

**OJSC Rosneft Oil Company**

**Interim Condensed Consolidated Financial Statements**

*Three months ended March 31, 2006 and 2005*

# OJSC Rosneft Oil Company

## Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2006 and 2005

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# OJSC Rosneft Oil Company

## Consolidated Balance Sheets

(in millions of US dollars, except share amounts)

	Notes	March 31, 2006 (unaudited)	December 31, 2005
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	\$ 489	\$ 1,173
Restricted cash		24	23
Short-term investments		230	165
Accounts receivable, net		2,965	2,858
Inventories		911	814
Deferred tax assets		55	48
Prepayments and other current assets		944	897
<b>Total current assets</b>		<b>5,618</b>	<b>5,978</b>
<b>Non-current assets:</b>			
Long-term investments		517	436
Long-term bank loans granted, net		50	63
Acquired debt receivable, net	5	456	–
Oil and gas properties, net	6	21,309	20,939
Property, plant and equipment, net		2,063	2,030
Construction-in-progress		581	509
Goodwill		35	35
Deferred tax assets		12	8
Other non-current assets, net		32	18
<b>Total non-current assets</b>		<b>25,055</b>	<b>24,038</b>
<b>Total assets</b>		<b>\$ 30,673</b>	<b>\$ 30,016</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities		\$ 1,589	\$ 1,358
Short-term loans and current portion of long-term debt	7	3,925	4,005
Income and other tax liabilities		2,928	2,810
Deferred tax liabilities		47	40
Other current liabilities		32	32
<b>Total current liabilities</b>		<b>8,521</b>	<b>8,245</b>
Asset retirement obligations		588	566
Long-term debt	7	7,708	8,198
Deferred tax liabilities		3,760	3,696
Other non-current liabilities		19	18
<b>Total liabilities</b>		<b>20,596</b>	<b>20,723</b>
<b>Minority interest</b>		<b>1,842</b>	<b>1,860</b>
<b>Shareholders' equity:</b>			
Common stock par value 0.01 RUR (shares issued and outstanding: 9,092,174,000 as of both March 31, 2006 and December 31, 2005)		20	20
Additional paid-in capital		19	19
Retained earnings		8,196	7,394
<b>Total shareholders' equity</b>		<b>8,235</b>	<b>7,433</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 30,673</b>	<b>\$ 30,016</b>

The accompanying notes to the interim condensed consolidated financial statements are an integral part of these statements.

# OJSC Rosneft Oil Company

## Consolidated Statements of Income

*(in millions of US dollars, except earnings per share data)*

	Notes	Three months ended March 31, 2006 (unaudited)	Three months ended March 31, 2005 (unaudited)
<b>Revenues</b>			
Oil and gas sales	8	\$ 5,213	\$ 2,991
Petroleum products and processing fees	8	2,219	1,311
Support services and other revenues		84	61
Total		7,516	4,363
<b>Costs and expenses</b>			
Production and operating expenses		421	357
Cost of purchased oil and petroleum products		541	114
Selling, general and administrative expenses		167	86
Pipeline tariffs and transportation costs		693	358
Exploration expenses		35	25
Depreciation, depletion and amortization		384	337
Accretion expense		8	8
Taxes other than income tax		1,574	1,024
Excise tax and export customs duty	8	2,168	854
Total		5,991	3,163
<b>Operating income</b>		1,525	1,200
<b>Other income /(expenses)</b>			
Interest income		38	14
Interest expense		(203)	(191)
Loss on disposal of property, plant and equipment		(4)	(2)
Loss on disposal of investments		–	(10)
Equity share in affiliates' profits		8	9
Dividends and income from joint ventures		1	8
Other expenses, net		(26)	(53)
Foreign exchange (loss) / gain		(159)	14
Total other income / (expenses)		(345)	(211)
<b>Income before income tax and minority interest</b>		1,180	989
Income tax expense	9	(335)	(257)
<b>Income before minority interest</b>		845	732
Minority interest in subsidiaries' earnings, net of tax		(43)	(8)
<b>Net income</b>		\$ 802	\$ 724
Earnings per share (in US\$) – basic and diluted		\$ 0.09	\$ 0.08
Weighted average number of shares outstanding (in thousands)		9,092,174	9,092,174

*The accompanying notes to the interim condensed consolidated financial statements are an integral part of these statements.*

OJSC Rosneft Oil Company  
Consolidated Statements of Cash Flows

*(in millions of US dollars)*

	<b>Three months ended March 31, 2006 (unaudited)</b>	<b>Three months ended March 31, 2005 (unaudited)</b>
<b>Operating activities</b>		
Net income	\$ 802	\$ 724
Reconciliation of net income to net cash provided by / ( used in) operating activities:		
Effect of foreign exchange	135	28
Depreciation, depletion and amortization	384	337
Dry well expenses	1	4
Loss on disposal of property, plant and equipment	4	2
Deferred income tax	(78)	(58)
Accretion expense	8	8
Equity share in affiliates' profits	(8)	(9)
Increase in allowance for doubtful accounts and bank loans granted	1	10
Minority interests in subsidiaries' earnings	43	8
Changes in operating assets and liabilities net of acquisitions:		
Increase in accounts receivable	(110)	(982)
Increase in inventories	(97)	(147)
Increase in restricted cash	(1)	(6)
Increase in prepayments and other current assets	(47)	(76)
(Increase) / decrease in other non-current assets	(14)	4
Decrease / (increase) in long-term bank loans granted	15	(62)
Increase in interest payable	25	54
Increase / (decrease) in accounts payable and accrued liabilities	231	(182)
Increase in income and other tax liabilities	118	309
Increase / (decrease) in other current and non-current liabilities	1	(18)
<b>Net cash provided by / (used in) operating activities</b>	<b>1,413</b>	<b>(52)</b>
<b>Cash flows from investing activities</b>		
Capital expenditures	(848)	(312)
Proceeds from disposals of property, plant and equipment	4	3
Acquisition of short-term investments	(75)	(36)
Proceeds from sale of short-term investments	10	50
Acquisition of entities and additional shares in subsidiaries, net of cash acquired	(105)	(112)
Proceeds from sale of long-term investments	7	21
Acquisition of debt receivable	(463)	-
Acquisition of long-term investments	(36)	(14)
<b>Net cash used in investing activities</b>	<b>\$ (1,506)</b>	<b>\$ (400)</b>

*The accompanying notes to the interim condensed consolidated financial statements are an integral part of these statements.*

OJSC Rosneft Oil Company  
Consolidated Statements of Cash Flows (continued)

	<b>Three months ended March 31, 2006 (unaudited)</b>	<b>Three months ended March 31, 2005 (unaudited)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term debt	\$ 99	\$ 395
Repayment of short-term debt	(518)	(460)
Proceeds from long-term debt	669	163
Repayment of long-term debt	(851)	(129)
Net cash used in financing activities	<u>(601)</u>	<u>(31)</u>
Decrease in cash and cash equivalents	(694)	(483)
Cash and cash equivalents at beginning of period	1,173	1,033
Effect of foreign exchange on cash and cash equivalents	10	(19)
Cash and cash equivalents at end of period	<u>\$ 489</u>	<u>\$ 531</u>
<b>Supplementary disclosures of cash flow information</b>		
Cash paid for interest (net of amount capitalized)	\$ 166	\$ 132
Cash paid for income taxes	\$ 374	\$ 231
<b>Supplementary disclosure of non-cash activities</b>		
Income tax offsets	\$ 9	\$ 1

*The accompanying notes to the interim condensed consolidated financial statements are an integral part of these statements.*

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements

Three months ended March 31, 2006 and 2005

*(all amounts in tables are in million of US dollars, except as noted otherwise)*

### 1. Nature of Operations

Open Joint Stock Company ("OJSC") Rosneft Oil Company ("Rosneft") and its subsidiaries, (collectively the "Company" or the "Group"), are principally engaged in exploration, development, production and sale of crude oil and gas and refining, transportation and sale of petroleum products in the Russian Federation ("RF") and in certain international markets.

### 2. Significant Accounting Policies

#### Form and Content of the Interim Condensed Consolidated Financial Statements

The Company maintains its books and records in accordance with accounting and taxation principles and practices mandated by the Russian legislation. The accompanying interim condensed consolidated financial statements were derived from the Company's Russian statutory books and records with adjustments made to present them in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

The interim condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with US GAAP for interim financial reporting of public companies (primarily Accounting Principle Board Opinion 28 (APB 28) "Interim Financial Reporting") and do not include all disclosures required by US GAAP. The Company omitted disclosures which would substantially duplicate the disclosures contained in its 2005 audited consolidated financial statements, such as accounting policies and details of accounts which have not changed significantly in amount or composition. Additionally, the Company has provided disclosures where significant events have occurred subsequent to the issuance of its 2005 audited consolidated financial statements. Management believes that the disclosures are adequate to make the information presented not misleading if these interim condensed consolidated financial statements are read in conjunction with the Company's 2005 audited consolidated financial statements and the notes related thereto. In the opinion of management, the financial statements reflect all adjustments of a normal and recurring nature necessary to present fairly the Company's financial position, results of operations and cash flows for the interim periods.

The results of operations for three months ended March 31, 2006 may not be indicative of the results of operations for the full year. These interim condensed consolidated financial statements contain information updated through June 9, 2006.

The accompanying interim condensed consolidated financial statements differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments, not recorded in the Company's statutory books, which are appropriate to present the financial position, results of operations and cash flows in accordance with US GAAP. The principal adjustments relate to: (1) recognition of certain expenses; (2) valuation and depreciation of property, plant and equipment; (3) foreign currency translation; (4) deferred income taxes; (5) valuation allowances for unrecoverable assets; (6) accounting for the time value of money; (7) accounting for investments in oil and gas property and conveyances; (8) consolidation principles; (9) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (10) accounting for asset retirement obligations; (11) business combinations and goodwill/negative goodwill.

The impact on the consolidated statement of income of the OJSC Yuganskneftegaz purchase price allocation adjustment recorded in the third quarter of 2005 has been accounted for retrospectively from January 1, 2005. Accordingly, depreciation depletion and amortization expense for the three months period ended March 31, 2005 reflects this retrospective effect.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Management Estimates

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the amounts of revenues and expenses recognized during the reporting periods. Certain significant estimates and assumptions for the Company include: estimation of economically recoverable oil and gas reserves; rights to and recoverability and useful lives of long-term assets and investments; impairment of goodwill; allowances for doubtful accounts receivable; asset retirement obligations; legal and tax contingencies; environmental remediation obligations; recognition and disclosure of guarantees and other commitments; fair value measurements; ability to renew operating leases and to enter into new lease agreements; classification of certain debt amounts. Some of the most significant estimates are made in connection with the acquisition of OJSC Yuganskneftegaz. Management believes it has a reasonable and appropriate basis for its judgment pertaining to its estimates and assumptions. However, actual results could differ from those estimates.

#### Foreign Currency Translation

The management of the Company has determined the US Dollar as the functional and reporting currency for the purpose of financial reporting under US GAAP.

Monetary assets and liabilities have been translated into US dollars using the official exchange rate as of the balance sheet date. Non-monetary assets and liabilities have been translated at historical rates. Revenues, expenses and cash flows are translated into US dollars at average exchange rates prevailing on transaction dates. Gains and losses resulting from the re-measurement into US dollars are included in the "Foreign exchange gain" in the consolidated statement of income.

As of March 31, 2006, December 31, 2005, and as of March 31, 2005, the Central Bank of Russian Federation official rates of exchange ("CBR rate") were 27.76 rubles, 28.78 RUB and 27.83 rubles per US dollar respectively. Average rates of exchange in the first three months of 2006 and 2005 were calculated as 28.16 rubles and 27.84 rubles per US dollar, respectively. As of June 9, 2006 the official rate of exchange was 26.88 rubles per US dollar.

The translation of local currency denominated assets and liabilities into US dollars for the purposes of these financial statements does not indicate that the Company could realize or settle, in U.S. dollars, the reported values of these assets and liabilities. Likewise, it does not indicate that the Company could return or distribute the reported US dollar value of capital to its shareholders.

#### Income Taxes

The Company follows the provisions of APB 28, *"Interim Financial Reporting"*, to arrive at the effective tax rate. The effective tax rate is the best estimate of the expected annual tax rate to be applied to the taxable income for the current reporting period. The rate is based on the currently enacted tax rate (24%) and includes estimates of the annual tax effect of permanent differences and the realization of certain deferred tax assets.

#### Comprehensive Income

As of March 31, 2006 and 2005, there were no other comprehensive income items and, therefore, comprehensive income for the first three months of 2006 and 2005 equals net income.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 3. Significant Acquisitions

#### OJSC Rosneft – Tuapsenfteprodukt

In January 2006, the Company, through one of its subsidiaries, purchased an additional 39.26% of the voting stock (30.24% of the share capital) of OJSC Rosneft – Tuapsenfteprodukt, a consolidated subsidiary. The purchase price amounted to US\$ 100 million and was paid in cash. After the purchase, the Company's share in OJSC Rosneft – Tuapsenfteprodukt increased from 50.67% to 89.93% of voting shares (from 38.00% to 68.24% of the share capital). The purchase price was fully allocated to the fair value of assets acquired and liabilities assumed. This allocation is preliminary and will be adjusted upon completion of the valuation of properties, plant and equipment.

#### OJSC Daltransgaz

In February 2006, the Company purchased 25% of the additional issue of shares by OJSC Daltransgaz, an equity investee, for RUR 722 million (US\$ 26 million at the exchange rate as of date of settlement), thus maintaining its interest in OJSC Daltransgaz of 25% plus one share.

### 4. Cash and Cash Equivalents

Cash and cash equivalents comprise the following:

	<b>March 31, 2006</b> <b>(unaudited)</b>	<b>December 31,</b> <b>2005</b>
Cash in hand and cash in bank – RUR	\$ 130	\$ 414
Cash in hand and cash in bank – foreign currencies	214	394
Deposits and other	145	365
<b>Total cash and cash equivalents</b>	<b>\$ 489</b>	<b>\$ 1,173</b>

Cash accounts denominated in foreign currencies represent primarily cash in US\$.

### 5. Acquired Debt Receivable, net

The Company and a group of banks led by Societe Generale S.A. entered into an agreement granting the Company the right to claim the outstanding balance due from Yukos Oil Company under a syndicated loan of US\$ 1,000 million. Under this agreement, the right to claim the debt and other rights and benefits per original loan agreement between the bank syndicate and Yukos Oil Company were transferred from the banks to the Company in March 2006 upon the payment of the outstanding loan principal, accumulated interest (up to the date of repayment), legal and other fees in the amount totaling US\$ 483 million.

In particular the Company took over from the bank syndicate the claimant position in the court hearings, in Amsterdam Arbitration court, with respect to the collection the outstanding debt balance.

The carrying value of the receivable includes allowance for losses in the amount of US\$ 27 million. No interest is being accrued on this balance.

## OJSC Rosneft Oil Company

### Notes to Interim Condensed Consolidated Financial Statements (continued)

#### 6. Oil and Gas Properties, Net

Oil and gas properties comprise the following:

	March 31, 2006 (unaudited)	December 31, 2005
Wells and related facilities	\$ 13,082	\$ 12,606
Mineral rights	10,959	10,723
Pipelines	1,047	1,057
Equipment under capital lease	219	214
Total cost	25,307	24,600
Less: accumulated depletion	(3,998)	(3,661)
<b>Total oil and gas properties, net</b>	<b>\$ 21,309</b>	<b>\$ 20,939</b>

Mineral rights include costs to acquire unproved properties in the amount of US\$ 1,619 million as of March 31, 2006 and US\$ 1,382 million as of December 31, 2005. The Company plans to explore and develop the respective fields. The Company's management believes these costs are recoverable.

OJSC Yuganskneftegaz in its operating activities enters into short-term lease contracts for a significant number of wells and related equipment and facilities. These agreements are entered into with the owners of the wells, equipment and facilities, which are certain subsidiaries of Yukos Oil Company. All of the lease agreements are cancellable in nature and most expire within one year. The inability of the Company to extend these lease agreements and/or otherwise obtain rights to use the wells and related facilities in the oil production may have material adverse consequences for the Company's ability to extract and recover a portion of the carrying value of the \$7,903 million in oil and gas properties and the \$9,291 million in mineral rights acquired in the business combination. During 2005, all the expired lease contracts were extended for a period of up to one year. The Company's management plans to attempt to further extend the above leases. Following a claim brought by OJSC Yuganskneftegaz in March 2006, the Moscow Arbitration Court ruled that the 100% ownership interest in one of the subsidiaries, which is the most significant lessor, should be transferred from Yukos Oil Company to OJSC Yuganskneftegaz. This ruling was upheld in the appeal hearings on June 1, 2006, which made it legally binding and enforceable. However, this ruling is subject to further appeals during the two-month period following the decision and the Company has not yet assessed the impact of such transfer, if any, on the financial position or results of operations. While the Company believes that it will likely be able either to extend the above leases and/or otherwise continue to extract minerals from the related sites, no assurances can be provided in this regard.

#### 7. Short-Term Loans and Long-Term Debt

Short-term loans and borrowings comprise the following:

	March 31, 2006 (unaudited)	December 31, 2005
<b>Loans and borrowings - US\$ denominated</b>		
Bank loans	\$ 300	\$ 794
Customer deposits	39	42
Other	6	3
<b>Loans and borrowings – RUR denominated</b>		
Bank loans	8	9
Promissory notes payable	697	657
Customer deposits	127	96
Other	479	453
	1,656	2,054
Current portion of long-term debt	2,269	1,951
<b>Total short-term loans and current portion of long-term debt</b>	<b>\$ 3,925</b>	<b>\$ 4,005</b>

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 7. Short-Term Loans and Long-Term Debt (continued)

The rate of interest on the Company's short-term loans denominated in US\$ was from LIBOR plus 1% to LIBOR plus 3.32% p.a. The RUR denominated loans generally bear an annual interest rate ranging from 2.4% to 8% p.a.

Promissory notes are primarily payable on demand and bear an interest rate ranging from 0% to 18%. Interest free promissory notes are recorded at amortized cost.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary bank, denominated in RUR and foreign currencies. Customer deposits denominated in RUR bear an interest rate ranging from 2.5 to 12.6% p.a. Customer deposits denominated in foreign currencies bear an interest rate ranging from 2 to 12% p.a.

Other RUR-denominated borrowings primarily include four loans provided to OJSC Yuganskneftegaz by YUKOS Capital S.a.r.l., which bear interest of 9% p.a. and mature in 2007. As of March 31, 2006 and December 31, 2005 these loans are classified as current since the creditor demanded early repayment of these loans due to non-compliance with the terms of the loan agreements.

Long-term debt comprises the following:

	<b>March 31, 2006 (unaudited)</b>	<b>December 31, 2005</b>
Bank loans – US\$ denominated	\$ 4,304	\$ 4,220
Bank loans raised for funding the acquisition of OJSC Yuganskneftegaz – US\$ denominated	5,502	5,743
Borrowings – US \$ denominated	43	49
Customer deposits – US\$ denominated	8	8
Borrowings – RUR denominated	10	9
Customer deposits – RUR denominated	56	60
Bonds of the subsidiary bank – RUR denominated	21	20
Other long-term liabilities – RUR denominated	33	40
	<b>9,977</b>	10,149
Current portion of long-term debt	<b>(2,269)</b>	(1,951)
<b>Total long-term debt</b>	<b>\$ 7,708</b>	\$ 8,198

The rates of interest on the Company's long-term bank loans denominated in US\$ were from 4.35% to 12.92% p.a. Weighted average interest rates on these loans were LIBOR plus 1.84% and LIBOR plus 2.19%, as of March 31, 2006 and as of December 31, 2005, respectively. These loans are primarily secured by contracts for the export of crude oil.

In January 2006, a subsidiary of the Company registered in Cyprus signed a loan agreement with a major international bank for an amount of EUR 188 million or US\$ 227 million using the official rate of exchange as of March 31, 2006. The loan bears an interest rate of EURIBOR plus 0.35%. The first drawdown was made during the first quarter 2006 in the amount of EUR 88.7 million or US\$ 106.9 million using the CBR rate as of March 31, 2006. Funds borrowed are to be invested in the construction of ice-reinforced tankers for crude oil transportation purposes in north-western regions of the Russian Federation. The loan is scheduled to be repaid within the twelve years following the completion of tanker construction.

In February 2006, the Company signed a loan agreement with a syndicate of Western banks for US\$ 2,000 million with a term of 5 years. The loan bears interest at LIBOR plus 0.65% p.a. In March 2006, the Company received US\$ 575 million under this loan agreement and used these funds to repay loans with less favourable terms. See also Note 13.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 7. Short-Term Loans and Long-Term Debt (continued)

As of March 31, 2006 the bank loans raised for funding the acquisition of OJSC Yuganskneftegaz represent a long-term loan obtained through a government-owned bank at a rate of LIBOR plus 0.7% p.a. repayable in equal monthly installments. It is scheduled for repayment in 2011 and is secured by pledging the Company's receivables under a long-term contract for the supply of crude oil (see Note 11).

Weighted average interest rates on US\$ denominated borrowings were 8.58% and 8.54% as of March 31, 2006, as of December 31, 2005, respectively.

Customer deposits include fixed-term RUR and foreign currency denominated customer deposits placed with the Company's subsidiary bank which mature primarily at the end of 2006 and are included in the current portion of long-term debt. The RUR-denominated deposits bear an interest rate ranging from 8.5% to 13% p.a. Deposits denominated in foreign currencies bear an interest rate ranging from 4% to 7.75% p.a.

As of March 31, 2006, other long-term liabilities include interest-free promissory notes which mature at the end of 2006. The promissory notes are stated at amortized cost and are included in the current portion of long-term debt.

The Company is obliged to comply with a number of restrictive financial and other covenants contained within its loan agreements. Restrictive covenants include maintaining certain financial ratios. As a result of the Company's acquisition of OJSC Yuganskneftegaz in December 2004, and the resulting debt incurred and assets and liabilities, including contingent liabilities, consolidated, the Company was not in compliance with various financial and other covenants of existing loan agreements as of that date.

As of December 31, 2004, the long-term portion of the debt outstanding under loan agreements which were in default amounted to US\$ 1,661 million. This debt continued to be reflected as long-term in nature in the December 31, 2004 consolidated balance sheet. In July 2005, the creditors waived violations related to restrictive financial ratios and agreed to amend the financial ratio covenants in line with the Company's new structure and new scope of activities. The creditors also waived other events of default arising from the breach of other covenant provisions. To date, the creditors have provided waivers relating to these provisions which have been granted on condition that the Company furnishes to the creditors, by no later than December 31, 2006, acceptable evidence that the Company has:

1. Discharged in full, or restructured, OJSC Yuganskneftegaz's tax liabilities for 2004 (which should not be in excess of a set limit),
2. Discharged in full, or restructured, OJSC Yuganskneftegaz's tax liabilities for the periods 1999 to 2003,
3. Discharged in full, or restructured, the indebtedness to YUKOS Capital S.a.r.l. in the amount of US\$ 470 million,
4. Discharged in full, or restructured, the guarantee claims of Societe General S.A. related to a US\$ 1,600 million loan (see Note 11).

These conditions also apply to certain new borrowings obtained throughout 2005 and also subsequent to that date. Thus, as of March 31, 2006 and December 31, 2005, long-term borrowings, for which creditors waived events of default arising from the breach of certain covenant provisions, amounted to US\$ 3,013 million and US\$ 2,831 million, respectively. This debt continues to be reflected as long-term in nature in March 31, 2006 and December 31, 2005 consolidated balance sheets. The Company's management believes that the conditions referred to above will be fulfilled.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 7. Short-Term Loans and Long-Term Debt (continued)

The aggregate maturity of long-term debt outstanding as of March 31, 2006 is as follows (assuming the debt will not be called by creditors ahead of scheduled maturities):

	<b>(unaudited)</b>
Up to December 31, 2006	\$ 1,814
2007	1,998
2008	2,154
2009	2,098
2010	1,753
2011 and after	160
<b>Total long-term debt</b>	<b>\$ 9,977</b>

### 8. Revenue Related Taxes

Revenues include the following taxes and duties:

	<b>Three months ended March 31, 2006 (unaudited)</b>	<b>Three months ended March 31, 2005 (unaudited)</b>
<i>Oil and gas sales</i>		
Export customs duty	\$ 1,833	\$ 755
<i>Petroleum products sales and processing fees</i>		
Export customs duty	331	83
Excise	4	16
Total revenue related taxes	<b>\$ 2,168</b>	<b>\$ 854</b>

### 9. Taxes

Income taxes comprise the following:

	<b>Three months ended March 31, 2006 (unaudited)</b>	<b>Three months ended March 31, 2005 (unaudited)</b>
Current income tax expense	\$ 413	\$ 315
Deferred income tax benefit	(78)	(58)
<b>Total income tax</b>	<b>\$ 335</b>	<b>\$ 257</b>

### 10. Related Party Transactions

In the course of its usual activity, the Company regularly enters into transactions with other enterprises which are directly or indirectly controlled by the Russian Government. Such enterprises are business units of RAO UES, OJSC Gazprom, OJSC Russian Railways, OJSC Sberbank, OJSC Vnesheconombank, OJSC Vneshtorgbank, OJSC Gazprombank, OJSC Transneft and federal agencies including tax authorities. Management considers these business relations as part of regular activities in the Russian Federation and believes that they will remain unchanged in the foreseeable future.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 10. Related Party Transactions (continued)

Total amounts of transactions with companies controlled by the Government of the Russian Federation for each of the reporting periods ending March 31, as well as related party balances as of March 31, 2006 and December 31, 2005 are provided in the table below:

	<b>Three months ended March 31, 2006 (unaudited)</b>	<b>Three months ended March 31, 2005 (unaudited)</b>
<b>Revenues</b>		
Oil and gas sales	\$ —	\$ 4
Sales of petroleum products and processing fees	<b>66</b>	19
	<b>\$ 66</b>	<b>\$ 23</b>
<b>Costs and expenses</b>		
Pipeline tariffs and transportation costs	\$ 449	\$ 130
Other expenses	3	4
Interest expense	122	116
	<b>\$ 574</b>	<b>\$ 250</b>
<b>Other operations</b>		
Sale of short-term and long-term investments	\$ 2	\$ 10
Acquisition of short-term and long-term investments	—	73
Proceeds from short-term and long term debt	2	—
Repayment of short-term and long term debt	1,180	—
Deposits placed	2,694	—
Deposits paid	<b>\$ 2,877</b>	<b>\$ —</b>
	<b>March 31, 2006 (unaudited)</b>	<b>December 31, 2005</b>
<b>Assets</b>		
Cash and Cash equivalents	\$ 80	\$ 376
Accounts receivable and other current assets	22	203
Prepayments	136	154
	<b>\$ 238</b>	<b>\$ 733</b>
<b>Liabilities</b>		
Accounts payable	\$ 1	\$ 4
Short-term and long-term debt (including interest)	5,623	6,890
	<b>\$ 5,624</b>	<b>\$ 6,894</b>

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 10. Related Party Transactions (continued)

Total amounts of transactions with related parties (except for those controlled by the Government of the Russian Federation), which are primarily equity investees and joint ventures, for each of the reporting periods ending March 31, as well as related party balances as of March 31, 2006 and December 31, 2005 are provided in the table below:

	<b>Three months ended March 31, 2006 (unaudited)</b>	<b>Three months ended March 31, 2005 (unaudited)</b>
<b>Revenues</b>		
Oil and gas sales	\$ 9	\$ 1
Sales of petroleum products and processing fees	16	3
Support services and other revenues	8	10
	\$ 33	\$ 14
<b>Costs and expenses</b>		
Pipeline tariffs and transportation costs	\$ 3	\$ 3
Production and operating expense	4	6
Other expenses	9	6
	\$ 16	\$ 15
<b>Other operations</b>		
Sales of short-term and long-term investments	\$ 10	\$ 78
Acquisition of short-term and long-term investments	26	77
Proceeds from short-term and long term debt	14	31
Repayment of short-term and long term debt	24	31
Borrowings issued	15	20
Borrowings repaid	\$ 1	\$ 21
	<b>March 31, 2006 (unaudited)</b>	<b>December 31, 2005</b>
<b>Assets</b>		
Accounts receivables and other current assets	\$ 13	\$ 13
Prepayments	5	–
Short-term and long-term investments	132	128
	\$ 150	\$ 141
<b>Liabilities</b>		
Accounts payable	\$ 32	\$ 24
Short-term and long-term debt (including interest)	18	2
	\$ 50	\$ 26

### 11. Commitments and Contingencies

#### Russian Business Environment

The Russian economy, while deemed to be of market status, continues to display certain traits of a market in transition, for example inflation is not low enough and the existence of currency controls, which cause the national currency to be illiquid outside Russia. In addition laws and regulations, including interpretations, enforcement and judicial processes, continue to evolve in Russia. Other laws and regulations and certain other restrictions producing a significant effect on the Company's industry, including, but not limited to the following issues: rights to use subsurface resources, environmental matters, site restoration, transportation and export, corporate governance, taxation, etc.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 11. Commitments and Contingencies (continued)

#### Taxation

Legislation and regulations regarding taxation in Russia continue to evolve. The various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities. Instances of inconsistent opinions are not unusual.

The current regime of penalties and interest related to reported and discovered violations of Russia's laws, decrees and related regulations is severe. Interest and penalties are levied when an understatement of a tax liability is discovered. As a result, penalties and interest can result in amounts higher than unreported taxes.

In Russia tax declarations remain open and subject to inspection for a period of up to three years. The fact that a year has been reviewed does not close that year, or any tax declaration applicable to that year, from further review during the three-year period.

Russian transfer pricing rules were introduced in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions with significant (by more than 20%) price fluctuations. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the Group's prices and propose an adjustment. If such price adjustments are upheld by the Russian courts and implemented, the Group's future financial results could be adversely affected. In addition, the Group could face significant losses associated with the assessment of prior tax underpaid and related interest and penalties, which could have an adverse effect on the Group's financial condition and results of operations. The Management believes that such transfer pricing related tax contingencies are remote rather than possible or probable and cannot be reasonably estimated.

During 2004 several tax audits of OJSC Yuganskneftegaz for 1999-2003 years took place and their results have been appealed in court (see the "Litigation" caption below).

During 2005 tax audits of several subsidiaries for the years 2002-2003 took place. The results of these tax audits are currently being appealed with the tax authorities. The Company believes that the resolution of these matters will not result in any material tax payments.

Overall, management believes that the Group has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and regulations are not accrued in the interim condensed consolidated financial statements.

#### Capital Commitments

The Company and its subsidiaries are engaged in ongoing capital projects for exploration and development of production facilities and modernization of refineries and the distribution network. The budgets for these projects are generally set on an annual basis. Depending on the current market situation, actual expenditures may vary from the budgeted amounts.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 11. Commitments and Contingencies (continued)

#### Environmental Matters

Due to the nature of its business, Rosneft and its subsidiaries are subject to federal legislation regulating environmental protection. The majority of environmental liabilities arise as a result of accidental oil spills and leaks that pollute land, and air pollution. The Company considers fines paid and other environmental liabilities as immaterial, given the scale of its operations.

In the course of its operations, the Company seeks to comply with international environmental standards and monitors compliance therewith on a regular basis. With a view to improve environmental activities, the Company takes a number of measures to mitigate the adverse impact of its current operations on the environment.

Legislation that regulates environmental protection in the Russian Federation is evolving, and the Company evaluates its liabilities in accordance therewith. Currently it is not possible to reasonably estimate the liabilities of the Company which may be incurred should the legislation be amended (if amended at all).

The management believes that, based on the existing legislation, the Company is unlikely to have liabilities that need to be accrued in addition to the amounts already recognized in the interim condensed consolidated financial statements and that may have a material adverse effect on the operating results or financial position of the Company.

#### Pension Plans

For the first three months of 2006 and 2005 the Company contributed to the corporate pension fund US\$ 5 million and US\$ 3 million, respectively.

#### Social Commitments

The Company possesses social infrastructure assets for use by employees. In accordance with the Presidential Edict on privatization in Russia, the Company is required to transfer social infrastructure assets to the relevant local city administrations without significant consideration. Accordingly, as the Company does not have ownership of these assets, they are not recorded in the interim condensed consolidated financial statements. However, the Company is required to maintain these assets.

The Company incurred US\$ 6 million and US\$ 2 million in social infrastructure and similar expenses for the first three months of 2006 and 2005, respectively. These expenses are presented as other expenses in the consolidated statement of income.

#### Insurance

The Company insured its assets through the insurance company SK Neftepolis LLC.

As of March 31, 2006 and December 31, 2005 the amount of coverage on assets under such insurance amounted to US\$ 1,483 million and US\$ 1,420 million, respectively.

Russian insurance providers do not offer business interruption insurance. Currently, it is not a common practice in Russia to obtain such insurance.

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 11. Commitments and Contingencies (continued)

#### Guarantees and Indemnity

As of March 31, 2006, the Company has provided guarantees for certain debt agreements. In accordance with the loan agreements, the Company is obliged to perform on the guarantee and to pay the bank all amounts of outstanding guaranteed liabilities, including interest, upon the bank's request.

The Company cannot substitute guarantees issued by any novation agreement or mutual offset. The Company's obligations under guarantees issued are valid in case of any change in loan agreements.

After the full payment and settlement of all obligations under the guarantees, the Company has the right to subrogate its respective part of all bank claims against the debtor in accordance with the loan agreement. In the event the Company makes payments under guarantees issued, it has a right to claim the amounts paid from the debtor.

The Company's outstanding guarantees as of March 31, 2006 are as follows:

Beneficiary Bank	Loan debtor	Maturity date	Contractual principal amount	Amount of outstanding liability (principal amount) as of March 31, 2006
Societe Generale S.A (as Facility Agent)	Yukos Oil Company	May 29, 2009	\$ 1,600	\$ 656
ABN AMRO	OJSC Rosneftegaz	December 30, 2008	\$ 7,500	\$ 7,306

In May 2005, Moravel Investments Limited, an affiliate of Yukos Oil Company, filed an arbitral claim against OJSC Yuganskneftegaz in the London Court of International Arbitration for the recovery of US\$ 662 million pertaining to the loan of US\$ 1,600 million from Societe Generale S.A. The Company is contesting the claim vigorously. The case will be heard in July 2006. The Company believes that the probability of any payments under the above guarantee is remote. On March 17, 2006 the Moscow Arbitration Court ruled that the guarantee agreement signed by OJSC Yuganskneftegaz with respect to Yukos Oil Company loan received from Societe Generale S.A. in the amount of US\$ 1,600 million was invalid. This ruling was upheld on May 15, 2006 by the 9<sup>th</sup> Appeal Arbitration Court in appeal hearings, which made it legally binding and enforceable. Though this resolution may be further appealed by Yukos Oil Company in accordance with generally accepted legal practices the management believes that this ruling supports the Company's position in the London Court of International Arbitration.

#### Litigation, Claims and Assessments

As of March 31, 2006, OJSC Yuganskneftegaz had unresolved disputes with the tax authorities on decisions issued as a result of tax audits for 1999-2003 in the total amount of US\$ 4,848 million. As a result of court hearings the amount of such taxes claimed was subsequently reduced to US\$ 789 million. Based on the above court decisions the estimated tax liabilities (including fines) accrued as of September 30, 2005 were decreased by RUR 1.3 billion (US\$ 46 million at March 31, 2006 CBR rate), but the additional interest in the amount of RUR 5.5 billion (US\$ 197 million at March 31, 2006 CBR rate) have been accrued. Such additional penalties include both the interest calculated based on the final amount of 1999-2003 tax liabilities and also the interest relating to 2004 tax liabilities of OJSC Yuganskneftegaz which were outstanding as of December 31, 2004. Accordingly, the total additional income tax and other tax liabilities relating to OJSC Yuganskneftegaz accrued as of March 31, 2006 amounted to US\$ 986 million (December 31, 2005 – US\$ 922 million).

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 11. Commitments and Contingencies (continued)

#### Litigation, Claims and Assessments (continued)

In 2002 an option agreement was entered into between Total E&P Vankor (Total) and Anglo-Siberian Oil Company Limited (ASOC) under which Total had a conditional option to buy the latter's 60% stake in Taimyrneft LLC which ASOC held through Anglo-Siberian Oil Company Limited (Cyprus) (ASOC Cyprus) for US\$ 1 million. ASOC and ASOC Cyprus belong to the Rosneft International Group. Total obtained injunctions in various jurisdictions to prevent ASOC Cyprus from trading in the shares of Taimyrneft LLC. In 2005 Total filed for arbitration under the option agreement requesting the specific performance under the option agreement or alternatively damages of US\$ 430 million. The Company's management believes that the claim is without merit and the option is not exercisable. Beyond professional fees, which are not material to the Company, it is unclear whether any further liabilities will be incurred but the Company's management does not believe these will be material.

During 2004 Total E&P Vankor filed a claim against ASOC Cyprus for US\$ 640 million under the sale and purchase agreement for 52% share in Eniseineft LLC. Total alleged that under the terms of a sale agreement, the shareholding in Eniseineft LLC should have been sold to them. The Company has contested this on the grounds that the relevant conditions precedent to the sale had not been met. The arbitration proceedings were completed during late 2005 and a decision is expected in June 2006.

The Company is a co-defendant in the litigation in the USA in respect of the acquisition of OJSC Yuganskneftegaz. This litigation was brought by certain holders of American Depository Receipts ("ADRs") of Yukos Oil Company seeking US\$ 3 million in damages due to the fall in market value of the ADRs. The Company believes that this claim is without merit.

The Company is also a co-defendant in litigation in the Moscow Arbitration Court with respect to the auction for the common shares of OJSC Yuganskneftegaz. This litigation was brought by Yukos Oil Company. The claimant is seeking to recover all the common shares of OJSC Yuganskneftegaz and also damages in the total amount of RUR 388 billion (approximately US\$ 14 billion at the CBR rate as of March 31, 2006). The court hearings have been postponed for an indefinite period. The Company believes that this claim is without merit.

The Company's subsidiaries are involved in other litigations which arise from time to time in the course of their business activities. The Company's management believes that the ultimate result of these litigations will not significantly affect the operating results or financial position of the Company.

#### License Agreements

In accordance with certain licence agreements or separate agreements concluded from time to time with the local and regional authorities the Company is required to maintain certain levels of expenditures for health, safety and environmental protection, as well as maintain certain level of capital expenditures. Generally these expenditures are within the normal operating and capital budgets and are accounted for when incurred in accordance with existing accounting policies for respective costs and expenses.

#### Oil Supplies

In January 2005, the Company entered into a long-term contract until 2010 with China National United Oil Corporation for export supplies of crude oil in the total amount of 48.4 million tonnes to be delivered in equal annual amounts. The prices are determined based on usual commercial terms for crude oil deliveries.

## OJSC Rosneft Oil Company

### Notes to Interim Condensed Consolidated Financial Statements (continued)

#### 12. Segment Information

Presented below is information about the Company's operating segments in accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Information*. The Company determines its operating segments based on differences in the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The exploration and production segment is engaged in field exploration and development and production of crude oil and natural gas. The refinery, marketing and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as purchasing, sale and transportation of crude oil and petroleum products. The other activities segment consists of banking, finance services, drilling services, construction services and other activities. Substantially all of the Company's operations are conducted in the Russian Federation. Further, the geographical regions within the Russian Federation have substantially similar economic and regulatory conditions. Therefore, the Company has not presented any separate geographical disclosure.

The segments are combinations of subsidiaries. The significant accounting policies applied to each segment are consistent with those applied to the interim condensed consolidated financial statements. Sales transactions for goods and services between the segments are carried out using prices agreed upon between Rosneft and its subsidiaries.

Operating segments during the three months ended March 31, 2006 are as follows:

	<b>Exploration and production (unaudited)</b>	<b>Refining, marketing and distribution (unaudited)</b>	<b>Other activities (unaudited)</b>	<b>Total Elimination (unaudited)</b>	<b>Consolidated (unaudited)</b>
Revenues from external customers	\$ 117	\$ 7,359	\$ 40	\$ –	\$ 7,516
Intersegmental revenues	2,679	209	129	(3,017)	–
Total revenues	<u>\$ 2,796</u>	<u>\$ 7,568</u>	<u>\$ 169</u>	<u>\$ (3,017)</u>	<u>\$ 7,516</u>
Operating expenses and cost of purchased oil and petroleum products	\$ 306	\$ 646	\$ 10	\$ –	\$ 962
Depreciation, depletion and amortization	\$ 267	\$ 114	\$ 3	\$ –	\$ 384
Operating income	\$ 605	\$ 3,813	\$ 124	\$ (3,017)	\$ 1,525
Total other income, net					<u>(345)</u>
Income before income tax					<u>\$ 1,180</u>
Total assets	\$ 23,358	\$ 6,189	\$ 1,126	\$ –	\$ 30,673

## OJSC Rosneft Oil Company

### Notes to Interim Condensed Consolidated Financial Statements (continued)

#### 12. Segment Information (continued)

Operating segments during the three months ended March 31, 2005 are as follows:

	<b>Exploration and production (unaudited)</b>	<b>Refining, marketing and distribution (unaudited)</b>	<b>Other activities (unaudited)</b>	<b>Total Elimination (unaudited)</b>	<b>Consolidated (unaudited)</b>
Revenues from external customers	\$ 90	\$ 4,248	\$ 25	\$ –	\$ 4,363
Intersegmental revenues	1,701	176	74	(1,951)	–
<b>Total revenues</b>	<b>\$ 1,791</b>	<b>\$ 4,424</b>	<b>\$ 99</b>	<b>\$ (1,951)</b>	<b>\$ 4,363</b>
Operating expenses and cost of purchased oil and petroleum products	\$ 285	\$ 174	\$ 12	\$ –	\$ 471
Depreciation, depletion and amortization	\$ 305	\$ 31	\$ 1	\$ –	\$ 337
Operating income	\$ 177	\$ 2,909	\$ 65	\$ (1,951)	\$ 1,200
Total other expenses, net					(211)
Income before income tax					\$ 989
Total assets	\$ 21,206	\$ 4,651	\$ 1,051	\$	\$ 26,908

Below is a breakdown of revenues by domestic and export sales, with a classification of export sales based on the direction of shipment.

<b>Oil and gas sales</b>	<b>Three months ended March 31, 2006 (unaudited)</b>	<b>Three months ended March 31, 2005 (unaudited)</b>
Domestic sales of crude oil	\$ 58	\$ 257
Domestic sales of gas	50	40
Export sales of crude oil – CIS	395	319
Export sales of crude oil – Europe	3,747	2,156
Export sales of crude oil – Asia	963	219
<b>Total oil and gas sales</b>	<b>\$ 5,213</b>	<b>\$ 2,991</b>
<b>Petroleum products and processing fees</b>	<b>Three months ended March 31, 2006 (unaudited)</b>	<b>Three months ended March 31, 2005 (unaudited)</b>
Domestic sales	\$ 915	\$ 542
Export sales of petroleum products and processing fees - CIS	38	5
Export sales of petroleum products and processing fees - Europe	810	481
Export sales of petroleum products and processing fees – South-East Asia	456	283
<b>Total petroleum products and processing fees</b>	<b>\$ 2,219</b>	<b>\$ 1,311</b>

# OJSC Rosneft Oil Company

## Notes to Interim Condensed Consolidated Financial Statements (continued)

### 13. Subsequent Events

In April 2006, the Company executed several agreements granting it a decrease in the interest rate to LIBOR plus 0.65% p.a. for outstanding loans totalling US\$ 3,096 million as of March 31, 2006.

In April 2006 the company received remaining US\$ 1,425 million related to the loan agreement with a syndicate of Western banks for US\$ 2,000 million (See Note 7).

In the second quarter of 2006 the Company won a number of auctions for the exploration and development of oil and gas fields in the Irkutsk region. The total cost of acquisitions amounted to RUR 3.7 billion (US\$ 134 million at the CBR rate as of March 31, 2006).

In April 2006, the Rosneft board of directors, as well as the boards of directors or other relevant corporate bodies of each of OJSC Yuganskneftegaz, OJSC Rosneft-Purneftegaz, OJSC Selkupneftegaz, OJSC Severnaya Neft, OJSC Rosneft-Krasnodarneftegaz, OJSC Rosneft-Stavropolneftegaz, OJSC Rosneft-Sakhalinmorneftegaz, OJSC Rosneft-Komsomolskiy Refinery, OJSC Rosneft-Tuapsinskiy Refinery, OJSC Rosneft-Arkhangelsknefteprodukt, OJSC Rosneft-Nakhodkanefteprodukt and OJSC Rosneft-Tuapsenefteprodukt (each, a "Merging Subsidiary" and collectively, the "Merging Subsidiaries"), adopted the proposal to shareholders to consolidate each respective Merging Subsidiary into Rosneft through a statutory merger and an exchange of shares at specified ratios (the "Share Swap"). In June 2006, the Rosneft shareholders, as well as the shareholders of each Merging Subsidiary, approved the Share Swap. Pursuant to the Share Swap, Rosneft will offer in aggregate up to 1,222,059,382 of its common shares to minority shareholders in the Merging Subsidiaries in consideration for their common and preferred shares. Shares in each Merging Subsidiary will be exchanged at a certain agreed exchange ratio.

On May 5, 2006 the Rosneft Board of Directors recommended to the annual shareholders' meeting to declare annual dividends for common stock in the amount of RUR 11,336 million (US\$ 408 million at the CBR rate as of March 31, 2006). This amount is approximately US\$ 0.04 per share at the CBR rate as of March 31, 2006. This recommendation was approved by the Rosneft shareholders meeting on June 7, 2006.

Rosneft shareholders meeting on June 7, 2006 also authorized issuance of up to 7,438,514,449 additional common shares par value 0.01 RUR, which includes those allocated for the Share Swap as discussed above. Furthermore, the shareholders authorized issuance of additional 400,000,000 common shares par value 0.01 RUR through a private placement.

In July 2006 the Rosneft Shareholders intend to execute Initial Public Offering of Rosneft common shares in Russian Federation and global depository receipts ('GDR') representing such common shares on London Stock Exchange.