the companies inside the Group. The remaining part of services are rendered to 3rd parties in the places where these companies are located and in this case such revenues are reported in consolidated Income Statement. Most of the service companies were acquired during auctions held in the third quarter of 2007.

The following table sets forth Rosneft's other revenues for the periods analysed:

	For three months ended 31 December		For twelve months ended 31 December			3 months ended 31 December	12 months ended 31 December	12 months ended 31 December
	2008	2007	2008	2007	2006	2008-2007	2008-2007	2007-2006
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	(%)	(%)	(%)
Drilling services	4	17	38	56	32	(76.5)%	(32.1)%	75.0%
Sales of materials	99	61	431	115	39	62.3%	274.8%	194.9%
Repairs and maintenance services	42	46	170	37	7	(8.7)%	359.5%	428.6%
Rent services	13	9	57	36	15	44.4%	58.3%	140.0%
Construction services	29	29	105	68	36	0.0%	54.4%	88.9%
Transport services	17	10	52	76	65	70.0%	(31.6)%	16.9%
Other revenues	82	10	566	395	156	720.0%	43.3%	153.2%
Total	286	182	1,419	783	350	57.1%	81.2%	123.7%

Other revenues in the fourth quarter were US\$ 286 million compared to US\$ 182 million in the fourth quarter of 2007 an increase of US\$ 104 million or 57.1%. The growth resulted from the increase in prices.

Other revenues in the twelve months ended 31 December 2008 were US\$ 1,419 million compared to US\$ 783 million in the twelve months ended 31 December 2007, an increase of US\$ 636 million or 81.2%. The growth resulted from the increase in number of companies, which render services, as a result of acquisition of former Yukos assets during auctions held in the third quarter of 2007.

Other revenues in the twelve months ended 31 December 2007 were US\$ 783 million compared to US\$ 350 million in the twelve months ended 31 December 2006 an increase of US\$ 433 million or 123.7%. The growth resulted both as result of overall price growth and an increase in the number of service companies.

Costs and Expenses

The following table sets forth Rosneft's costs and expenses for the periods analysed:

	For three months ended 31 December				For twelve months ended 31 December				3 months ended 31 December		12 months ended 31 December	12 months ended 31 December	
	2008		2007		2008		2007		2006	2008 - 2007	2008 - 2007	2007 - 2006	
	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue	% of total revenue	(%)	(%)	(%)		
	(US\$ million, except %)				(US\$ million, except %)								
Production and operating expenses	1,313	12.2%	1,265	7.7%	4,572	6.6%	3,870	7.9%	2,197	6.6%	3.8%	18.1%	76.1%
Cost of purchased oil, gas, petroleum products and refinery costs	560	5.2%	407	2.5%	2,942	4.3%	1,610	3.3%	1,320	4.0%	37.6%	82.7%	22.0%
General and administrative expenses	468	4.3%	498	3.0%	1,632	2.4%	1,341	2.7%	757	2.3%	(6.0)%	21.7%	77.1%
Pipeline tariffs and transportation costs	1,409	13.0%	1,157	7.0%	5,673	8.2%	4,226	8.6%	3,226	9.7%	21.8%	34.2%	31.0%
Exploration expenses	84	0.8%	80	0.5%	248	0.4%	162	0.3%	193	0.7%	5.0%	53.1%	(16.1)%
Depreciation, depletion and amortisation	902	8.4%	862	5.2%	3,983	5.8%	3,286	6.7%	1,638	4.9%	4.6%	21.2%	100.6%
Accretion expense	20	0.1%	36	0.2%	120	0.1%	78	0.1%	34	0.1%	(44.4)%	53.8%	129.4%
Taxes other than income tax	2,252	20.9%	3,668	22.2%	14,810	21.4%	10,890	22.1%	6,990	21.1%	(38.6)%	36.0%	55.8%
Export customs duty	4,681	43.3%	4,335	26.3%	22,006	31.9%	13,032	26.5%	11,140	33.7%	8.0%	68.9%	17.0%
Total costs and expenses	11,689	108.2%	12,308	74.6%	55,986	81.1%	38,495	78.2%	27,495	83.1%	(5.0)%	45.4%	40.0%

Costs and expenses were US\$ 11,689 million in the fourth quarter of 2008, a 5.0% decrease from US\$ 12,308 million in the fourth quarter of 2007. This decrease was primarily driven by a fall in the amount of mineral extraction tax and real rouble depreciation of 5.3% that was partially offset by an increase in the export customs duty paid by Rosneft, higher depreciation, depletion and amortisation, pipeline tariffs and transportation costs, costs of purchased crude oil in the fourth quarter of 2008 as compared to the fourth quarter of 2007. Costs and expenses accounted for 108.2% and 74.6% of Rosneft's total revenues in the fourth quarters of 2008 and 2007, respectively. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 44.0% and 26.1% of Rosneft's total revenues in the fourth quarters of 2008 and 2007, respectively.

Costs and expenses were US\$ 55,986 million in the twelve months ended 31 December 2008, a 45.4% increase from US\$ 38,495 million in the twelve months ended 31 December 2007. This growth was primarily driven by an increase in the export customs duty paid by Rosneft, as well as by the costs and expenses of subsidiaries acquired from Yukos in April-May 2007, higher depreciation, depletion and amortisation, pipeline tariffs and transportation costs, costs of purchased crude oil, partly offset by the real rouble depreciation against the US dollar of 5.3% in the twelve months ended 31 December 2008 as compared to the twelve months ended 31 December 2007. Costs and expenses accounted for 81.1% and 78.2% of Rosneft's total revenues in the twelve months ended 31 December 2008 and 2007, respectively. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 27.8% and 29.6% of Rosneft's total revenues in the twelve months ended 31 December 2008 and 2007, respectively.

Costs and expenses were US\$ 38,495 million in the twelve months of 2007, 40.0% higher than US\$ 27,495 million in the twelve months of 2006. This growth was driven by costs of subsidiaries recently acquired from Yukos, accrual of interest related to Yuganskneftegaz' tax liabilities, higher depreciation, depletion and amortisation, pipeline tariffs and transportation costs, costs of purchased crude oil, and real rouble appreciation against the US dollar of 20.0% in 2007 as compared to 2006. Costs and expenses contributed 78.2% and 83.1% of Rosneft's total revenue for the twelve months 2007 and 2006 respectively. Costs and expenses excluding export customs duties and taxes other than income tax accounted for 29.6% and 28.3% of Rosneft's total revenues in the twelve months of 2007 and 2006, respectively.

Production and Operating Expenses

In the fourth quarter of 2008, production and operating expenses were US\$ 1,313 million compared to US\$ 1,265 million in the fourth quarter of 2007, an increase of US\$ 48 million, or 3.8%. The main contributors were an increase in electricity costs and inflation indexed personnel costs partially offset by the effects of Tomskneft deconsolidation in the fourth quarter of 2008 (expenses of Tomskneft contributed US\$ 174 million in the fourth quarter of 2007), consolidation of service entities and the real rouble depreciation against the US dollar of 5.3%.

In the twelve months ended 31 December 2008, production and operating expenses were US\$ 4,572 million compared to US\$ 3,870 million in the twelve months ended 31 December 2007, an increase of US\$ 702 million or 18.1%. The main contributors, were operating expenses attributable to acquired subsidiaries (for the twelve months of 2007 these entities were consolidated to financial statements since their respective acquisition dates in April-May of 2007 while for the twelve months of 2008 these subsidiaries were included in the consolidation since the beginning of the year), an increase in production volumes, an increase in the number of employees, an indexation of wages in accordance with the rate of inflation in Russia, an increase in the purchase prices of materials used in the downstream segment.

In the twelve months ended 31 December 2007, production and operating expenses were US\$ 3,870 million compared to US\$ 2,197 million in the twelve months ended 31 December 2006, a US\$ 1,673 million or 76.1% increase. The main contributors were operating expenses attributable to acquired subsidiaries (for the twelve months of 2007 these entities were consolidated to financial statements since their respective acquisition dates in April-May of 2007 while for the twelve months of 2006 these subsidiaries were not included in the consolidation), an increase in production volumes, an increase in and the number of employees, an indexation of wages in accordance with the rate of inflation in Russia, an increase in the purchase prices of materials used in the downstream segment.

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

Downstream operating expenses include costs of services provided by third parties (such as transshipment and storage services), operating expenses of marketing companies and operating expenses of Rosneft's refineries.

Of the total production and operating expenses, the upstream and downstream segments accounted for US\$ 673 million and US\$ 462 million, respectively, in the fourth quarter of 2008 and US\$ 720 million and US\$ 459 million, respectively, in the fourth quarter of 2007. Other activities' operating expenses accounted for US\$ 178 million in the fourth quarter of 2008 and US\$ 86 million in the fourth quarter of 2007.

Of the total production and operating expenses, the upstream and downstream segments accounted for US\$ 2,414 million and US\$ 1,451 million, respectively, in the twelve months ended 31 December 2008; US\$ 2,482 million and US\$ 1,020 million, respectively, in the twelve months ended 31 December 2007 and US\$ 1,632 million and US\$ 353 million, respectively, in the twelve months ended 31 December 2006. Other activities' operating expenses accounted for US\$ 707 million in the twelve months ended 31 December 2008, for US\$ 368 million in the twelve months ended 31 December 2007 and for US\$ 212 million in the twelve months ended 31 December 2006.

Operating expenses of “Exploration and production operating segment” are presented below:

	For twelve months ended			% Changes	
	31 December			12 months ended	12 months ended
	2008	2007	2006	2008 - 2007	2007 -2006
	(US\$ million)			(%)	(%)
Yuganskneftegaz	1,025	1,053	833	(2.7)%	26.4%
Purneftegaz	262	282	307	(7.1)%	(8.1)%
Samaraneftegaz	341	179	-	90.5%	-
Severnaya Neft	90	65	96	38.5%	(32.3)%
Sakhalin-1	288	249	39	15.7%	538.5%
Tomskneft	-	292	-	(100.0)%	-
Others	408	362	357	12.7%	1.4%
Total upstream operating expenses	2,414	2,482	1,632	(2.7)%	52.1%

Upstream production and operating expenses decreased by US\$ 47 million in the fourth quarter of 2008 compared to the fourth quarter of 2007 due to the effect of Tomskneft deconsolidation in the fourth quarter of 2008 (which contributed US\$ 174 million in the fourth quarter of 2007) and consolidation of service entities, as well as real rouble depreciation of 5.3%, partially offset by increases in electricity consumption and in electricity tariffs, increased costs of well workovers performed by external service providers and an increase in transport tariffs as a result of higher prices of gasoline and diesel fuel, additional materials write-offs at the end of 2008, corrections of year-end remuneration and vacation reserves, additional accruals for polluted lands at Yuganskneftegaz and other producing subsidiaries and entities.

Upstream production and operating expenses decreased by US\$ 68 million in the twelve months of 2008 compared to the twelve months of 2007 due to the effect of excluding the Tomskneft from consolidated financial statement in the twelve months of 2008 and consolidation of service entities, partially offset by increases in electricity consumption and in electricity tariffs, increased costs of well workover performed by external service providers and an increase in transport tariffs as a result of higher prices of gasoline and diesel fuel, additional accruals for polluted lands at Yuganskneftegaz and other producing subsidiaries and entities.

Upstream production and operating expenses increased by US\$ 850 million in the twelve months of 2007 compared to the twelve months of 2006 due to the effect of consolidation of acquired assets to the Company’s financial statement in the twelve months of 2007 as well as real appreciation of the rouble of 20.0%, increases in electricity consumption and in electricity tariffs, increased costs of well workover performed by external service providers and an increase in transport tariffs as a result of higher prices of gasoline and diesel fuel, and partially offset by consolidation of service entities.

Upstream production and operating expenses in the fourth quarter of 2008 were US\$ 3.77 per bbl produced and US\$ 3.43 per boe produced. Upstream production and operating expenses in the fourth quarter of 2007 were US\$ 3.63 per bbl produced and US\$ 3.24 per boe produced. These measures are defined below under — “Key Financial Ratios”. The increase in operating expenses per barrel of crude oil produced was primarily due to indexation of wages and increase in cost of repair and workover services and other factors.

Upstream production and operating expenses in the twelve months of 2008 were US\$ 3.41 per bbl produced and US\$ 3.11 per boe produced. These expenses were US\$ 3.48 per bbl produced and US\$ 3.08 per barrel of oil equivalent produced in the twelve months ended 31 December 2007 and US\$ 2.83 per bbl produced and US\$ 2.49 per barrel of oil equivalent produced in the twelve months ended 31 December 2006.

Decrease in operating expenses per barrel of crude oil produced was due to excluding operating expenses of Tomskneft (after sale in December 2007) and due to replacement of the third-party services provided to the upstream entities (repair, workovers, etc) with intra-Company services (service companies were acquired in the course of Yukos bankruptcy procedure in the fourth quarter of 2007).

Downstream and other operating expenses increased by US\$ 95 million in the four quarter of 2008 compared to the fourth quarter of 2007 due to the higher procurement prices of liquid fuel for transport and energy supplies, which was partly offset by the real rouble depreciation of 5.3%.

Downstream and other operating expenses increased by US\$ 770 million in the twelve months of 2008 compared to the twelve months 2007 due to the additional operating expenses of acquired assets consolidated for the full year and higher procurement prices of liquid fuel for transport and energy supplies as well as indexation of wages.

Downstream and other operating expenses increased by US\$ 823 million in the twelve months of 2007 compared to the twelve months 2006 due to the additional operating expenses of acquired assets and higher procurement prices of liquid fuel for transport and energy supplies, as well as real rouble appreciation of 20.0%.

The table below sets forth Rosneft's petroleum products output, operating expenses and general and administrative expenses at the Komsomolsk and Tuapse refineries and at mini-refineries during the periods being analysed:

	For the three months ended 31 December		For the twelve months ended 31 December			Change		
	2008	2007	2008	2007	2006	three months ended 31 December	twelve months ended 31 December	twelve months ended 31 December
						2008 – 2007	2008 - 2007	2007 - 2006
Petroleum products output	(millions of tonnes)					(%)		
High octane gasoline	0.10	0.08	0.53	0.46	0.39	25.0%	15.2%	17.9%
Low octane gasoline	0.03	0.05	0.21	0.30	0.36	(40.0)%	(30.0)%	(16.7)%
Naphtha	0.45	0.47	1.64	1.58	1.32	(4.3)%	3.8%	19.7%
Diesel fuel	1.06	0.96	4.31	3.72	3.08	10.4%	15.9%	20.8%
Fuel oil	1.24	1.26	5.16	5.06	4.35	(1.6)%	2.0%	16.3%
Jet fuel (kerosene)	0.05	0.08	0.33	0.32	0.27	(37.5)%	3.1%	18.5%
Other	0.04	0.30	0.20	0.80	0.72	(86.7)%	(75.0)%	11.1%
Total	2.97	3.21	12.38	12.25	10.49	(7.5)%	1.1%	16.8%
Operating expenses and general and administrative expenses (US\$ million)	36	36	161	124	95	0.0%	29.8%	30.5%
Operating expenses and general and administrative expenses per tonne of output (US\$/tonne)⁽¹⁾	12.12	11.35	13.00	10.11	9.06	6.8%	28.6%	11.6%
Operating expenses and general and administrative expenses per tonne of throughput (US\$/tonne)⁽²⁾	11.46	11.40	12.41	9.93	8.72	0.5%	25.0%	13.9%

(1) Output is the volume of petroleum products produced;

(2) Throughput is the volume of crude oil refined.

The main contributors to the growth in operating expenses and general and administrative expenses per tonne of petroleum products output at the Komsomolsk and Tuapse refineries and mini-refineries during the periods being analysed were rent fees, wages and salaries, as well as insurance expenses.

The table below sets forth Rosneft's petroleum products output, operating expenses and general and administrative expenses at the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries for the periods analysed:

	For the three months ended 31 December		For the twelve months ended 31 December			Change		
	2008	2007	2008	2007	2006	three months ended 31 December	twelve months ended 31 December	twelve months ended 31 December
						2008 - 2007	2008 - 2007	2007 - 2006
Petroleum products output	(millions of tonnes)					(%)		
High octane gasoline	1.02	0.99	3.94	2.18	-	3.0%	80.7%	-
Low octane gasoline	0.30	0.39	1.56	1.04	-	(23.1)%	50.0%	-
Naphtha	0.50	0.49	1.90	1.04	-	2.0%	82.7%	-
Diesel fuel	3.15	2.91	12.38	6.71	-	8.2%	84.5%	-
Fuel oil	2.75	2.86	10.49	6.21	-	(3.8)%	68.9%	-
Jet fuel (kerosene)	0.28	0.36	1.30	0.78	-	(22.2)%	66.7%	-
Petrochemicals	0.17	-	0.72	0.00	-	-	-	-
Others	0.32	0.88	1.77	2.54	-	(63.6)%	(30.3)%	-
Total	8.49	8.86	34.06	20.49⁽³⁾	-	(4.2)%	66.2%	-
Operating expenses and general and administrative expenses (US\$ million)	238	250	1,105	620	-	(4.8)%	78.3%	-
Operating expenses and general and administrative expenses per tonne of output (US\$/tonne)⁽¹⁾	28.03	28.21	32.44	30.24	-	(0.6)%	7.3%	-
Operating expenses and general and administrative expenses per tonne of throughput (US\$/tonne)⁽²⁾	26.01	26.39	30.19	28.51	-	(1.4)%	5.9%	-

Decrease in operating expenses and general and administrative expenses per tonne of output in the fourth quarter of 2008 compared to the third quarter of 2008 was due to completion of planned maintenance services at a number of refineries that led to normalization of quarterly output of petroleum products.

(1) Output is the volume of petroleum products produced;

(2) Throughput is the volume of crude oil refined.

(3) Before the date of acquisition of these refineries in May 2007 Rosneft refined crude oil under the processing agreements at these refineries.

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

The following table shows Rosneft's third-party refining costs and crude oil, gas and petroleum product procurement costs for the periods analysed:

	For the three months ended 31 December		For the twelve months ended 31 December			Change		
	2008	2007	2008	2007	2006	2008 and 2007	2008 and 2007	2007 and 2006
	(%)							
Cost of procurement of crude oil from third parties by the downstream segment (US\$ million)	453	262	2,284	934	448	72.9%	144.5%	108.5%
Procurement of crude oil from third parties by the downstream segment (millions of barrels) ⁽¹⁾	14.99	6.38	56.54	29.54	18.36	135.0%	91.4%	60.9%
Cost of procurement of gas (US\$ million)	11	5	46	36	-	120.0%	27.8%	-
Procurement of gas (bcm)	0.20	0.25	0.74	1.10	-	(20.0)%	(32.7)%	-
Cost of procurement of petroleum products from third parties by the upstream and downstream segments (US\$ million) ⁽²⁾	96	140	610	442	366	(31.4)%	38.0%	20.8%
Procurement of petroleum products from third parties by the upstream and downstream segments (millions of tonnes) ⁽³⁾	0.15	0.25	0.82	0.88	0.93	(40.0)%	(6.8)%	(5.4)%
Cost of refining of crude oil under processing agreements (US\$ million)	-	-	2	198	506	-	(99.0)%	(60.9)%
Volumes of crude oil refined under processing agreements (millions of tonnes)	-	-	0.03	5.24	13.11	-	(100.0)%	(61.5)%
Refining fees per tonne (US\$) ⁽⁴⁾	-	-	63.17 ⁽⁵⁾	37.79	38.6	-	67.2%	(2.1)%
Total cost of purchased oil, gas, petroleum products and refining costs (US\$ million)	560	407	2,942	1,610	1,320	37.6%	82.7%	22.0%

(1) The Company purchased crude oil from Udmurtneft of 0.34 million tonnes, Nafta Sib & Co of 0.02 million tonnes, Tomskneft of 1.35 million tonnes, Tomsk-Petroleum-und-Gaz of 0.05 million tonnes and from Surgutneftegaz of 0.28 million tonnes in the fourth quarter of 2008. In the twelve months ended December 31, 2008 the Company purchased crude oil from Udmurtneft of 1.17 million tonnes, Nafta Sib & Co of 0.27 million tonnes, Tomskneft of 5.80 million tonnes, Tomsk-Petroleum-und-Gaz of 0.20 million tonnes and from Surgutneftegaz of 0.28 million tonnes.

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

(3) In the twelve months of 2008 average price of procurement of petroleum products from third parties by the upstream and downstream segments was higher than the average selling price of petroleum products due to differences in the mix of procured and sold petroleum products.

(4) From the date of purchase of the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev and Syzran refineries and the Strezhevskoy mini-refinery by Rosneft in May 2007, the refinery costs are reflected in operating expenses, taxes, depreciation and amortisation, and general and administrative costs. For the twelve months ended 31 December 2008 and 2007, refinery costs included in operating expenses were US\$ 982 million and US\$ 531 million, respectively, refinery costs included in taxes were US\$ 111 million and US\$ 66 million, respectively, refinery costs included in depreciation, depletion and amortisation were US\$ 463 million and US\$ 253 million, respectively, and refinery costs included in general and administrative costs were US\$ 123 million and US\$ 74 million, respectively. The refinery fees paid to the former Yukos refineries also include a margin that was eliminated upon consolidation from the date of their acquisition in May 2007.

(5) Cost of processing of crude oil in January and February of 2008 at Strezhevskoy mini-refinery, a subsidiary Tomskneft, following Rosneft's sale of its 50.0% stake in Tomskneft on 27 December, 2007.

Prior to the acquisition of the Angarsk, Achinsk, Kuibyshev, NovoKuibyshev, Strezhevskoy and Syzran refineries in May 2007, the refinery fees paid to these refineries were higher in relation to the refining costs of the Tuapse and Komsomolsk refineries, in part since the processing fees charged by third parties are fully costed, while the refining costs of the Tuapse and Komsomolsk refineries exclude depreciation, which is reported in depreciation, depletion and amortisation, exclude taxes other than income tax, and other costs.

In the fourth quarter of 2008, the cost of purchased crude oil, gas, petroleum products and refining costs was US\$ 560, million, a 37.6% increase from US\$ 407 million in the fourth quarter of 2007. For the twelve months of 2008, the cost of purchased crude oil, gas, petroleum products and refining costs was US\$ 2,942 million, an 82.7% increase from US\$ 1,610 million for the twelve months of 2007.

The overall increase was attributable to an increase in cost of purchases of crude oil due to increase in volumes and purchase price of procured crude oil after the acquisition of former Yukos refineries in order to achieve full capacity utilisation. Increase in volumes of crude oil procured was also attributable to the crude oil purchases from Tomskneft after the sale by Rosneft of its 50.0% stake in this company in December of 2007. These factors were partially offset by a decrease in processing costs after the acquisition of Yukos refining assets previously rendering processing services.

In the fourth quarter of 2008, the volume of purchased crude oil was 14.99 million barrels at a cost of US\$ 453 million. In the fourth quarter of 2007, the volume of purchased crude oil was 6.38 million barrels at a cost of US\$ 262 million. Due to changes in the number of suppliers, structure of purchases, varying destinations and the rise in world and domestic prices of crude oil, the average purchase price of a barrel of crude oil decreased in the fourth quarter of 2008 by the 26.4% compared to the fourth quarter of 2007.

In the twelve months of 2008, the volume of purchased crude oil was 56.54 million barrels at a cost of US\$ 2,284 million. In the twelve months of 2007, the volume of purchased crude oil was 29.54 million barrels at a cost of US\$ 934 million. Due to changes in the number of suppliers, structure of purchases, varying destinations and the rise in world and domestic prices of crude oil, the average purchase price of a barrel of crude oil increased in the twelve months of 2008 by the 27.8% compared to the twelve months of 2007.

In the twelve months of 2007, the volume of purchased crude oil was 29.54 million barrels at a cost of US\$ 934 million compared to the 18.36 million barrels for US\$ 448 million for the twelve months of 2006. Due to changes in the number of suppliers, structure of purchases, varying destinations and the rise in world and domestic prices of crude oil, the average purchase price of a barrel of crude oil increased in the twelve months of 2007 by the 29.6% compared to the twelve months of 2006.

From 27 December 2007, Rosneft and Gazprom Neft have each purchased 50% of the crude oil produced by Tomskneft, in which each has a 50% ownership interest. In the fourth quarter of 2008, Rosneft purchased crude oil from Tomskneft of 1.35 million tonnes and Gazprom Neft purchased crude oil from Tomskneft of 1.35 million tonnes. (Rosneft also purchased 0.37 million tonnes of crude oil from Gazprom Neft produced at other fields of Gazprom Neft). In the twelve months of 2008, Rosneft purchased 5.80 million tonnes (including whole volume of Tomskneft's production in January 2008) of crude oil from Tomskneft and Gazprom Neft purchased 5.06 million tonnes of crude oil. These volumes were directed to the Achinsk and to the Angarsk refineries.

Rosneft purchases from Gazprom Neft the crude oil that Gazprom Neft purchases from Tomskneft, and sells to Gazprom Neft the same volume of crude oil produced by Yuganskneftegaz at the same purchase price adjusted for transportation costs in order to maximise netbacks from refining the crude oil produced by Tomskneft, since the Achinsk and Angarsk refineries are located closer to Tomskneft's oil fields than to the Yuganskneftegaz fields. Revenues and costs of purchases related to this arrangement are shown on a net basis and only the margin is recognized in the income statement.

In certain circumstances, it may be more beneficial for Rosneft to purchase petroleum products from third parties to supply, together with its own petroleum products, Rosneft's marketing and transshipment subsidiaries. Purchase of petroleum products from third parties is exercised primarily to satisfy the needs of Rosneft's retail subsidiaries. The volume of petroleum products purchased from third parties was 0.15 million tonnes in the fourth quarter of 2008 and 0.25 million tonnes in the fourth quarter of 2007 and 0.82 million tonnes for the twelve months of 2008, 0.88 million tonnes for the twelve months of 2007 and 0.93 million tonnes for the twelve months of 2006.

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

	For the three months ended 31 December						% change		
	2008			2007			US\$ million	millions of tonnes	Average price US\$/tonne
	US\$ million	millions of tonnes	Average price US\$/tonne	US\$ million	millions of tonnes	Average price US\$/tonne			
High octane gasoline	10	0.01	886.60	73	0.11	642.93	(86.3)%	(90.9)%	37.9%
Low octane gasoline	7	0.01	625.00	18	0.03	605.18	(61.1)%	(66.7)%	3.3%
Diesel fuel	50	0.07	710.26	43	0.09	484.61	16.3%	(22.2)%	46.6%
Fuel oil	21	0.05	379.57	2	0.01	227.29	950.0%	400.0%	67.0%
Jet fuel (kerosene)	0	0.00	711.81	2	0.00	513.64	(100.0)%	-	38.6%
Other	8	0.01	571.43	2	0.00	553.00	300.0%	-	3.3%
Total	96	0.15	640.00	140	0.25	560.88	(31.4)%	(40.0)%	14.1%

Rosneft's average price per tonne of petroleum products procured from third parties increased in the fourth quarter of 2008 by 14.1% compared to the fourth quarter of 2007. The increase was primarily due to the increase in prices of petroleum products on the domestic market and to the change in the mix of procured petroleum products, partially offset by the real rouble depreciation of 5.3%.

The table below sets forth Rosneft's average price per tonne of petroleum products procured from third parties during the twelve months of 2008, 2007 and 2006:

	For the twelve months ended 31 December									% change for the twelve months ended 31 December					
	2008			2007			2006			2008 and 2007			2007 and 2006		
	US\$ million	millions of tonnes	Average price US\$/tonne	US\$ million	millions of tonnes	Average price US\$/tonne	US\$ million	millions of tonnes	Average price US\$/tonne	US\$ million	millions of tonnes	Average price US\$/tonne	US\$ million	millions of tonnes	Average price US\$/tonne
High octane gasoline	182	0.21	868.07	194	0.28	687.26	62	0.12	529.93	(6.2)%	(25.0)%	26.3%	212.9%	133.3%	29.7%
Low octane gasoline	39	0.05	751.37	47	0.08	594.08	51	0.11	476.50	(17.0)%	(37.5)%	26.5%	(7.8)%	(27.3)%	24.7%
Diesel fuel	246	0.30	800.95	133	0.26	520.26	96	0.20	485.98	85.0%	15.4%	54.0%	38.5%	30.0%	7.1%
Fuel oil	90	0.16	545.48	42	0.20	210.91	91	0.39	236.88	114.3%	(20.0)%	158.6%	(53.8)%	(48.7)%	(11.0)%
Jet fuel (kerosene)	2	0.00	709.59	6	0.01	505.81	0	0.00	463.03	(66.7)%	(100.0)%	40.3%	-	-	9.2%
Other	51	0.10	492.85	20	0.05	433.77	65	0.12	529.34	155.0%	100.0%	13.6%	(69.2)%	(58.3)%	(18.1)%
Total	610	0.82	743.90	442	0.88	501.81	366	0.93	393.55	38.0%	(6.8)%	48.2%	20.8%	(5.4)%	27.5%

Rosneft's average price per tonne of petroleum products procured from third parties increased in the twelve months of 2008 by 48.2% compared to the twelve months of 2007. The increase was primarily due to the increase in prices of petroleum products on the domestic market and to change in the mix of procured petroleum products.

The purchase price of petroleum products, particularly of fuel oil, may vary significantly depending on the regional markets, where the procurement is made (for example, the price of fuel oil in the Far East market exceeded the price in the Southern Russia market almost twice). Fuel oil procurement prices paid by the Company can be higher than the price at which the Company sells its fuel oil, due to the variation in price in the various domestic markets, where the procurement of petroleum products is made.

The significant increase in the price of fuel oil procured from third parties in the twelve months of 2008 was due to Rosneft purchasing fuel oil to meet its obligations under an agreement entered into with the Russian Government for shipment of approximately 150 thousand tonnes of high-quality fuel oil (that contains diesel fuel) for export to Asia. Rosneft purchased fuel oil from third parties as it currently does not produce fuel oil of sufficient quality and composition. Excluding this factor, the average purchase price of fuel oil amounted to US\$ 452.21 per tonne procured.

General and Administrative Expenses

General and administrative expenses include wages and salaries and social benefits (except for wages of technical staff of production and refining entities), banking commissions, third-party fees for professional advisory services, legal and audit services, insurance expenses (except for insurance of oil and gas production and refining entities), lease expenses with respect to non-core property, maintenance of social infrastructure, expenses to establish allowances for doubtful accounts and other general expenses.

General and administrative expenses in the fourth quarter of 2008 were US\$ 468 million, 6.0% lower than US\$ 498 million in the fourth quarter of 2007. The decrease is mainly due to accrual of bad debt allowance in the amount of US \$32 million in 2007 related to the receivables of the recently acquired assets, that were written off in 2008, and is also due to the rouble depreciation of 5.3%.

General and administrative expenses for the twelve months of 2008 were US\$ 1,632 million, 21.7% higher than the US\$ 1,341 million for the twelve months of 2007. This increase was mainly due to the general and administrative expenses of subsidiaries acquired from Yukos in 2007 (see “—Significant Acquisitions in the twelve months of 2008 and in 2007—2007—Yukos Assets”), which totalled US\$ 438 million for the twelve months of 2008 versus US\$ 308 in the twelve months of 2007, to the indexation of base salaries and wages in accordance with Russian rate of inflation.

General and administrative expenses for the year ended 31 December 2007 were US\$ 1,341 million, 77.1% higher than US\$ 757 million for the year ended 31 December 2006. This increase was mainly due to the general and administrative expenses of subsidiaries acquired from Yukos of US\$ 308 million and increased salaries and bonuses due to an increase in the number of employees, due to the indexation of base salaries and wages in accordance with Russian rate of inflation, consulting services, and the real rouble appreciation of 20.0%.

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 tariffs, handling, port fees, customs costs and other costs.

Pipeline tariffs paid by Rosneft and transportation costs increased to US\$ 1,409 million in the fourth quarter of 2008 from US\$ 1,157 million in the fourth quarter of 2007. This 21.8% increase was mainly due to an increase in the pipeline and railway tariffs of natural monopolies at the ranging from 11.4% to 36.4% in rouble terms (see “—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies”) and due to in the redirection of petroleum products sales to Asia and increase in share of crude oil transported to Europe. This was partially offset by the real rouble depreciation of 5.3%.

Pipeline tariffs paid by Rosneft and transportation costs increased to US\$ 5,673 million for the twelve months of 2008 from US\$ 4,226 million for the twelve months of 2007. This 34.2% increase was mainly due to an increase in the volume of transported crude oil and petroleum products and an increase in the pipeline and railway tariffs of natural monopolies (see “—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies”).

Pipeline tariffs paid by Rosneft and transportation costs increased to US\$ 4,226 million for the twelve months of 2007 from US\$ 3,226 million for the twelve months of 2006. This 31.0% increase was mainly due to an increase in the volume of transported crude oil and petroleum products and an increase in the pipeline and railway tariffs of natural monopolies (see “—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies”).

The table below sets forth the cost per tonne of crude oil and petroleum products transported by pipeline, railway and a combination of pipeline and railway for the fourth quarter of 2008 and 2007:

	For the three months ended 31 December								% change between the three months ended 31 December 2008 and 2007		
	2008				2007				Volume	Cost	Cost per tonne
	Volume, mln tonnes	Share in export volumes	Cost, mln. US\$	Cost per tonne, US\$/t	Volume, mln tonnes	Share in export volumes	Cost, mln. US\$	Cost per tonne, US\$/t			
CRUDE OIL											
Export sales											
Pipeline	10.30	72.9%	322	31.26	10.84	70.5%	278	25.65	(5.0)%	15.8%	21.9%
Railway and mixed	3.83	27.1%	284	74.15	4.56	29.5%	311	68.20	(16.0)%	(8.7)%	8.7%
Transportation to refineries and domestic sales											
Pipeline	9.79		178	18.18	12.14		191	15.73	(19.4)%	(6.8)%	15.6%
Railway and mixed	1.27		132	103.94	1.29		118	91.47	(1.6)%	11.9%	13.6%
PETROLEUM PRODUCTS											
Export sales											
Pipeline	0.43	6.5%	19	44.19	0.58	9.7%	24	41.38	(25.9)%	(20.8)%	6.8%
Railway and mixed	4.60	68.9%	324	70.43	3.68	61.1%	227	61.87	25.0%	42.7%	14.2%
Other transportation expenses ⁽²⁾											
			150				7			2,042.9%	
Total transportation expenses and volumes											
	30.21		1,409	46.64	33.10		1,157	34.95	(8.7)%	21.8%	33.4%

- (1) Rosneft exported 1.65 million tonnes (24.6% of total export volumes) and 1.76 million tonnes (29.2% of total export volumes) of petroleum products in the fourth quarter of 2008 and 2007, respectively, through its own pipeline in the town of Tuapse and by sea under free-carrier conditions pursuant to which Rosneft does not bear directly transportation expenses. Operating expenses for the pipeline in Tuapse are included in Rosneft's financial statements as operating expenses.
- (2) Other transportation expenses include railroad tariffs, paid by Rosneft when petroleum products are transported from refineries to retail and marketing units.

Rosneft's crude oil export pipeline cost per tonne increased by 21.9% in the fourth quarter of 2008 compared to the fourth quarter of 2007 primarily due to a 17.3% increase in the transportation tariffs charged by Transneft and due to the increase in share of crude oil transported to Europe. Rosneft's crude oil domestic pipeline cost per tonne for transportation to refineries increased by 15.6% in the fourth quarter of 2008 compared to the fourth quarter of 2007 due to an increase in the transportation tariffs charged by Transneft for domestic routes. Rosneft's petroleum products export pipeline cost per tonne increased by 6.8% in the fourth quarter of 2008 compared to the fourth quarter of 2007, due to the increase in Transneftprodukt's tariffs (see section "—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies").

Rosneft's cost per tonne for the export of crude oil through railway and using a combination of pipeline and railway increased by 8.7% in the fourth quarter of 2008 compared to the fourth quarter of 2007 primarily due to an increase in the transportation tariffs charged by RZD. Rosneft's cost per tonne for the domestic sales of crude oil through railway and using a combination of pipeline and railway for the transportation of crude oil to the refineries increased by 13.6% in the fourth quarter of 2008 compared to the fourth quarter of 2007 due to an increase in railway tariffs of natural monopolies (see section "—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies"). Rosneft's cost per tonne for the export of petroleum products through railway and using a combination of pipeline and railway increased by 14.2% in the fourth quarter of 2008 compared to the fourth quarter of 2007 due to the use of new logistical schemes and to increased railway tariffs of natural monopolies.

The table below sets forth the cost per tonne transported by pipeline, railway and combination of pipeline and railway for the twelve months ended 31 December 2008, 2007 and 2006:

	2008			For the 12 months ended 2007						2006			% change between the 12 months ended 2008 and 2007					
	Volume, mln tonnes	Share in export volumes	Cost, mln. U.S.\$	Cost per tonne, U.S.\$/t	Volume, mln tonnes	Share in export volumes	Cost, mln. U.S.\$	Cost per tonne, U.S.\$/t	Volume, mln tonnes	Share in export volumes	Cost, mln. U.S.\$	Cost per tonne, U.S.\$/t	Volume	Cost	Cost per tonne	Volume	Cost	Cost per tonne
CRUDE OIL																		
Export sales⁽¹⁾																		
Pipeline	38.99	72.2%	1,258	32.26	41.48	70.2%	1 024	24.68	36.84	67.4%	838	22.75	(6.0)%	22.9%	30.7%	12.6%	22.2%	8.5%
Railroad and mixed	15.04	27.8%	1,163	77.33	17.62	29.8%	1 192	67.62	17.86	32.6%	1,140	63.82	(14.6)%	(2.4)%	14.4%	(1.3)%	4.6%	6.0%
Transportation to refineries and domestic sales																		
Pipeline	41.71		819	19.64	38.51		656	17.03	22.58		418	18.50	8.3%	24.8%	15.3%	70.5%	56.9%	(7.9)%
Railroad and mixed	5.48		606	110.58	5.24		466	88.92	5.29		408	60.11	4.6%	30.0%	24.4%	(0.9)%	14.2%	47.9%
PETROLEUM PRODUCTS																		
Export sales																		
Pipeline	1.70	6.6%	79	46.47	1.50	7.8%	60	40.31	0.23	1.7%	5	19.73	13.3%	31.7%	15.3%	552.2%	1,100.0%	104.3%
Railroad and mixed	16.51	63.6%	1,194	72.32	10.42	58.0%	541	51.88	4.25	33.6%	212	50.01	58.4%	120.7%	39.4%	145.2%	155.2%	3.7%
Other transportation expenses⁽²⁾																		
			554				287				205			93.0%			40.0%	
Total transportation expenses																		
	119.43		5,673	47.50	114.76		4,226	36.82	87.05		3,226	37.06	4.1%	34.2%	29.0%	31.8%	31.0%	(0.6)%

(1) Rosneft exported 7.72 million tonnes (29.8% of total export volumes) and 6.55 million tonnes (34.2% of total export volumes) of petroleum products in the twelve months of 2008 and 2007, respectively, through its own pipeline in the town of Tuapse and by sea under free-carrier conditions pursuant to which Rosneft does not bear directly transportation expenses. Operating expenses for the pipeline in Tuapse are included in Rosneft's financial statements as operating expenses.

(2) Other transportation expenses include railway tariffs, paid by Rosneft when petroleum products are transported from refineries to retail and marketing units.

Rosneft's crude oil export pipeline cost per tonne increased by 30.7% for the twelve months of 2008 compared to the twelve months of 2007 primarily due to a 26.2% increase in the transportation tariffs charged by Transneft. Rosneft's crude oil domestic pipeline cost per tonne for transportation to refineries increased by 15.3% for the twelve months of 2008 compared to the twelve months of 2007 due to an increase in transportation tariffs charged by Transneft for domestic routes that was partially offset by a change in the logistics of crude oil supplies following the acquisition of new refining and production assets from Yukos. Rosneft's petroleum products export pipeline cost per tonne increased by 15.3% for the twelve months of 2008 compared to the twelve months of 2007, due to the increase in Transneft's tariffs (see section "—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies").

Rosneft's cost per tonne for the export of crude oil through railway and using a combination of pipeline and railway increased by 14.4% for the twelve months of 2008 compared to the twelve months of 2007 primarily due to an increase in the transportation tariffs charged by RZD. Rosneft's cost per tonne for the domestic sales of crude oil through railway and using a combination of pipeline and railway for the transportation of crude oil to the refineries increased by 24.4% for the twelve months of 2008 compared to the twelve months of 2007 due to an increase in railway tariffs of natural monopolies (see section "—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies"). Rosneft's cost per tonne for the export of petroleum products through railway and using a combination of pipeline and railway increased by 39.4% for the twelve months of 2008 compared to the twelve months of 2007, due to the use of new logistical schemes following the acquisition of upstream and downstream assets from Yukos (see "—Significant Acquisitions in the twelve months of 2008 and in 2007—2007—Yukos Assets") and to increased railway tariffs of natural monopolies.

Rosneft's crude oil export pipeline cost per tonne increased by 8.5% for the twelve months of 2007 compared to the twelve months of 2006 primarily due to a 16.9% increase in the transportation tariffs charged by Transneft. Rosneft's crude oil domestic pipeline cost per tonne for transportation to refineries decreased by 7.9% for the twelve months of 2007 compared to the twelve months of 2006 due to a change in the logistics of crude oil supplies following the acquisition of new refining and production assets from Yukos. This decrease was partially offset by an increase in the transportation tariffs charged by Transneft.

Rosneft's petroleum products export pipeline cost per tonne increased by 104.3% for the twelve months of 2007 compared to the twelve months of 2006, due to the increase in Transnefteprodukt's tariffs (see section "—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies") and due to change in logistics of supplies.

Rosneft's cost per tonne for the export of crude oil through railway and using a combination of pipeline and railway increased by 6.0% for the twelve months of 2007 compared to the twelve months of 2006 primarily due to an increase in the transportation tariffs charged by RZD. Rosneft's cost per tonne for the domestic sales of crude oil through railway and using a combination of pipeline and railway for the transportation of crude oil to the refineries increased by 47.9% for the twelve months of 2007 compared to the twelve months of 2006 due to an increase in railway tariffs of natural monopolies (see section "—Main Factors Affecting Results of Operations—Changes in Transport Tariffs of Natural Monopolies") and due to change in logistics of supplies. Rosneft's cost per tonne for the export of petroleum products through railway and using a combination of pipeline and railway increased by 3.7% for the twelve months of 2007 compared to the twelve months of 2006, due to the use of new logistical schemes following the acquisition of upstream and downstream assets from Yukos (see "—Significant Acquisitions in the twelve months of 2008 and in 2007—2007—Yukos Assets") and to increased railway tariffs of natural monopolies.

In the fourth quarter of 2008, Rosneft transported approximately 72.9% of crude oil exports through the Transneft pipeline system compared to 70.5% in the fourth quarter of 2007. For the twelve months of 2008, Rosneft transported approximately 72.2% of crude oil exports through the Transneft pipeline system compared to 70.2% for the twelve months of 2007.

In the fourth quarter of 2008 and 2007, Rosneft exported approximately 6.5% and 9.7%, respectively, of its petroleum products through the pipeline system owned and operated by OJSC AK Transnefteprodukt ("Transnefteprodukt"), a state-owned petroleum products pipeline monopoly and a subsidiary of Transneft, engaged in the transportation of petroleum products through its pipeline network in Russia and abroad. In the twelve months of 2008 and 2007, Rosneft exported approximately 6.6% and 7.8%, respectively, of its petroleum products through the pipeline system owned and operated by Transnefteprodukt.

The overall expense per tonne for the transport of petroleum products depends on the length of the transportation route to the ultimate destination point. Petroleum products, transported via the Transnefteprodukt pipeline system during the periods being analysed were produced by the Kuibyshev, NovoKuibyshev and Syzran refineries, former Yukos refineries acquired in May 2007 by Rosneft. In the twelve months of 2007, these refineries produced petroleum products under the processing agreements with Rosneft, effective through the date of acquisition of these refineries in May 2007.

Rosneft also depends on railway transportation. Railway transportation services are provided by RZD, a state-owned monopoly. In the fourth quarter of 2008 and in the twelve months of 2008, Rosneft transported 27.1% and 27.8% of its crude oil exports and 68.9% and 63.6% of its petroleum product exports by rail (including railway transportation used in combination with other means of transport), respectively. In the fourth quarter of 2007 and in the twelve months of 2007, Rosneft transported 29.5% and 29.8% of its crude oil exports, and 61.1% and 58.0% of petroleum product exports by rail, respectively. In the twelve months of 2006, Rosneft transported 32.6% of its crude oil exports and 33.6% of petroleum product exports by rail, respectively.

The change in the railway transportation of petroleum product exports in the fourth quarter of 2008 and the twelve months of 2008 resulted from the use of new logistical schemes and transportation routes and from the restricted capacity of the pipeline system. The railway tariff per tonne paid by Rosneft for petroleum product exports increased by 12.0% over the major transportation routes and services, in Russian rouble terms, in the twelve months of 2008 compared to the twelve months of 2007. RZD tariffs are subject to control by FTS and to antimonopoly regulations.

Exploration Expenses

Exploration expenses mainly relate to exploratory drilling, seismic and other geological and geophysical works. Exploratory drilling costs are generally capitalised if commercial reserves of crude oil and gas are discovered, or expensed in the current period in the event of unsuccessful exploration results.

In the fourth quarter of 2008, exploration expenses increased to US\$ 84 million from US\$ 80 million in the fourth quarter of 2007, or by 5.0%.

For the twelve months of 2008, exploration expenses increased to US\$ 248 million from US\$ 162 million in the twelve months of 2007 or by 53.1%.

The increase was primarily due to write-off of the exploratory wells of the Kurmangazy project and was partially supported by a decrease in expenses of Sakhalin-4 and Sakhalin-5, which were covered by the retrospective carry financing obtained from BP.

For the year ended 31 December 2007, exploration expenses decreased by US\$ 31 million, or 16.1% to US\$ 162 million from US\$ 193 million for the year ended 31 December 2006. The decrease was mainly due to a portion of the exploration expenses for the Sakhalin-4 and Sakhalin-5 projects being covered by carry financing obtained by Rosneft from BP in 2007.

Depreciation, Depletion and Amortisation

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

Depreciation, depletion and amortisation were US\$ 902 million in the fourth quarter of 2008 compared to US\$ 862 million in the fourth quarter of 2007. Depreciation, depletion and amortisation increased in the fourth quarter of 2008 as a result of the construction of oil and gas production wells and supporting infrastructure, as well as downstream and service facilities.

Depreciation, depletion and amortisation were US\$ 3,983 million for the twelve months of 2008 compared to US\$ 3,286 million for the twelve months of 2007. Depreciation, depletion and amortisation of upstream and downstream assets acquired from Yukos (see “—Significant Acquisitions in the nine months of 2008 and in 2007—2007—Yukos assets”) were US\$ 1 059 million in the twelve months of 2008 and US\$ 536 million in the twelve months of 2007. The carrying values of the assets acquired from Yukos were revalued upward to their fair value as a result of the purchase price allocation following the acquisition. Depreciation, depletion and amortisation also increased in the twelve months of 2008 as a result of the acquisition and the construction of oil and gas production wells and other assets.

Depreciation, depletion and amortisation was US\$ 3,286 million for the year ended 31 December 2007 compared to US\$ 1,638 million for the year ended 31 December 2006. The 100.6 % increase was mainly due to a step-up in the value of fixed assets as a result of the Share Swap in the fourth quarter of 2006 and due to increased capital expenditures and acquisition of new assets, which resulted in an increased balance sheet value of fixed assets for the year ended 31 December 2007 compared to the year ended 31 December 2006. Capital expenditures increased primarily as a result of continued investments in Yuganskneftegaz and the Vankor field. This increase also resulted from the increase in average depletion rates for oil and gas properties to 6.8 % for the year ended 31 December 2007 from 6.1 % for the year ended 31 December 2006 affected by Sakhalin PSA and due to revaluation of oil and gas reserves by DeGolyer&MacNaughton.

Taxes Other than Income Tax

Taxes other than income tax include the mineral extraction tax, the excise tax (mainly with respect to petroleum products), the unified social tax, the property tax and other taxes. The basis for calculation of mineral extraction tax is described under “—Main Factors Affecting Results of Operations—Changes in Mineral Production Tax and Export Customs Duty” above. Taxes other than income tax increased in the periods analysed mainly due to the impact of the mineral extraction tax.

The following table sets forth Rosneft’s taxes other than income tax for the periods analysed:

	For the three months ended 31 December		For the twelve months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2008	2007	2008	2007	2006	2008-2007	2008-2007	2007-2006
	(million US\$)		(million US\$)			(%)	(%)	(%)
Mineral extraction tax	1,806	3,163	12,817	9,323	6,342	(42.9)%	37.5%	47.0%
Excise tax	236	277	1,120	861	329	(14.8)%	30.1%	161.7%
Social security	96	116	430	291	154	(17.2)%	47.8%	88.3%
Property tax	77	43	261	186	107	79.1%	40.3%	73.8%
Land tax	6	5	23	15	7	20.0%	53.3%	100.0%
Transportation tax	1	1	5	4	2	0.0%	25.0%	100.0%
Other taxes and payments	30	63	154	210	49	(52.4)%	(26.7)%	328.6%
Total taxes other than income tax	2,252	3,668	14,810	10,890	6,990	(38.6)%	36.0%	55.8%

Taxes other than income tax decreased by 38.6% to US\$ 2,252 million in the fourth quarter of 2008, compared to US\$ 3,668 million in the fourth quarter of 2007. The reduction in taxes resulted mainly from a decrease in mineral extraction tax per barrel by 43.3%.

Taxes other than income tax increased by 36.0% in the twelve months ended 31 December 2008 to US\$ 14,810 million, compared to US\$ 10,890 million in the twelve months ended 31 December 2007. The growth in taxes resulted mainly from an increase in mineral extraction tax per barrel by 38.7% due to increase in average crude oil prices.

Taxes other than income tax increased by 55.8 % for the year ended 31 December 2007 to US\$ 10,890 million, compared to US\$ 6,990 million for the year ended 31 December 2006. The growth in taxes resulted mainly from taxes other than income tax of US\$ 1,805 million of the subsidiaries recently acquired from Yukos as the acquisition resulted in Rosneft bearing directly the excise tax, and an increase in export duty and mineral production tax per tonne due to higher prices of crude oil.

In May 2007, Rosneft was included in the Russian Government's list of strategic enterprises and organisations. As a strategic enterprise, Rosneft is eligible to restructure its tax debt to the federal budget. As such, Rosneft became generally eligible for the tax restructuring process. Following the intention Rosneft proceeded with the tax restructuring in respect of Yuganskneftegaz back-taxes. These tax liabilities were already fully accrued in the consolidated financial statements in prior periods together with all penalties and interest.

In the first quarter of 2008, the Company's Federal tax debt of RUB 57.3 billion was restructured for a period of five years (through 2012 inclusively) pursuant to an Order of the Government of the Russian Federation. In the consolidated financial statements as of and for the twelve months ended 31 December 2008, this liability has been reclassified as long-term and amounted to US\$ 1,611 million. As of 31 December 2008, the Company has no unsettled tax debts, fines and penalties.

According to the restructuring plan, the Company must make quarterly payments over the course of five years beginning in March 2008, in order to repay this Federal tax debt. In accordance with restructuring plan, the Company payments excluding interests amounted to RUB 4,646 million (US\$ 186.3 million at the CBR official exchange rate in effect as of the dates of payments) for the twelve months of 2008.

The Company intends to comply with all requirements of the restructuring plan.

Export Customs Duty

Export customs duties include crude oil and petroleum product export customs duties. The export customs duties are discussed above under “—Main Factors Affecting Results of Operations—Taxation, Including Changes in Mineral Extraction Tax and Export Customs Duty.”

The following table sets forth Rosneft’s export customs duties for the periods analysed:

	For the three months ended 31 December		For the twelve months ended 31 December			Change		
	2008	2007	2008	2007	2006	For the three months ended 31 December 2008	For the twelve months ended 31 December 2007	For the twelve months ended 31 December 2006
	(US\$ million)					(%)		
Export customs duty for crude oil	3,694	3,467	17,200	10,754	9,763	6.5%	59.9%	10.2%
Export customs duty for petroleum products	987	868	4,806	2,278	1,377	13.7%	110.9%	65.4%
Total export customs duties	4,681	4,335	22,006	13,032	11,140	8.0%	68.9%	17.0%

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

	For the three months ended 31 December		For the twelve months ended 31 December		
	2008	2007	2008	2007	2006
	(US\$ per barrel, except %)		(US\$ per barrel, except %)		
Average Urals price	54.06	85.91	94.52	69.39	61.27
Hypothetical export customs duty if calculated per formula in customs legislation, but using the average Urals price in the indicated period (i.e. without effect of time lag)	22.89	43.60	49.19	32.88	27.60
Average price of crude oil sold by Rosneft to non-CIS Countries	53.50	86.11	93.09	69.50	60.04
Hypothetical export customs duty as a percentage of average Urals prices as calculated	42.3%	50.8%	52.0%	47.4%	45.0%
Actual customs duty paid by Rosneft during the period	37.90	31.52	46.17	25.34	27.24
Actual customs duty paid by Rosneft during the period as a percentage of average Urals prices	70.1%	36.7%	48.8%	36.5%	44.5%
	(US\$ million, except %)		(US\$ million, except %)		
Crude oil customs duties ⁽¹⁾	3,694	3,467	17,200	10,754	9,763
Crude oil export sales ⁽²⁾	4,968	9,199	33,608	28,725	21,513
Export customs duty as % of crude oil export sales	74.4%	37.7%	51.2%	37.4%	45.4%

(1) Until 1 January 2007, export customs duties were not payable on exports to CIS countries that are members of the Customs Union, which are Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. Starting from 1 January 2008 export customs duties are levied on export sales to Belarus at a fractional rate of 0.335 of the general export customs rate (general export customs rate is stated in section “—Main Factors Affecting Results of Operations — Taxation Including Changes in Mineral Extraction Tax and Export Customs Duty”).

(2) Excluding crude oil export sales where export customs duties are not payable.

The impact of export customs duties on Rosneft’s margins varies from period to period depending both on the average Urals price per barrel during each period and on the timing and direction of price movements within each period. This is due to the more rapid impact of price changes on Rosneft’s revenue determined under US GAAP than on the amount of export customs duty determined under the formula. The effect of this timing factor¹ can be seen in the relative movements over time of “hypothetical export customs duty as percentage of average Urals prices, as calculated” and “actual export customs duty paid by Rosneft during the period as a percentage of average Urals prices” in the preceding table.

¹ Following the latest changes in legislation, the rate of export custom duty starting from October 15, 2008 is calculated in accordance with one month price monitoring period instead of two months period settled previously, which leads to decrease of time lag in settlement of export customs duty and consequently to decrease of overpayment while crude oil export prices are falling.

In the fourth quarter of 2008, compared to the fourth quarter of 2007 hypothetical export customs duties decreased as a percentage of average Urals prices as calculated, and actual customs duty increased as a percentage of the average Urals price. Export customs duties were US\$ 4,681 million in the fourth quarter of 2008 compared to US\$ 4,335 million in the fourth quarter of 2007. This increase was primarily due to an increase in petroleum product exports for 14.8% and due to an increase in the rate of the export customs duty from 9.1% to 10.1% depending on the type of hydrocarbons, after taking into account the lag in the calculation of the export customs duty rate. This increase was partially offset by a 3.4% decrease in volumes of crude oil exports.

For the twelve months of 2008 compared to the twelve months of 2007, hypothetical export customs duties increased as a percentage of average Urals prices as calculated, and actual customs duty increased as a percentage of the average Urals price. For the twelve months of 2007 compared to the twelve months of 2006, hypothetical export customs duties increased as a percentage of average Urals prices as calculated, and actual customs duty decreased as a percentage of the average Urals price.

Export customs duties were US\$ 22,006 million for the twelve months of 2008 compared to US\$ 13,032 million for the twelve months of 2007. This increase was primarily due to a 34.8% growth in export volumes of petroleum products, accompanied by an increase in the rate of the export customs duty from 66.1% to 72.0% depending on the type of hydrocarbons, after taking into account the lag in the calculation of the export customs duty rate. This increase was partially offset by a 6.9% decrease in volumes of crude oil exports.

Export customs duties were US\$ 13,032 million for the year ended 31 December 2007 compared to US\$ 11,140 million for the year ended 31 December 2006. The increase resulted from a growth in exports to non-CIS countries of 7.9% for crude oil and 45.8% for petroleum products and is connected with change in export customs duty rate, which ranged from 4.9% to 5.4%, depending on the type of hydrocarbons. The increase also resulted from the introduction of export duty on crude oil exported from the Russian Federation to Belarus and export duties of the subsidiaries recently acquired from Yukos.

Operating Income

As a result of the factors discussed above, operating income decreased by 121.3% in the fourth quarter of 2008 compared to the fourth quarter of 2007. As a percentage of total revenues, operating loss was (8.2) % in the fourth quarter of 2008 and the operating income was 25.4% in the fourth quarter of 2007. As a percentage of revenues, operating income before taxes other than income tax and export customs duty was 56.0% and 74.0% in the fourth quarters of 2008 and 2007, respectively.

As a result of the factors discussed above, operating income increased by 21.3% for the twelve months of 2008 compared to the twelve months of 2007. As a percentage of total revenues, operating income was 18.9%, 21.8% and 16.9% for the twelve months of 2008, 2007 and 2006 respectively. As a percentage of revenues, operating income before taxes other than income tax and export customs duty was 72.2%, 70.4% and 71.7% in the twelve months of 2008, 2007 and 2006, respectively.

Other Income/(Expenses)

Interest Income

Interest income increased by 66.1% to US\$ 98 million in the fourth quarter of 2008 from US\$ 59 million in the fourth quarter of 2007, and increased by 75.2% to US\$ 375 million for the twelve months of 2008 from US\$ 214 million for the twelve months of 2007, which was mainly due to the growth in the Company's banking activities and funds placed on deposits before the repayment of the final tranche of a bridge loan in September 2008.

Interest income increased by 58.5 % to US\$ 214 million for the year ended 31 December 2007 from US\$ 135 million for the year ended 31 December 2006. These increases were mainly due to the growth in the banking activities.

Interest Expense

Interest expense decreased by 3.7% to US\$ 388 million in the fourth quarter of 2008 from US\$ 403 million in the fourth quarter of 2007.

Interest expense decreased by 24.4% to US\$ 1,112 million for the twelve months of 2008 from US\$ 1,470 million for the twelve months of 2007.

The main reason for these decreases was the decrease in the LIBOR rate from 4.60% as of 31 December, 2007 to 0.43% as of 31 December 2008, accompanied by a decrease in principal amounts of loans and borrowings as of these dates.

Interest expense increased by 103.0 % to US\$ 1,470 million for the year ended 31 December 2007 compared to US\$ 724 million for the year ended 31 December 2006. The increase resulted from the increase in principal amounts of loans.

Income from Yukos Bankruptcy Proceeds

In June 2007, the Company received approximately RUB 294.3 billion (US\$ 11.5 billion at the CBR exchange rate in effect as of the reception date) as a creditor in the Yukos bankruptcy. Out of this amount, US\$ 483 million was recorded as a repayment of debt receivable acquired earlier, US\$ 2,0 billion was recorded as collection of accounts receivable, including accounts receivable related to the new assets, and the remaining US\$ 8,970 million was recorded as income in the consolidated statement of income.

The Company used these proceeds to reduce the US\$ 22.0 billion in Company borrowings (see – “Significant Acquisitions in the twelve months of 2008 and in 2007– Yukos Assets”), as well as other borrowings.

Gain/Loss on Disposal of Property, Plant and Equipment

From time to time, Rosneft disposes of property, plant and equipment. In the fourth quarter of 2008, Rosneft recorded a net loss of US\$ 20 million on the disposal of property, plant and equipment compared to a net loss of US\$ 36 million recorded in the fourth quarter of 2007.

Loss on disposal of property, plant and equipment was US\$ 58 million in the twelve months ended 31 December 2008, compared to a loss of US\$ 119 million in the twelve months ended 31 December 2007.

Loss on disposal of property, plant and equipment was US\$ 119 million for the year ended 31 December 2007, compared to a loss of US\$ 95 million for the year ended 31 December 2006. This increase was primarily due to a write-off of housing in Chechnya and in the Russian Far East.

Assets impairment loss

In 2008 based on the annual impairment test results the Company estimated and recognized assets impairment losses in the amount of US\$108 million, including US\$ 58.3 million loss in the value of investment in Polar Lights Company (“PLC”) and US\$ 50 million in other investment.

Other Income/(Expenses), Net

Other expenses, net, consist principally of social expenditures and of write-offs of trade and other payables and receivables.

In the fourth quarter of 2008, other expenses, net, amounted to US\$ 69 million, compared to US\$ 20 million of other income, net, in the fourth quarter of 2007.

In the twelve months ended 31 December 2008, other expenses, net, were US\$ 135 million, compared to US\$ 195 million of other expenses, net, in the twelve months ended 31 December 2007. The decrease in expenses was primarily due to the write-off of US\$ 56 million of promissory notes prompted by the expiration of the period during which claims for such promissory notes must be made.

For the year ended 31 December 2007, other expenses, net, were US\$ 195 million, compared to US\$ 320 million for the year ended 31 December 2006. This change was partially explained by a US\$ 98 million income related to the receipt of title to a 100% interest in Yukos-Mamontovo for no consideration. See “—Significant Acquisitions in 2008 and 2007—Other Significant Acquisitions—Yukos-Mamontovo”. Other income of subsidiaries recently acquired from Yukos was US\$ 35 million for the year ended 31 December 2007.

Foreign Exchange Gain/(Loss)

Foreign exchange gain was US\$ 946 million in the fourth quarter of 2008 compared to the loss of US\$ 246 million in the fourth quarter of 2007.

Foreign exchange gain was US\$ 1,148 million for the twelve months of 2008 compared to the loss of US\$ 409 million for the twelve months of 2007. This change resulted from the impact of change in US dollar exchange rate together with a decrease in net negative rouble-denominated monetary position in income and other tax liabilities and deferred tax liabilities as of 31 December 2008.

Foreign exchange losses were US\$ 409 million for 12 months ended 31 December 2007 compared to US\$ 470 million for 12 months ended 31 December 2006. The decrease in foreign exchange losses resulted from the impact of the agreements for forward sale of US dollar-denominated revenue entered into by Rosneft in January 2007 in order to hedge currency risk.

Income Tax

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

	For the twelve months ended 31 December		
	2008	2007	2006
Effective income tax rate for Rosneft under US GAAP	15%	28%	13%

The Company does not pay taxes based on its consolidated income before taxes under Russian law. Income tax is calculated for each subsidiary based on its profits in accordance with the Russian tax code.

The US GAAP effective income tax rate was 15%, 28% and 13% for the twelve months of 2008, 2007 and 2006, respectively.

The most significant factors affecting the effective income tax rate in 2008 were the impact of change of income tax rate from 24% to 20% due to the legislation changes, foreign exchange gain determined under US GAAP and fines and penalties for taxes. The effect from the change of income tax rate was recognized in the fourth quarter of 2008.

Income tax benefit was US\$ 1,458 million in the fourth quarter of 2008 compared to the income tax expense of US\$ 1,711 million in the fourth quarter of 2007. Current income tax turned into income tax benefit of US\$ 584 million in the fourth quarter of 2008 from the expense of US\$ 1,547 million in the fourth quarter of 2007, while deferred income tax turned to income tax benefit of US\$ 874 million from the expense of US\$ 164 million in the fourth quarter of 2007.

Income tax was US\$ 1,904 million in the twelve months of 2008 compared to US\$ 4,906 million in the twelve months of 2007. Current income tax expense decreased to US\$ 3,394 million in the twelve months of 2008 from US\$ 3,848 million in the twelve months of 2007, while deferred income tax turned to income tax benefit of US\$ 1,490 million from the expense of US\$ 1,058 million.

Income tax amounts to US\$ 4,906 million for the year ended 31 December 2007 compared to US\$ 540 million for the year ended 31 December 2006. Current income tax increased to US\$ 3,848 million for the year ended 31 December 2007 from US\$ 2,385 million for the year ended 31 December 2006, while deferred income tax turned to tax expense of US\$ 1,058 million from the income tax benefit of US\$ 1,845 million, primarily due to the income tax on income from Yukos bankruptcy proceeds. Income tax for subsidiaries recently acquired from Yukos was US\$ 206 million for the year ended 31 December 2007 from the date of acquisition of these assets, while current income tax for these subsidiaries was US\$ 269 million and deferred income tax benefit was US\$ 63 million.

Minority Interest in Subsidiaries' Earnings, Net of Tax

Minority interest in subsidiaries' earnings, net of tax, was US\$ 39 million in the fourth quarter of 2008 compared to US\$ 6 million in the fourth quarter of 2007. The change was due to the acquisition of minority interest in the fourth quarter of 2008.

Minority interest in subsidiaries' earnings, net of tax, was US\$ 95 million in the twelve months of 2008 compared to US\$ 21 million in the twelve months of 2007. The change was due to the acquisition of minority interest in the twelve months of 2008.

Minority interest in subsidiaries' earnings, net of tax, was US\$ 21 million for the year ended 31 December 2007 compared to US\$ 92 million in 2006, mainly as a result of the consolidation via the Share Swap.

Net Income

As a result of the factors discussed above, net income decreased by 74.0% to US\$ 775 million in the fourth quarter of 2008 from US\$ 2,976 million in the fourth quarter of 2007. As a percentage of revenues, net income was 7.2% and 18.0% in the fourth quarters of 2008 and 2007, respectively.

Net income decreased by 13.5% to US\$ 11,120 million in the twelve months of 2008 from US\$ 12,862 million in the twelve months of 2007. As a percentage of revenues, net income was 16.1% and 26.1% in the twelve months of 2008 and 2007, respectively.

Net income increased by 264.1% to US\$ 12,862 million in the twelve months of 2007 from US\$ 3,533 million in the twelve months of 2006. As a percentage of revenues, net income was 26.1% in the twelve months of 2007 and 10.7% in the twelve months of 2006.

Liquidity and Capital Resources

Cash Flows

The principal items of the statement of cash flows for the periods analysed are as follows:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2008	2007	2008	2007	2006	2008-2007	2008-2007	2007-2006
	(US\$ million)		(US\$ million)			times	times	times
Net cash provided by operating activities	602	4,022	14,393	17,110	2,590	(6.7)	(1.2)	6.6
Net cash used in investing activities	(3,430)	(2,414)	(10,822)	(20,095)	(6,513)	1.4	(1.9)	3.1
Net cash provided by financing activities	3,111	(1,584)	(3,074)	3,440	3,225	2.0	(1.1)	1.1

Net Cash Provided by Operating Activities

Net cash provided by operating activities amounted to US\$ 602 million in the fourth quarter of 2008 as compared to US\$ 4,022 million in the fourth quarter of 2007. The decrease in net cash from operating activities resulted mainly from the decrease in a net income for the period being analyzed by 74.0%, compensated by the decrease in working capital resulting primarily from a significant decrease in accounts receivable.

In 2008, the value-added tax (VAT) and excise receivables were settled through cash payments and a legal offset against current tax liabilities. The total amount of VAT and excise recovered was RUB 63.3 billion (US\$ 2.16 billion at the CBR official exchange rate as of December 31, 2008), including US \$ 1.3 billion of income tax offsets.

Net cash provided by operating activities amounted to US\$ 14,393 million for the twelve months of 2008 as compared to US\$ 17,110 million for the twelve months of 2007. In 2007 the increase in net cash from operating activities resulted mainly from Yukos bankruptcy proceeds received by Rosneft in June 2007 as a creditor. Net cash from operating activities excluding Yukos bankruptcy proceeds, amounted to US\$ 6,103 million in the twelve months of 2007.

The increase in net cash provided by operating activities, excluding Yukos bankruptcy proceeds, resulted from an increase in a net income (to US\$ 10,449¹ million for the twelve months of 2008 from US\$ 6,497¹ million for the twelve months of 2007) and the decrease in the working capital.

The decrease in working capital in the twelve months of 2008 is primary attributable to:

- A significant decrease in accounts receivable of US\$ 2,180 million due to
 - a decrease in export VAT, as a result of the reimbursement of export VAT during the twelve months of 2008, this was partially offset by an increase in other tax settlements of US\$ 850 million (mainly income tax);

¹ Adjusted for the effect of the income tax rate change, asset impairment and interest swap, as well as for the effect of Yukos bankruptcy and interest accrued in relation to Yuganskneftegaz tax liabilities (See "Key financial ratios- Adjusted net income margin").

- a decrease in trade receivables which mainly resulted from settlements by letters of credit reducing the period of collection in the first half of 2008 and the decrease in market prices and export volumes (mainly in the fourth quarter of 2008);
- a decrease in other receivables by US\$ 128 million that was offset by an increase in banking loans to customers of US\$ 11 million.

Net cash increase, provided from operating activities in 2007 in comparison with 2006 resulted from the income received from the Yukos bankruptcy process.

Net Cash Used in Investing Activities

Net cash used in investing activities was US\$ 3,430 million in the fourth quarter of 2008 compared to US\$ 2,414 million in the fourth quarter of 2007. The increase in the fourth quarter resulted mainly from the returns of the short-term deposits placed in June 2008 in the amount of US\$ 893 million.

Net cash used in investing activities amounted to US\$ 10,822 million for the twelve months of 2008 compared to US\$ 20,095 million for the twelve months of 2007. Net cash used in investing activities in 2007 included US\$ 19,075 million cash (US\$ 16,254 million net of cash purchased) used for the acquisition of Yukos assets and US\$ 3,400 million received as an advance payment for the sale of 50.0% of Tomskneft. Capital expenditures amounted to US\$ 8,732 million for the twelve months of 2008 and US\$ 6,780 million for the twelve months of 2007.

The increase in capital expenditures, in turn, resulted from: an increase in investments in upstream subsidiaries mainly Vankorneft, Purneftegaz, Yuganskneftegaz and Samaraneftgaz; an increase in investments in downstream subsidiaries due to modernization initiatives; the acquisition of construction materials, such as, pipes and spare parts that are used for drilling oil wells and constructing the infrastructure (see “Capital expenditures”) and the acquisition of the equipment for construction in the Khanty-Mansiysk and Samara regions.

Net cash used in investing activities amounted to US\$ 20,095 million for the twelve months of 2007 compared to US\$ 6,513 million for the twelve months of 2006. In 2007 the increase in cash used in investing activity resulted from the cash used for the acquisition of Yukos assets.

Net Cash (Used in)/Provided by Financing Activities

Net cash provided by financing activities was US\$ 3,111 million in the fourth quarter of 2008 compared to net cash used in financing activities of US\$ 1,584 million in the fourth quarter of 2007.

Net cash used in financing activities was US\$ 3,074 million in the twelve months of 2008 compared to net cash provided by financing activity of US\$ 3,440 million for the twelve months of 2007.

The decrease in cash provided by financing activities in the twelve months of 2008 compared to the corresponding period of 2007 was primarily due to the final repayment of the bridge loan in September 2008 (see “Debt Obligations”) that was used for the acquisition of Yukos assets and for general corporate purposes in 2007.

Net cash provided by financing activities was US\$ 3,440 million for the 12 months ended 31 December 2007 compared to US\$ 3,225 million for the 12 months ended 31 December 2006. The increase was primarily due to US\$ 22 billion loans provided by a syndicate of international banks, US\$ 9.2 billion of which were repaid out of Yukos bankruptcy proceeds. Also Rosneft repaid previously obtained loans in the amount of US\$ 1.5 billion from Yukos bankruptcy proceeds and other free cash. In addition, Rosneft purchased treasury stock for a total consideration of US\$ 7,521 million.

Capital Expenditures

The table below sets forth Rosneft's total capital expenditures by types of activities as well as its licence acquisition costs, for the periods analysed:

	For 3 months ended 31 December		For 12 months ended 31 December			% change for 3 months ended 31 December	% change for 12 months ended 31 December	% change for 12 months ended 31 December
	2008	2007	2008	2007	2006	2008-2007	2008-2007	2007-2006
	(US\$ million)		(US\$ million)			(%)	(%)	(%)
Yuganskneftegaz	818	710	2,866	2,185	1,181	15.2%	31.2%	85.0%
Vankor field	718	292	2,433	1,009	469	145.9%	141.1%	115.1%
Purneftegaz	85	163	491	423	204	(47.9)%	16.1%	107.3%
Severnaya Neft	37	58	181	212	140	(36.2)%	(14.6)%	51.4%
Tomskneft	-	123	-	233	-	(100.0)%	(100.0)%	100.0%
Samaraneftegaz	62	76	195	115	-	(18.4)%	69.6%	100.0%
Other ¹	80	170	311	432	641	(52.9)%	(28.0)%	(32.6)%
Total upstream segment	1,800	1,592	6,477	4,609	2,635	13.1%	40.5%	74.9%
The Company	8	39	122	99	14	(79.5)%	23.2%	607.2%
Tuapse refinery	22	58	137	106	77	(62.1)%	29.2%	37.6%
Komsomolsk refinery	28	17	73	61	58	64.7%	19.7%	5.1%
Angarsk refinery	27	27	83	80	-	0.0%	3.4%	100.0%
Achinsk refinery	15	38	44	62	-	(60.5)%	(29.0)%	100.0%
Syzran refinery	25	22	78	31	-	13.6%	151.6%	100.0%
NovoKuibyshev refinery	14	31	54	44	-	(54.9)%	22.7%	100.0%
Kuibyshev refinery	18	26	55	52	-	(30.8)%	5.8%	100.0%
Marketing Business Units and others ²	149	144	488	458	325	3.5%	6.6%	40.9%
Total downstream	306	402	1,134	993	474	(23.9)%	14.2%	109.4%
Other activities ³	167	202	543	329	184	(17.3)%	65.0%	78.9%
Subtotal capital expenditures	2,273	2,196	8,154	5,931	3,293	3.5%	37.5%	80.1%
Net increase in construction materials	34	46	578	309	169	(26.1)%	87.1%	82.8%
Other former Yukos assets ⁴	-	-	-	540	-	-	(100.0)%	100.0%
Total capital expenditures and capex acquisition	2,307	2,242	8,732	6,780	3,462	2.9%	28.8%	95.8%
Licence acquisition costs	-	38	47	90	916	(100.0)%	(47.8)%	(90.2)%
Total capital expenditures and acquisition of licences	2,307	2,280	8,779	6,870	4,378	1.2%	27.8%	56.9%

¹ Including: Krasnodarneftegaz, Stavropolneftegaz, Sakhalin 1, Grozneftegaz, VSNK and Dagneftegaz

² Relating to companies providing processing and storage services

³ Relating to other services companies

⁴ Assets acquired in lots #17-18 during Yukos bankruptcy proceedings

Rosneft's total capital expenditures including material purchases and licenses acquisitions increased by 1.2% or by US\$ 27 million to US\$ 2,307 million in the fourth quarter of 2008 compared to US\$ 2,280 million in the fourth quarter of 2007.

The increase in the fourth quarter of 2008 was mainly driven by the upstream segment in which the capital expenditures increased by US\$ 208 million, a 13.1% increase, accompanied by the decrease in the downstream segment in which the capital expenditures decreased by 23.9%, or by US\$ 96 million. The growth in the upstream segment was mainly attributable to capital expenditures in the Vankor field. The decrease in capital expenditures in the downstream segment was attributable to the Tuapse, Achinsk, Kuibyshev, NovoKuibyshev refineries, that was partially compensated by the increase in capital expenditures in Syzran refinery, and by the increase in the capital expenditures in Komsomolsk refineries due to the modernisation programme launched. The decrease in the downstream segment in the fourth quarter of 2008 mainly resulted from the transferring of the modernization programs to 2009 year.

Capital expenditures for other activities decreased by 17.3%, or by US\$ 35 million, in the fourth quarter of 2008, compared to US\$ 202 million in the fourth quarter of 2007. The decrease for other activities resulted, primarily, from the transfer of certain investment projects in 2009.

Rosneft's total capital expenditures increased by 28.8% or by US\$ 1,952 million to US\$ 8,732 million for the twelve months of 2008 compared to US\$ 6,780 million for the twelve months of 2007. This increase was driven by the upstream segment, where capital expenditures increased by 40.5%, or by US\$ 1,868 million, accompanied by a US\$ 141 million increase in capital expenditures in the downstream segment.

The growth in the upstream segment was mainly attributable to capital expenditures in the Vankor field, Purneftegaz, Yuganskneftegaz and in Samaraneftegaz, which was acquired by Rosneft in May 2007. The growth in capital expenditures in the downstream segment was mainly attributable to the Angarsk, Syzran, Kuibyshev and NovoKuibyshev refineries that Rosneft acquired in May 2007, to new marketing business units acquired by Rosneft in 2007, as well as to the modernisation programme launched at the Tuapse refinery. In addition, the Company's capital expenditures in the downstream segment increased as a result of increases in advances made for delivery of the gas-turbine equipment in 2008.

Rosneft's total capital expenditures increased by 95.8 % or by US\$ 3,318 million to US\$ 6,780 million for 12 months ended 31 December 2007 compared to US\$ 3,462 million in 2006. This increase was primarily driven by the upstream segment, where capital expenditures increased by 74.9%, or by US\$ 1,974 million, accompanied by a US\$ 519 million increase in the downstream segment and the acquisition of other former Yukos assets.

Capital expenditures for other activities increased by 65.0%, or by US\$ 214 million, in the twelve months of 2008, to US\$ 543 million compared to US\$ 329 million in twelve months of 2007. The increase for other activities resulted, primarily, from a growth in capital expenditures of service companies, such as RN-Burenie, RN-Service and other services companies.

Capital expenditures for other activities increased by 78.9%, or by US\$ 145 million, in 2007, compared to US\$ 184 million in 2006. The increase for other activities mainly resulted from a growth in capital expenditures of the Company's service companies, such as RN-Burenie, as well as, other new acquired service companies.

Since the fourth quarter of 2006, the Company's subsidiaries purchase construction materials and sell such materials to contractors that provide construction and drilling services on subsidiaries' wells. The net increase in unused construction materials amounting to US\$ 578 million, US\$ 309 million and US\$ 169 million in the twelve months of 2008, 2007 and 2006 , respectively, is included in capital expenditures as investing activity cash outflow.

The licence acquisition costs in the twelve months of 2008 were attributable to the acquisition of a licence for the exploration and production in Umotkinsky Block. In the twelve months of 2007 the licence costs related to licences for explorations and production of crude oil and gas in the Samara, Khanty-Mansiysk, Krasnoyarsk, Tomsk and Irkutsk regions and Udmurtiya.

For the twelve months of 2008 and in the fourth quarter of 2008, the total amount of capital investments related to the assets acquired from Yukos (see –“Significant Acquisitions in the twelve months of 2008 and in 2007–2007– Yukos Assets”) was US\$ 853 million and US\$ 238 million, respectively, including US\$ 235 million and US\$ 63 million in the upstream segment, US\$ 511 million and US\$ 146 million in the downstream segment and US\$ 107 million and US\$ 29 million in the other segment, respectively.

Debt Obligations

Over the past few years, Rosneft has raised significant amounts of funds through the additional short-term debt and long-term loans to supplement the net cash generated by Rosneft's operating activities. These funds have been used to finance the capital expenditures required to develop Rosneft's upstream and downstream operations and to purchase new assets and licences. Most of the loans obtained were used to finance the acquisition of new assets in 2007.

In March-May 2007, the Company obtained bridge financing from a consortium of international banks in the total amount of US\$ 22.0 billion to finance acquisitions (see –“Significant Acquisitions in 2007– Yukos Assets”). These bridge loans were fully repaid or refinanced in 2008.

Rosneft's total loans and borrowings decreased to US\$ 24,165 million as of 31 December 2008 from US\$ 27,273 million as of 31 December 2007.

As of 31 December 2008, the bank loan raised to finance the acquisition of Yuganskneftegaz was comprised of a long-term loan obtained through a government-owned bank at a rate of LIBOR plus 0.7% per annum repayable in equal monthly instalments. It is scheduled for repayment in 2011 and is secured by pledging the Company's receivables under a long-term contract for the supply of crude oil.

In February 2008, Rosneft raised a floating interest syndicated loan in the amount of US\$ 3.0 billion and made an additional drawdown of US\$ 425 million in April 2008. The loan is repayable by equal quarterly instalments within 5 years. The loan is secured by oil export contracts.

In July 2008, Rosneft raised another floating interest syndicated loan in the amount of US\$ 2.85 billion and made an additional drawdown of US\$ 350 million in September 2008. The loan is repayable by equal quarterly instalments within 5 years. The loan is secured by oil export contracts.

Long-term loans are generally secured by oil export contracts. Under the terms of such contracts, if the Company fails to repay debt in time, the lender is usually provided with an express right of claim for contractual revenue that must be remitted directly to US dollar denominated accounts opened with the lender's banks. As of 31 December 2008 and 31 December 2007, 60.4% and 37.1%, respectively, of Rosneft's borrowings were secured by crude oil export contracts (excluding export to the CIS). As of 31 December 2008 and 31 December 2007, pledged oil exports constituted 46.3% and 37.1%, respectively, of the total crude oil export sales for the period in question (excluding export to the CIS).

Rosneft's short-term borrowings (including the current portion of long-term debt) decreased to US\$ 14,084 million as of 31 December 2008, from US\$ 15,550 million as of 31 December 2007.

In June 2008, the Group sold 412.86 million treasury shares of Rosneft to a syndicate of international banks for US\$ 2.35 billion cash under a repurchase agreement. The Company has a right and obligation to repurchase the shares within one year. The repurchase obligation carries an interest of 5.76% p.a. In accordance with the repurchase agreement, this transaction was accounted for in the consolidated balance sheet as secured financing. In the third and fourth quarters of 2008, as a result of margin calls Rosneft transferred an additional 82.07 million treasury shares as collateral and paid US\$ 1.39 billion in cash, of which US\$ 0.5 billion was credited towards the repurchase obligation. As of December 31, 2008, the repurchase obligation (without accrued interest) amounted to US\$ 1.9 billion.

As of 31 December 2008, the Company's long-term and short-term debt assumed through the direct acquisition of new assets amounted to US\$ 1,511 million. Assumed debt includes promissory notes (nominal value and accrued interest) in the amount of US\$ 1,360 million, of which US\$ 1,0 million were long-term promissory notes and US\$ 1,359 million were short-term promissory notes. Total short-term promissory notes included approximately US\$ 694 million due on demand (including promissory notes issued by Yuganskneftegaz), which, if presented for payment and paid, could affect Rosneft's liquidity.

As discussed in Note 16 to the consolidated financial statements, the Company must comply with a number of restrictive financial and other covenants, including the maintenance of certain financial ratios, pursuant to its loan agreements. Due to the Company's acquisition in December 2004 of Yuganskneftegaz and its assets and liabilities, including consolidated contingent liabilities and to the resulting debt incurred to finance such acquisition, the Company was not in compliance with various financial and other covenants of existing loan agreements as of December 2004. In July 2005, the Company obtained waivers from the respective creditors related to the violation of restrictive financial ratios, and these creditors agreed to amend the financial ratio covenants in line with Rosneft's new structure and scope of activities. The creditors also waived other events of default arising from the breach of other covenant provisions. With effect from 1 January 2007, the creditors granted amendments to the loan agreements which remove these provisions and have included new waivers which state that the Company must:

- redeem, secure, discharge in full or restructure (and comply with any restructuring plans once it is agreed upon) all Yuganskneftegaz's tax liabilities by 3 January 2009 (extended from 3 January 2008 by waivers obtained in December 2007); and
- pay any arbitration award relating to the Moravel litigation or the Yukos Capital S.a.r.l. litigation if any such arbitration award is granted by a court of the Russian Federation, within the time frame provided for such payment under Russian Law.

These conditions also apply to certain new borrowings obtained throughout 2007 and 2008.

Additionally, in November and December 2007, the creditors waived certain possible violations and/or events of default under the loan agreements with respect to the loans payable to Yukos Capital S.a.r.l. by OJSC Tomskneft VNK and OJSC Samaraneftgaz, and to the condition related to OJSC Yuganskneftgaz's tax liabilities described above, effective through January 3, 2009 (see Note 24 to the consolidated financial statements).

In 2008, the Company fully restructured OJSC Yuganskneftgaz's tax liabilities (see Note 22 to the consolidated financial statements). In December 2008, the creditors waived certain possible violations and/or events of default under the loan agreements with respect to the loans payable to Yukos Capital S.a.r.l. by OJSC Samaraneftgaz (waiver extended until January 3, 2010).

As of December 31, 2008, the Company is in compliance with all restrictive financial and other covenants contained within its loan agreements.

The following table shows the scheduled maturities of Rosneft's long-term debt outstanding as of 31 December 2008:

	(US\$ million)
Before 31 December 2009	5,315
2010	4,604
2011	2,695
2012	2,005
2013 and after	777
Total long-term debt	15,396

Key Financial Ratios

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

	For 3months ended 31 December		For 12 months ended 31 December		
	2008	2007	2008	2007	2006
EBITDA margin	0.3%	30.8%	24.8%	29.4%	21.9%
Adjusted net income margin	0.7%	13.3%	15.1%	13.2%	10.6%
Net debt to capital employed ratio	0.35	0.48	0.35	0.48	0.38
Net debt to adjusted EBITDA ratio, annualised	>100	1.29	1.24	1.82	1.83
Current ratio	0.68	0.68	0.68	0.68	0.87
Return on average capital employed (ROACE)	(2.7)%	24.1%	17.5%	18.6%	18.1%
Return on average equity (ROAE)	0.9%	34.4%	30.6%	25.6%	22.4%
			(US \$)		
EBITDA/bbl	0.18	25.65	24.17	20.29	12.63
EBITDA/boe	0.16	22.91	22.07	17.96	11.07
Upstream capital expenditure/bbl	10.09	8.04	9.15	6.47	4.57
Upstream capital expenditure/boe	9.17	7.17	8.36	5.73	4.02
Upstream operating expenses/bbl	3.77	3.63	3.41	3.48	2.83
Upstream operating expenses/boe	3.43	3.24	3.11	3.08	2.49
Adjusted free cash flow /bbl	(9.56)	0.26	7.93	(1.08)	(3.10)
Adjusted free cash flow /boe	(8.68)	0.23	7.24	(0.95)	(2.72)

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

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

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

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

Adjusted free cash flow/bbl and adjusted free cash flow/boe are calculated for any period by dividing adjusted free cash flow during that period by the barrels of crude oil or barrels of oil equivalent, respectively, produced during that period. Adjusted free cash flow is net cash provided by operating activities minus capital expenditures. Licence acquisition costs are not included in capital expenditures. No adjustments to these measures are made to take into account the effect of changes in inventories during the period.

Upstream operating expenses include lifting costs, and the costs of gathering, treating, processing and storing the crude oil and gas in the fields and delivering the crude oil and gas to a main pipeline (e.g., a Transneft trunk pipeline transshipment point). Upstream operating expenses exclude a portion of the costs relating to intersegment transactions, mainly operating leases relating to certain oil and gas facilities. One of these entities, Yukos-Mamontovo, was transferred to Rosneft in April 2007 pursuant to a court decision, and amounts in respect of these operating leases are excluded as intersegment transactions going forward. Rosneft believes these exclusions are appropriate because if the leased oil and gas facilities were owned by the upstream segment instead of being leased from another segment, depreciation expense would be accrued instead of lease expense, and that depreciation expense would not be included in upstream operating expenses.

The following tables set forth relevant numbers relating to these measures for and as of the periods indicated:

Upstream Measures

	For 3 months ended 31 December		For 12 months ended 31 December		
	2008	2007	2008	2007	2006
Upstream capital expenditures ⁽¹⁾ (US\$ million)	1,800	1,592	6,477	4,609	2,635
Upstream operating expenses (US\$ million)	673	720	2,414	2,482	1,632
Barrels of crude oil produced (millions)	178.34	198.13	707.68	712.83	576.31
Barrels of oil equivalent produced (millions)	196.33	221.90	775.16	804.90	656.15

(1) Excluding licence acquisition costs.

Calculation of Adjusted Free Cash Flow

	For 3 months ended 31 December		For 12 months ended 31 December		
	2008	2007	2008	2007	2006
			(US\$ million)		
Net cash provided by operating activities	602	4,022	14,393	17,110	2,590
Capital expenditures ⁽¹⁾	(2,307)	(2,242)	(8,732)	(6,780)	(3,462)
Free cash flow	(1,705)	1,780	5,661	10,330	(872)
License acquisition costs	-	(38)	(47)	(90)	(916)
Net proceeds from Yukos bankruptcy	-	(1,691)	-	(11,007) ²	-
Adjusted free cash flow before interest	(1,705)	51	5,614	(767)	(1,788)

(1) Excluding licence acquisition costs.

(2) Excluding the acquisition of US\$ 483 million of debt receivable that is included in the net cash from investing activities

Calculation of EBITDA Margin¹

	For the 3 months ended 31 December		For the 12 months ended 31 December		
	2008	2007	2008	2007	2006
			(US\$ million, except %)		
Net income (before minority interests)	814	2,982	11,215	12,883	3,625
Income tax expense	(1,458)	1,711	1,904	4,906	540
Total other (income)/expenses	(246)	(508)	(114)	(7,068)	1,439
Operating income	(890)	4,185	13,005	10,721	5,604
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	-	1	-	374	(13)
Accretion expense	20	36	120	78	34
Depreciation, depletion and amortisation	902	862	3,983	3,286	1,638
Adjusted EBITDA	32	5,084	17,108	14,459	7,263
Total revenues	10,799	16,493	68,991	49,216	33,099
Adjusted EBITDA margin	0.3%	30.8%	24.8%	29.4%	21.9%

¹ In 2007 the EBITDA margin is adjusted for the effect of interests accrued in relation to Yuganskneftegaz tax liabilities

Calculation of Adjusted Net Income Margin

	For 3 months ended 31 December		For 12 months ended 31 December		
	2008	2007	2008	2007	2006
	(US\$ million, except %)				
Net income	775	2,976	11,120	12,862	3,533
Effect from the assets impairment and loss from interests SWAP	256	14	285	14	
Effect from the income tax rate change	(956)		(956)		
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	-	1	-	438	(13)
Income from Yukos bankruptcy proceeds	-	(1,050)	-	(8,970)	-
Income tax from Yukos bankruptcy proceeds	-	252	-	2,153	-
Adjusted net income	75	2,193	10,449	6,497	3,520
Sales revenues	10,799	16,493	68,991	49,216	33,099
Adjusted net income margin	0.7%	13.3%	15.1%	13.2%	10.6%

Current ratio

	For 12 months ended 31 December	
	2008	2007
	(US\$ million, except ratio)	
Current assets	12,807	14,968
Current liabilities	18,697	22,124
Current ratio	0.68	0.68

Calculation of Capital Employed and Related Indicators

	For 12 months ended 31 December		
	2008	2007	2006
	(US\$ million)		
Short-term loans and current portion of long-term debt	14,084	15,550	6,427
Long-term debt	10,081	11,723	7,402
Cash and cash equivalents ⁽¹⁾	(2,882)	(998)	(505)
Net debt	21,283	26,275	13,324
Shareholders' equity	38,903	28,440	21,875
Minority interest in subsidiaries' earnings	695	277	225
Equity	39,598	28,717	22,100
Capital employed	60,881	54,992	35,424
Average equity, including minority interest⁽²⁾	34,158	25,409	15,697
Average capital employed⁽³⁾	57,937	45,208	27,874

(1) Excluding also short term deposits in the amount of US\$ 983 million and short term promissory note in the amount of US\$ 530 million as of 31 December 2008.

(2) 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.

(3) Average capital employed is calculated as a simple average of the capital employed at the start and the end of the given period.

Calculation of Return on Average Capital Employed (ROACE)

	For 12 months ended 31 December		
	2008	2007	2006
	(US\$ million, except %)		
Operating income	13,005	10,721	5,604
Income tax expense	(1,904)	(4,906)	(540)
Effect from the income tax rate change	(956)		
Income tax from Yukos bankruptcy proceeds	-	2,153	-
Interest accrued in relation to Yuganskneftegaz tax liabilities for 1999-2004	-	438	(13)
Return used for calculation of ROACE	10,145	(8,406)	5,051
Average capital employed	57,937	45,208	27,874
ROACE	17.5%	18.6%	18.1%

Calculation of Return on Average Equity (ROAE)

	For 12 months ended 31 December		
	2008	2007	2006
	(US\$ million, except %)		
Adjusted net income	10,449	6,497	3,520
Average equity, including minority interest	34,158	25,409	15,697
ROAE, annualized where appropriate	30.6%	25.6%	22.4%