

ROSNEFT ANNUAL REPORT 2011

GLIMPING THE FUTURE



ROSNEFT
OIL COMPANY



011

ROSNEFT

01

The Company obtained licenses at six areas in the Sea of Okhotsk. Overall recoverable resources of hydrocarbons at the areas are estimated at 1.2 bln tonnes of oil and 2.1 trillion cubic meters of gas.

02

A license was obtained for 3.6 bln rubles giving rights at the Naulskoye field in Nenets Autonomous District. Field reserves in categories C1+C2 are estimated at 51.3 mln tonnes of oil.

03

Two new fields were discovered at the Danilovsky license area in Eastern Siberia adjacent to the Verkhnechonsk field. Recoverable C1+C2 reserves are estimated to be in excess of 56 mln tonnes of oil and 15 bln cubic meters of gas.

04

An agreement on strategic partnership was reached with ExxonMobil. The agreement is for joint geological exploration and development of offshore license areas in the Kara and Black seas, implementation of joint international projects, exchange of technologies and experience, and possible joint work on hard-to-recover reserves in Western Siberia.

05

A memorandum of understanding was signed with the Venezuelan state oil company Petróleos de Venezuela S.A. on creation of a joint venture for development of heavy oil reserves in Venezuela as part of the Carabobo-2 project. Rosneft's interest in the planned JV will be 40%.

06

The Arctic Research and Design Center for Offshore Development was set up. The key task of the center is systematic R&D, project and design support at all stages of field development on Russia's Arctic shelf.

07

A delayed coking unit at the Komsomolsk Refinery was completed, and an isomerization unit at the Syzran Refinery and a gasoline blending unit at the Achinsk Refinery were both commissioned during the year. Renovations of the diesel hydrotreatment unit at the Achinsk Refinery and catalytic reforming units at the Kuibyshev and Syzran Refineries were also carried out in 2011. All of this work is part of the Company's program for modernization of its refining facilities.

08

A transaction was completed for the acquisition of a 50% interest in the company Ruhr Oel GmbH (a joint venture between Rosneft and BP) from the Venezuelan state oil company PDVSA. Ruhr Oel holds stakes in four oil refineries in Germany. The transaction increases refining capacities of Rosneft by 11.6 mln tonnes.

09

Rosneft began production and marketing of its own premium-class fuel under the Fora brand.

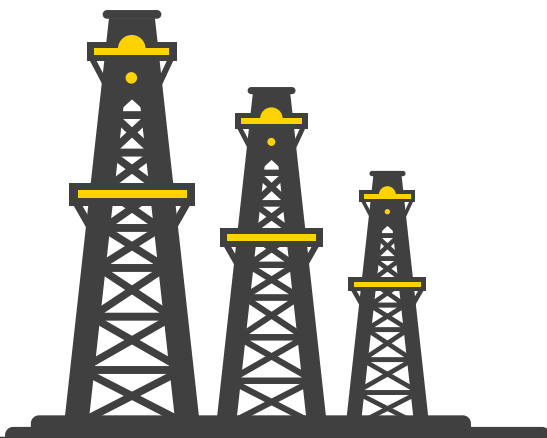
01

Resource Potential: the Foundation for Long-term Growth

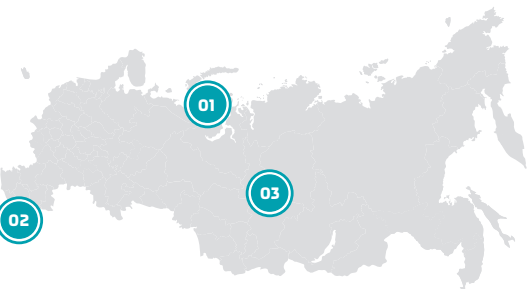
Rosneft expanded its resource base
by 3 times in 2011 and began working
on Russia's Arctic shelf.



Resource base
is the key competitive advantage of any oil company and an important factor for sustainable long-term growth.



- » **STATUS:** World leader by recoverable resources
- » **CHALLENGE:** Expansion of the resource base and transformation of resources into proved reserves
- » **FUTURE:** Sustainable growth of hydrocarbon production



- 01
The East-Prinovozemelsky Blocks
- 02
The Tuapse Block
- 03
Western Siberia

IN 2011 ROSNEFT ENTERED A STRATEGIC PARTNERSHIP AGREEMENT WITH EXXONMOBIL FOR JOINT DEVELOPMENT OF THREE OFFSHORE BLOCKS IN THE KARA SEA AND ONE BLOCK IN THE BLACK SEA. THE JOINT WORK WILL BE ACCOMPANIED BY AN EXCHANGE OF MANAGEMENT EXPERIENCE AND KNOW-HOW.

120

GEOLOGICAL
EXPLORATION
AREAS

The resource base is the key competitive advantage of any oil company and an important factor for sustainable long-term growth.

Rosneft has unique access to Russia's outstandingly rich resource base. Western Siberia, with its huge proved reserves, is the Company's main operating region, and the region's potential will increase further in the future thanks to development of technology for the extraction of hard-to-recover oil reserves. A new oil production hub is currently taking shape in Eastern Siberia thanks to successful geological exploration projects. The forecast resource base of Russia's Arctic Shelf, where Rosneft owns a number of license areas, amounts to hundreds of billions of barrels of oil equivalent.

Rosneft's estimated recoverable resources as of December 31, 2011 were 154 bln barrels of oil equivalent, including preliminary estimates for offshore areas in the Sea of Okhotsk which were acquired at the end of 2011. This is the highest figure for public oil & gas companies worldwide. Even 10% confirmation of these resources would be equivalent to doubling of Rosneft's current proved reserves, and the Company is already a sector leader by proved reserves with reserve life of 25 years at current production levels.



154

BLN BARRELS OF OIL EQUIVALENT
OF RECOVERABLE HYDROCARBON
RESOURCES

Constant expansion of resource potential by the acquisition of rights to new resource areas is an integral part of Rosneft's long-term development strategy. As of the end of 2011 a total of 17 applications by the Company for rights in offshore areas in Russia's Arctic seas were under consideration by the Federal Agency on Mineral Resources. Positive decisions were obtained at the end of 2011 for three applications concerning areas in the Barents Sea (Fedynsky, Central-Barentsevsky and Perseyevsky) with recoverable resources in excess of 40.6 bln barrels of oil equivalent, and the licenses were issued at the start of 2012. Overall resource potential at offshore areas, for which the Company intends to obtain licenses (including the licenses already received at the start of 2012), is about 263 bln barrels of oil equivalent. That figure exceeds total recoverable resources of Rosneft as of the end of 2011 by 1.7 times.

The transfer of resources to proved reserves will require expensive geological exploration work and the application of new technologies and innovations. In 2011 Rosneft entered a strategic partnership agreement with ExxonMobil for joint development of three offshore blocks in the Kara Sea and one block in the Black Sea. The joint work will be accompanied by an exchange of management

18.4

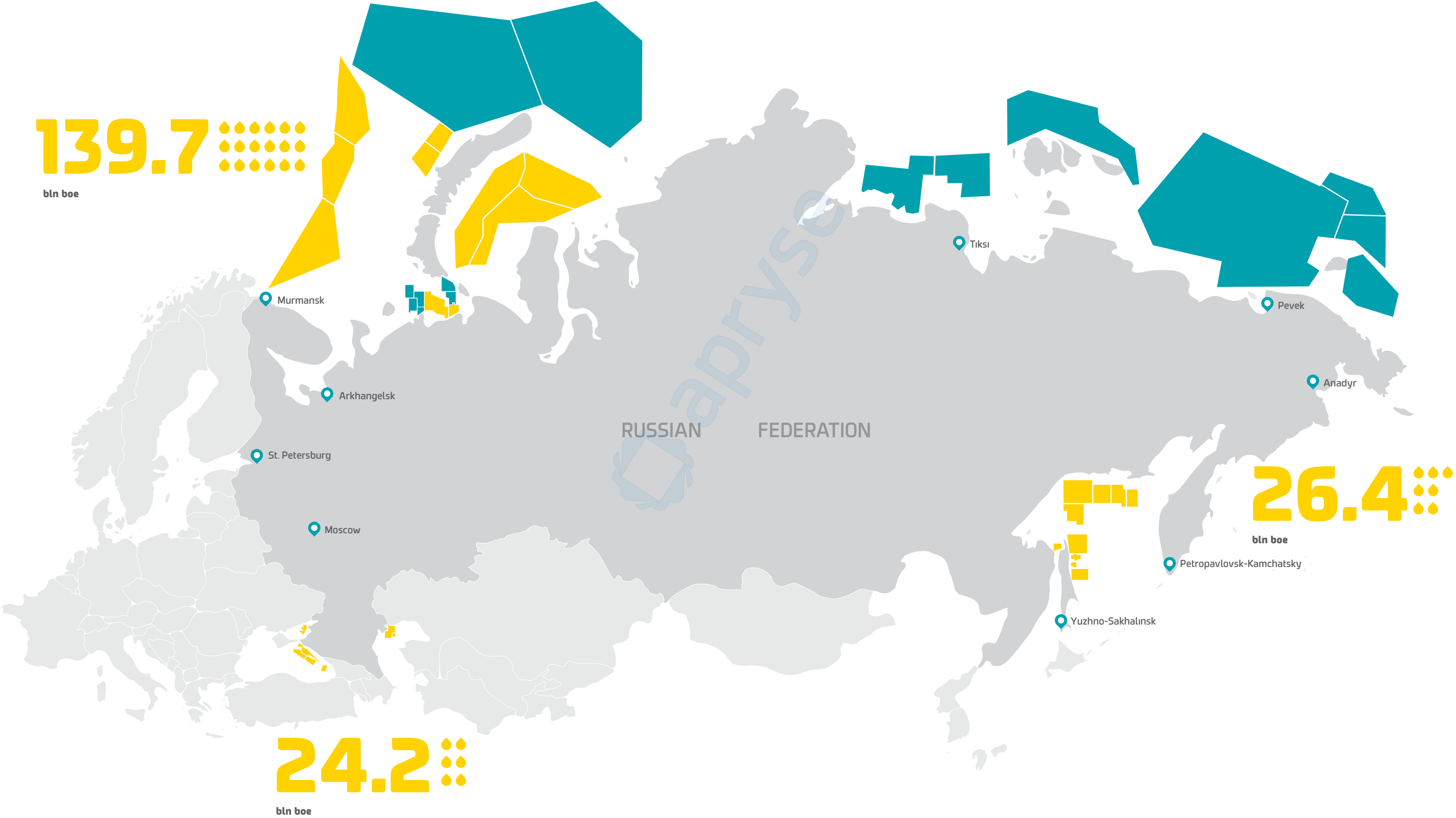
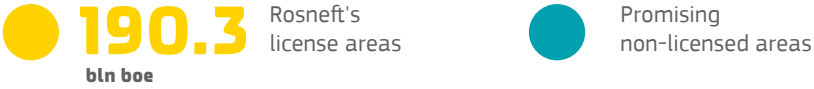
BLN BARRELS
OF PROVED OIL
RESERVES

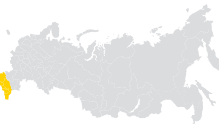
experience and know-how. ExxonMobil will assume financing of the initial stage of geological exploration work in exchange for 33% stakes in the projects, substantially reducing risks for Rosneft. A similar approach has already been successfully used by Rosneft for the implementation of offshore projects in the Russian Far East and is likely to be used again when other projects in the offshore Arctic are taken forward. The strategic agreement also envisages possible joint exploration and development of hard-to-recover oil reserves in Western Siberia as well as joint participation in international projects.

The Arctic Research and Design Center for Offshore Developments, which was set up in 2011, will provide scientific support for work at Russian offshore projects. Specialists at the Center will make use of all of the relevant R&D experience, which has been accumulated to date both in Russia and abroad.

Rosneft's Offshore Areas

As of March 31, 2012





The Tuapse Trough

THE TUAPSE TROUGH

The Tuapse license area extends over 12,000 square km in Russian territorial waters of the Black Sea. Its geology is similar to that of the West-Kuban Trough, which is located on the other side of the Caucasus ridge and is one of the oldest oil production regions in Russia. The Tuapse Block has been fully covered by 2D seismic work and the most prospective areas have also been studied using 3D seismic. Data obtained to date reveal 20 promising structures with 8.9 bln barrels of recoverable oil resources.

Rosneft and ExxonMobil specialists have carried out fundamental analysis comparing geology of the Tuapse Trough with that of similar regions where oil finds have been made, including the Niger Delta in West Africa, the sediment cone of the Amazon, the Gulf of Mexico and North-West Borneo. Results of this work confirm initial suggestions that sizeable discoveries could be made at the Tuapse Block.

Additional 3D seismic studies were begun at the area in 2011 using a modern vessel, the Vyacheslav Tikhonov, and 600 square km of seismic work were carried out during the year. This work will be completed in 2012 when a further 4,200 square km of seismic will be shot.

Drilling of a first prospecting and appraisal well is scheduled for 2014-2015. Drilling work in the Black Sea will be carried out using a specialized vessel equipped with a dynamic positioning system. This

8.9

bln barrels

recoverable oil resources

7.3 2.8 12 20

th. linear km
historical 2D
seismic data
available

th. sq. km
historical 3D
seismic data
available

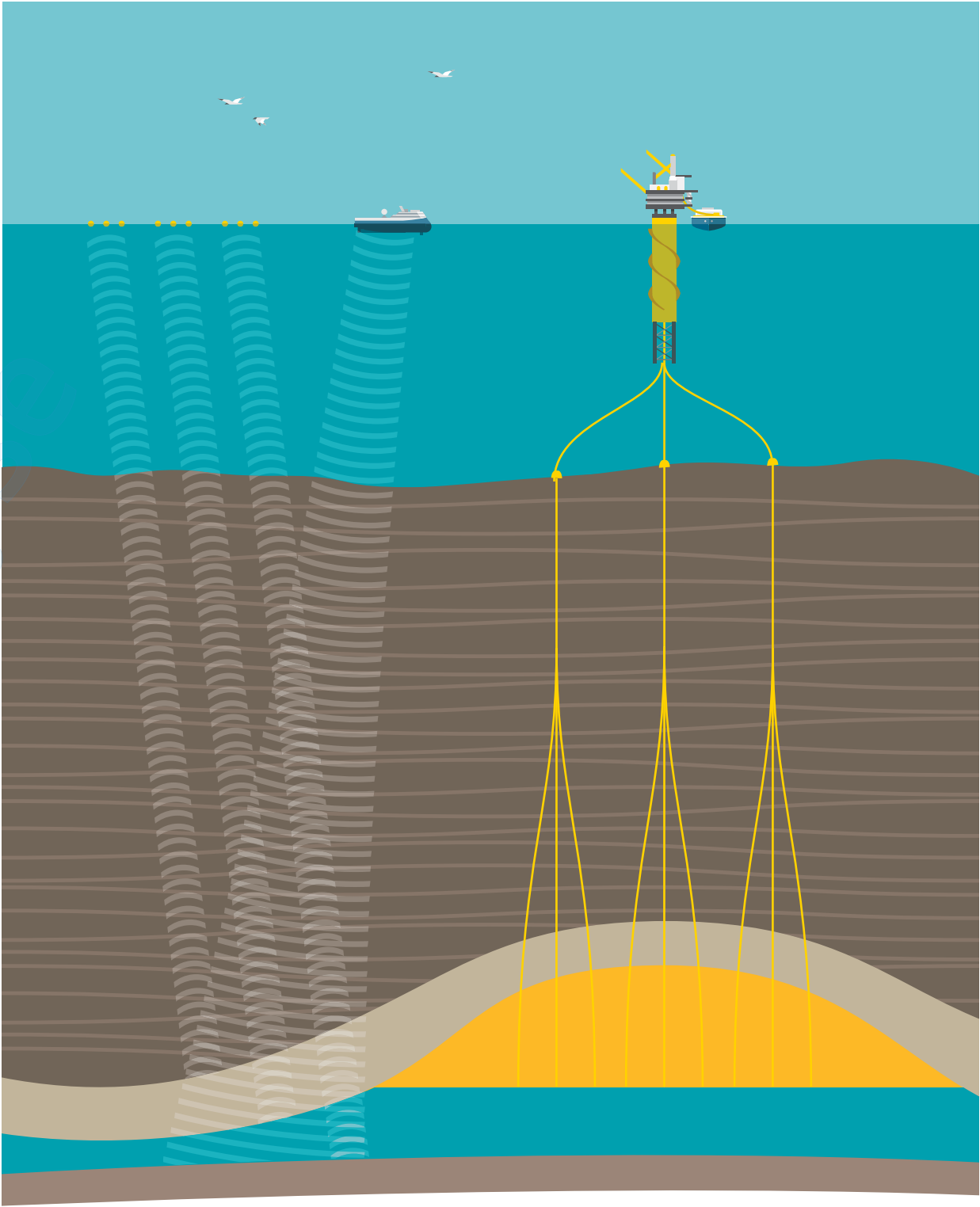
th. sq. km
area of the
block

prospective
structures

will probably be the Deepwater Champion, which is currently working in the Black Sea as part of ExxonMobil projects. The Deepwater Champion is a sixth-generation drilling vessel custom-built for ExxonMobil and is suited for work at the Tuapse Block where sea depth is up to 3,000 meters and oil finds are expected at a depth of 5,000-6,000 meters below the seabed.

If commercial finds are made, they will be developed using the latest underwater production complexes and SPAR-type platforms.

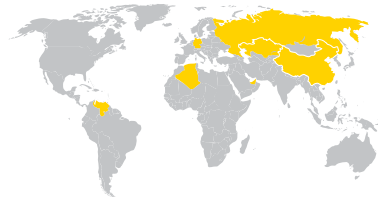
The Black Sea region has established infrastructure and is immediately adjacent to markets in southern Europe, so that marketing of the produced crude oil will not be problematic.








Oil

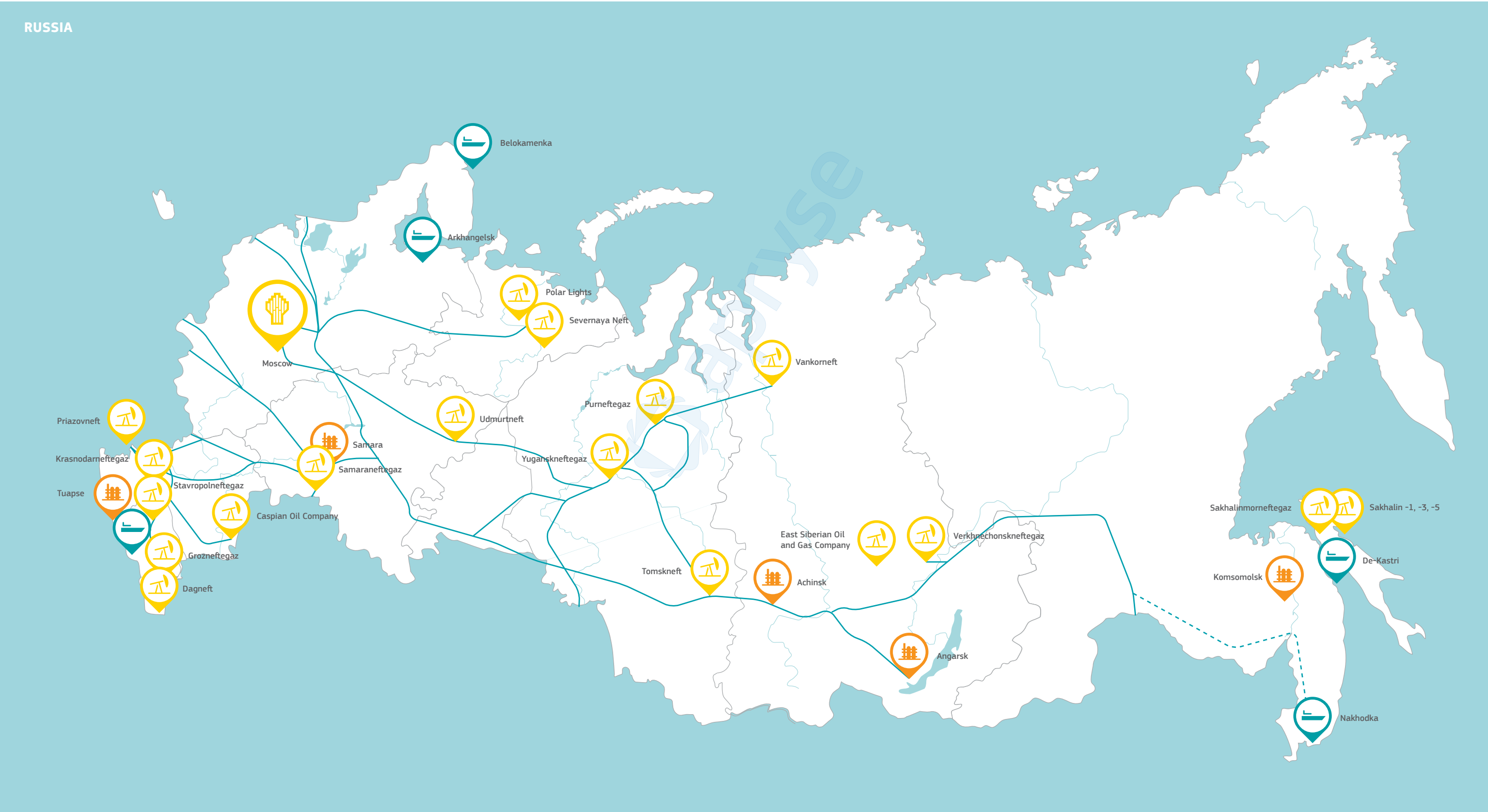
Water

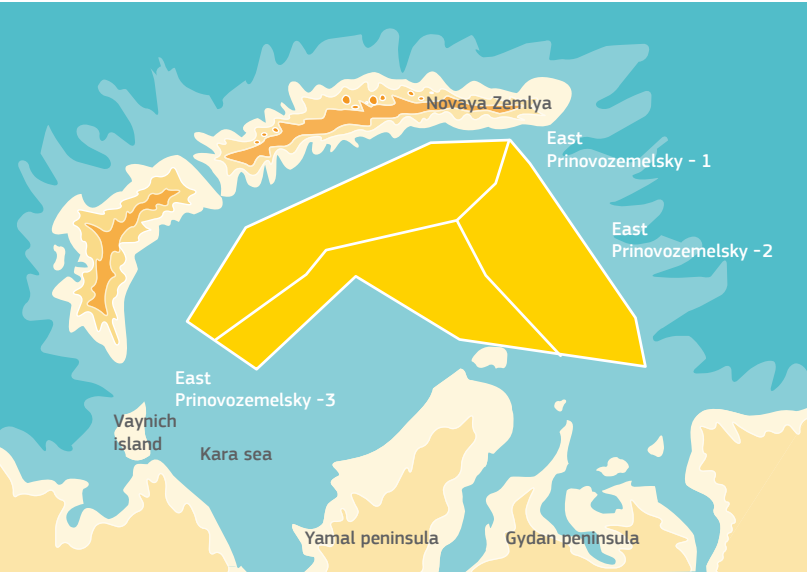
Clay



Rosneft Operating Regions

-  Exploration and production
-  Refineries
-  Marine terminals
-  Headquarters
-  Oil pipelines





The East-Prinovozeemsky blocks

THE EAST-PRINOVOZEMELSKY BLOCKS

The East-Prinovozeemsky blocks are located in the southern part of the Kara Sea and have total extent of 125,900 square km, which is comparable with the North Sea oil & gas province. The environment and climate in the Kara Sea region are challenging, but predictable. The Sea is ice-bound between October and June, and in winter the thickness of the ice does not exceed 2.2 meters. Rosneft geologists currently have 26,000 linear km of 2D seismic data for the areas, which were shot in the 1980s and in 2007. As many as 23 structures with recoverable resources of 36.6 bln barrels of oil and 8.3 trillion cubic meters of gas have already been identified, and even partial confirmation of such potential will in effect create a new oil producing province of global importance. There is great potential for major discoveries at the blocks since, in geological terms, the Kara Sea is a continuation of the Western Siberian oil & gas province, which currently accounts for more than 60% of oil production in the Russian Federation.

The first phase of the project will be focused on confirming hydrocarbon reserves through 2D and 3D seismic work (due to begin in 2012), interpretation of seismic data and development of geological models, followed by well positioning and drilling of exploration wells, which is provisionally scheduled for 2014-2015.

85.3

bln boe

recoverable resources

26 126 23

th. linear km
bank of earlier
2D seismic
available

th. sq. km
area of the
blocks

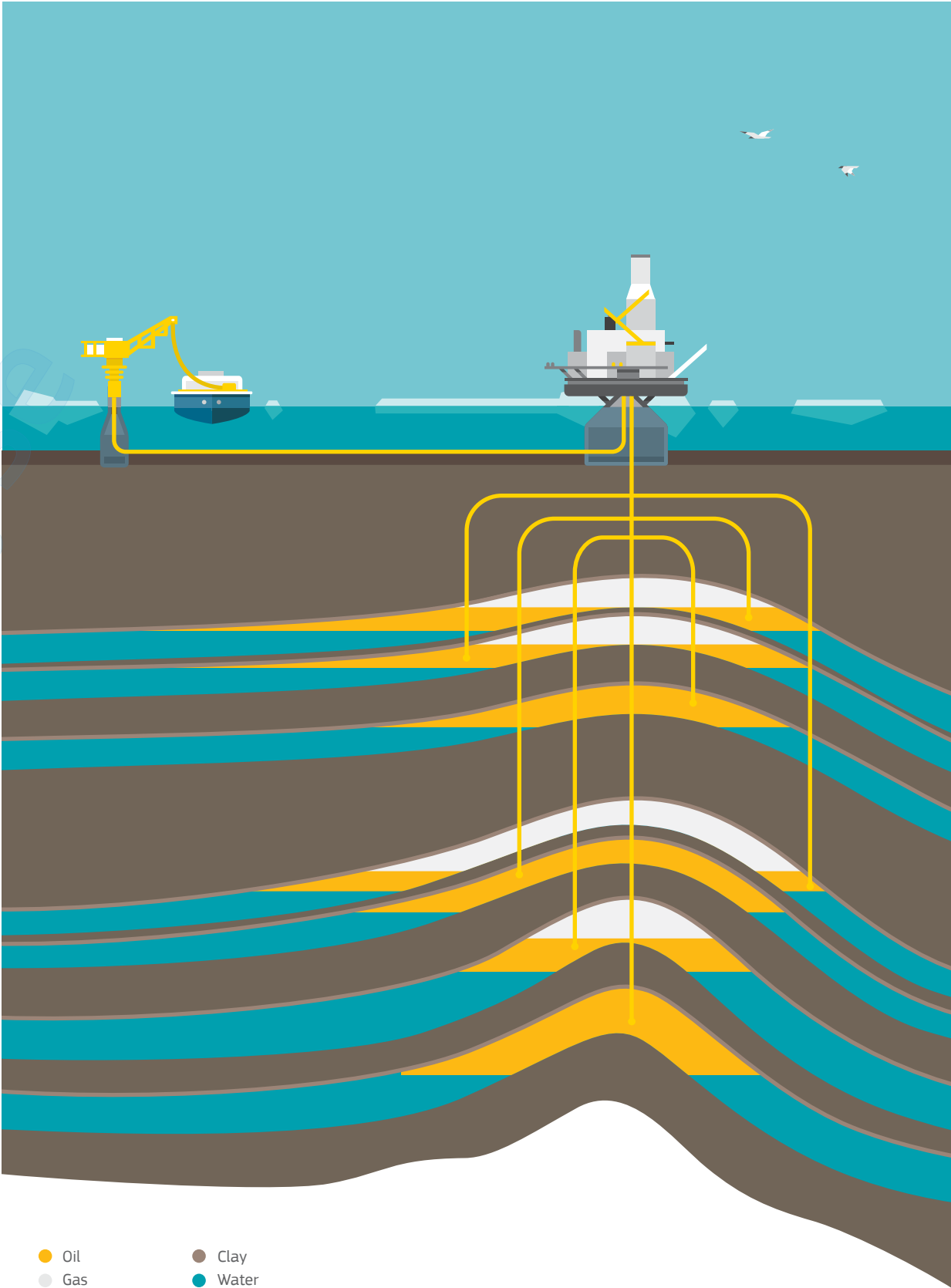
prospective
structures

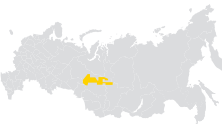
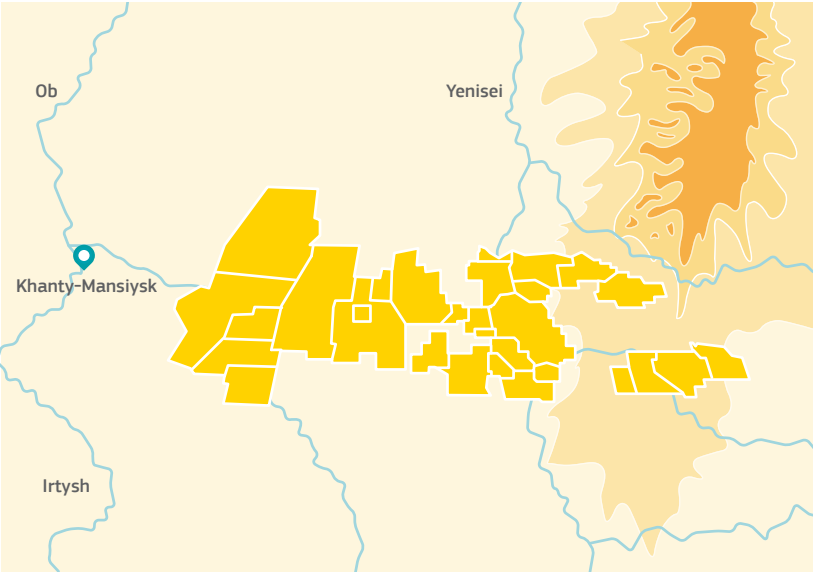
The initial focus will be on the most promising zones of the first Prinovozeemsky block, primarily the Universitetskaya structure, which has estimated recoverable resources of 9.5 bln barrels of oil equivalent.

Exploration drilling work in the Kara Sea will use jack-up rigs, as sea depth around the first prospecting and exploration wells is no greater than 100 meters. Upper oil-bearing strata are believed to be at a depth of about 1,500 meters, which justifies optimism for rapid confirmation of the resource base and the start of commercial production.

If commercial reserves are found they will most probably be developed using ice-resistant gravity-based platforms, designed by ExxonMobil's scientific center in Houston in association with the newly established Arctic Research and Design Center for Offshore Development.

The potential volume of recoverable reserves and scale of the project justify the grouping of oil processing and storage facilities at a special unit, which will serve a number of production platforms and be connected to an extended docking facility for oil loading. The oil will be transported to the nearby European market using ice-class tankers, accompanied by ice-breakers if necessary.





Western Siberia

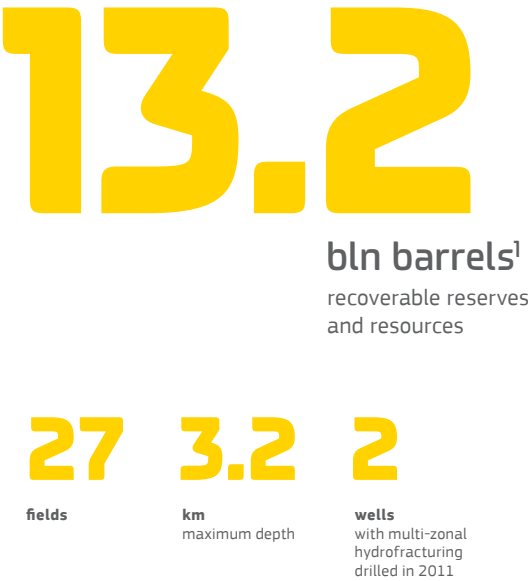
HARD-TO-RECOVER OIL IN WESTERN SIBERIA

Western Siberia is Rosneft’s key production region. Nearly all of the Company’s license areas in the region contain oil reserves that are hard to recover. Such reserves are located in Achimov, Bazhenov and Tyumen suites. Amounts of hard-to-recover oil reserves and resources at Rosneft license areas are estimated at 13.2¹ bln barrels.

Rocks of the Bazhenov suite consist of deep-water granite-clay-carbonate sediments with high organic content (shale sediments). They are distinguished from traditional reservoirs by their composition and low permeability. The Bazhenov suite is analogous to American formations (Barnett, Bakken and Eagle-Ford) which are currently being successfully developed by international companies.

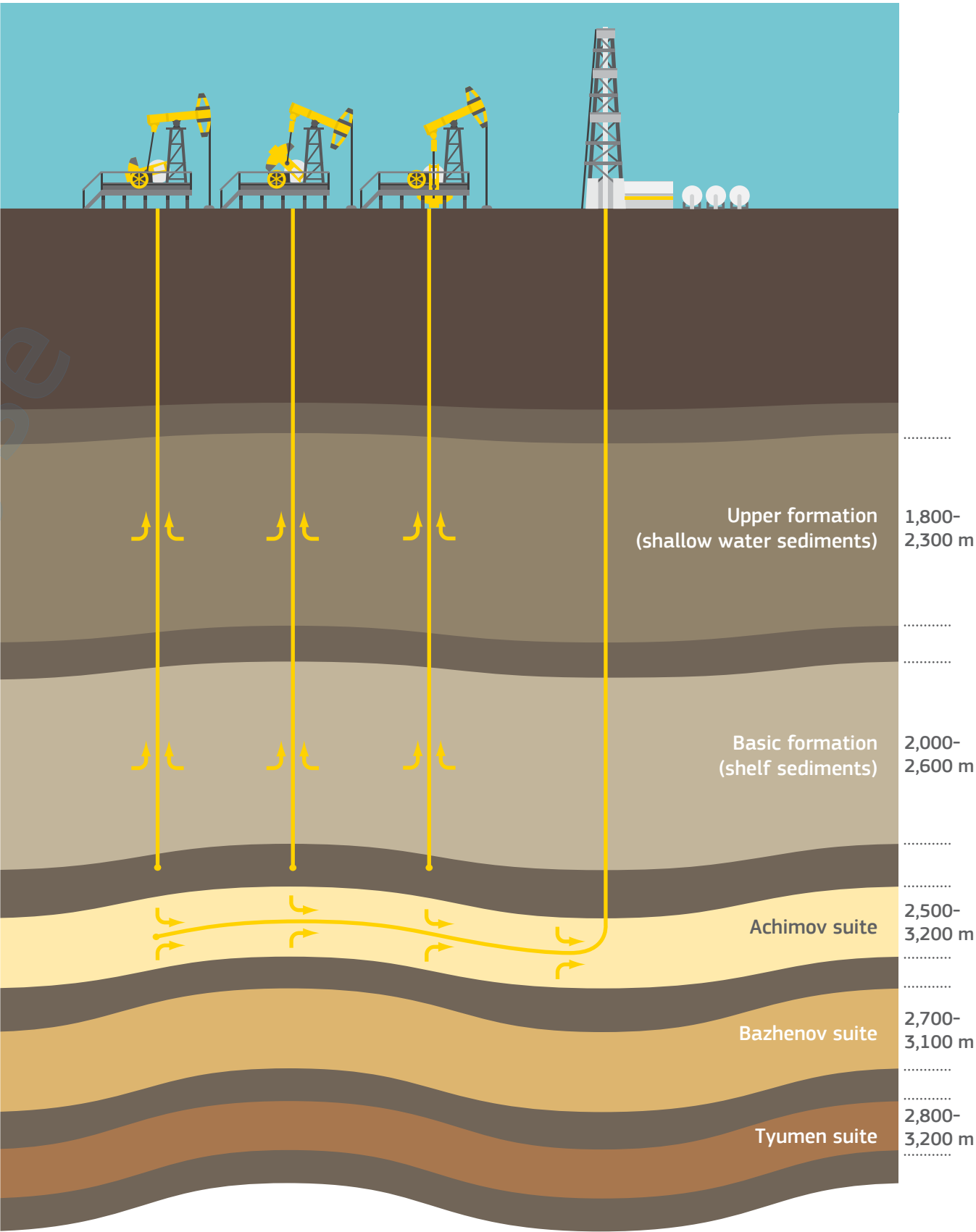
The Achimov suite consists of deep-water sediments (predominantly turbidites). The reservoir has limited flow properties, with permeability less than 1 mD, and manifests a high level of disjointedness and heterogeneity.

The Tyumen suite represents the lowest-lying reservoirs in Western Siberia (depths up to 3,200 meters), which are distinguished by complex morphology and limited efficient thickness.



The most promising approach in work with these sediment types is drilling of horizontal wells with multi-zonal hydrofracturing. This technology creates a dense network of artificial fractures raising the permeability of the strata and is extensively used by international oil companies.

During 2011 the Company continued to study the potential for developing hard-to-recover oil reserves. The first horizontal wells with multi-zonal hydrofracturing of strata were drilled at the Company’s Priobskoye field and initial daily flow rates of over 1,800 barrels were significantly better than had been expected.

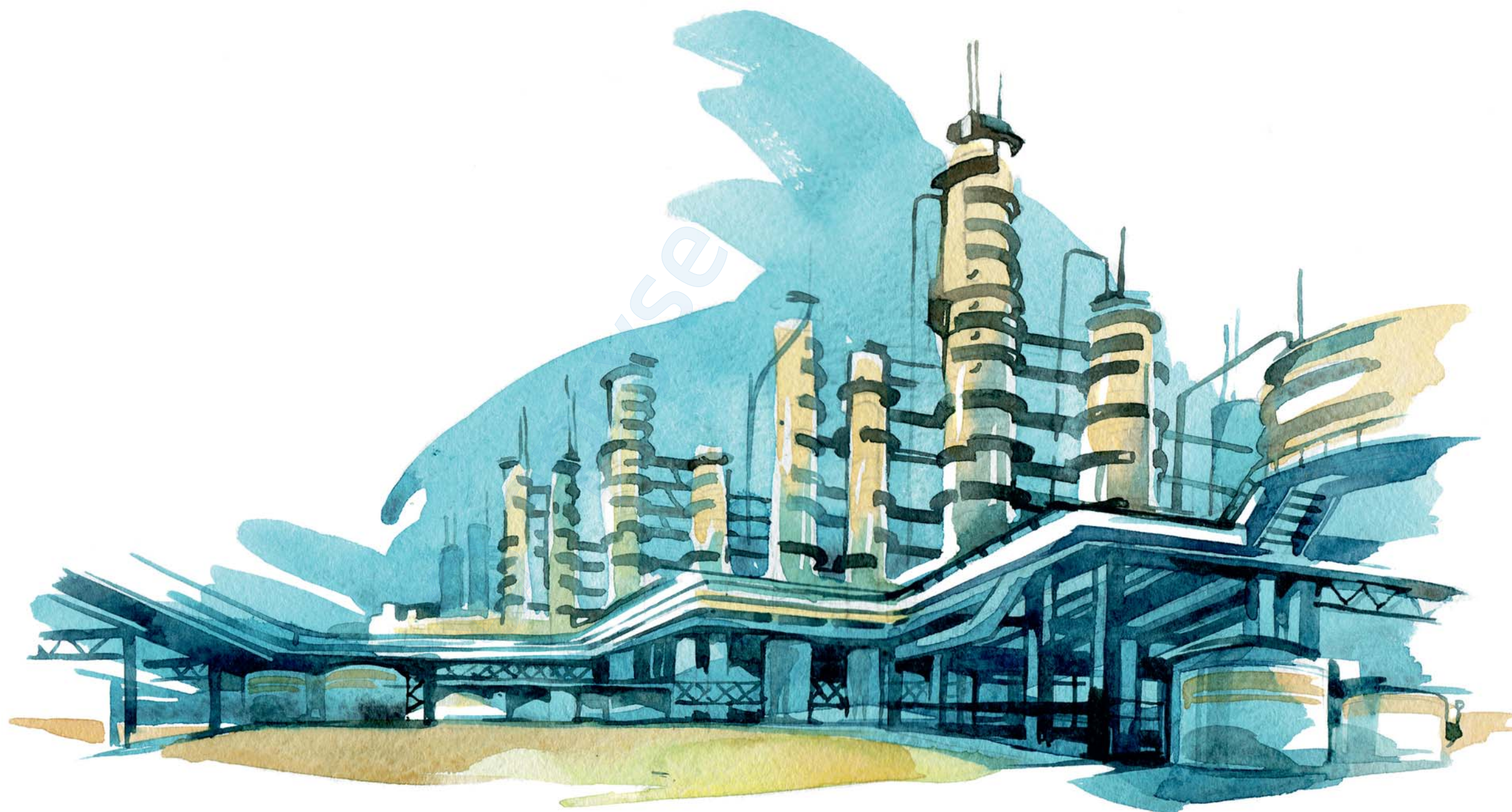


¹ Including 4.4 bln barrels of estimated recoverable oil resources of Bazhenov suite at the open acreage (estimation by Vladimir Shpilman Research Center for Sustainable Mining).

02

Performance Review

Growth of hydrocarbon production and refinery throughput combined with higher prices for oil and petroleum products led to the best-ever financial results in Company history.

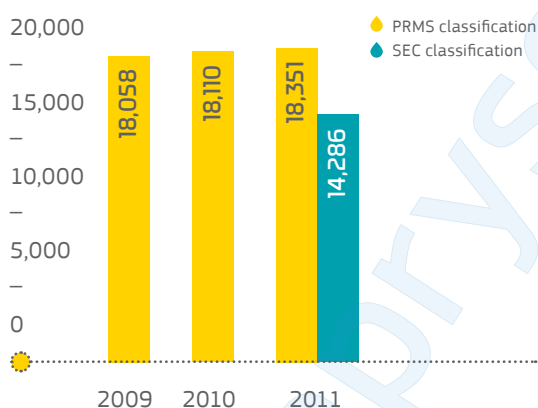


Rosneft's resource base was also audited by DeGolyer & MacNaughton in 2011. The mean estimate of prospective recoverable hydrocarbon resources as of December 31, 2011 was 133.9 bln barrels of oil equivalent, which is almost three times more than at the end of 2010. The growth was mainly due to acquisition of licenses to offshore areas in the Kara and Black seas. At the end of 2011 Rosneft also obtained licenses to five prospective offshore areas in the Sea of Okhotsk.

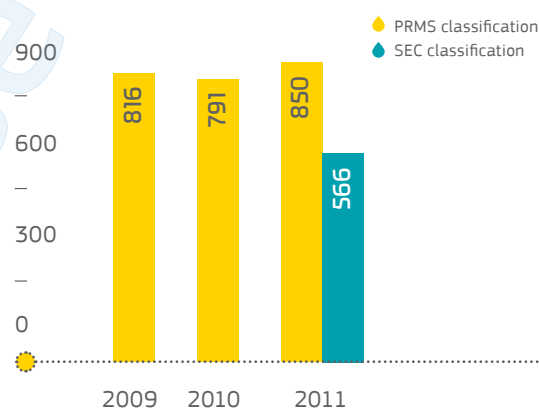
Resources of these areas were not included in the audit, but preliminary estimates suggest that they amount to 20.7 bln barrels of oil equivalent. So Rosneft's recoverable resources at the end of 2011 amounted to 155 bln barrels of oil equivalent.

Detailed information on resources is presented on page 14 of the present Report.

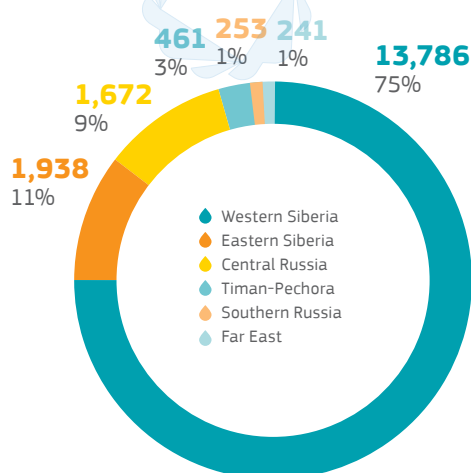
Proved oil reserves (mln barrels)



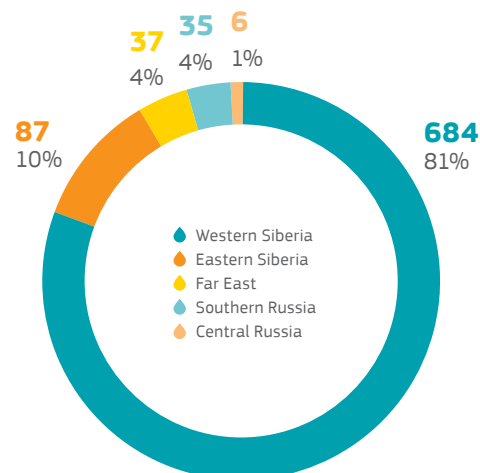
Proved gas reserves (bcm)



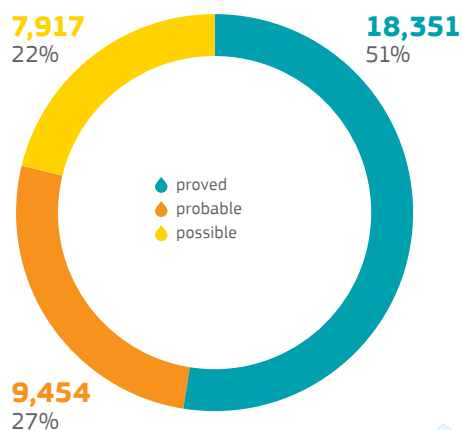
Proved oil reserves, PRMS (mln barrels, %)



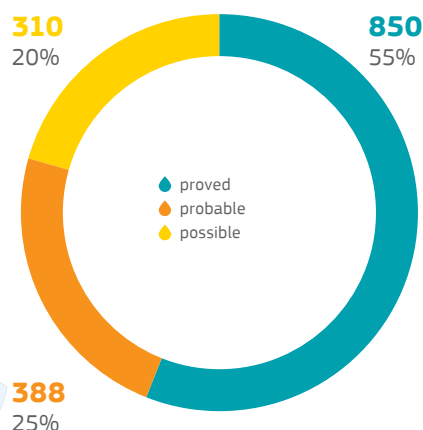
Proved gas reserves, PRMS (bcm, %)



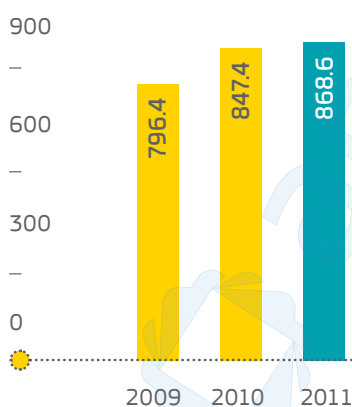
Oil reserves, PRMS (mln barrels, %)



Gas reserves, PRMS (bcm, %)

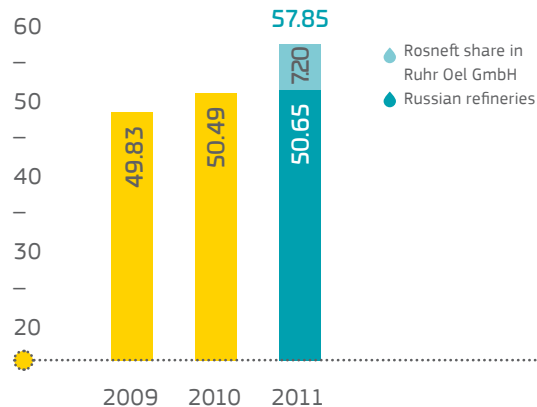


Crude oil production (mln barrels)*



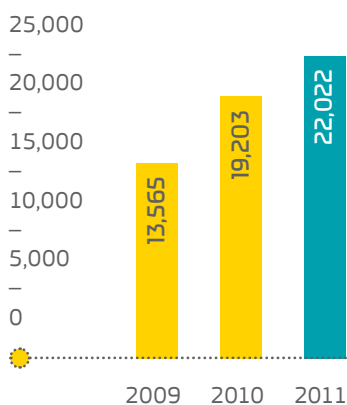
* Including share of production by affiliated companies.

Refinery throughput (mln tonnes)

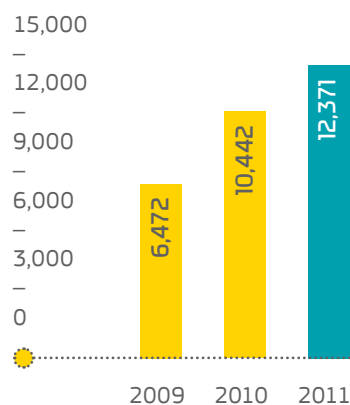


* Not including heavy fractions, which mini-refineries return to the Transneft system.

EBITDA (USD mln)



Adjusted net income (USD mln)



059

ROSNEFT

PRODUCT FLOWS OF ROSNEFT CONSOLIDATED ENTITIES, MLN TONNES



The difference between 'Total crude oil' and its distribution equals the sum of losses, intra-group consumption and change in stocks.
 The difference between 'Refinery throughput' and 'Output of petroleum products and petrochemicals' equals losses during dehydration and desalination, fuel consumption, irretrievable refining losses, and change in semi-finished product stocks.
 The difference between 'Total products' and their distribution equals the sum of intra-group product consumption, losses and change in stocks.



Church in the town
of Otradnoye in
Samara Region

Support for Education

Various types of support for education are another important aspect of Rosneft's social policy. By developing the material and technology base of educational institutions, which are partners of the Company, and by supplying IT and interactive equipment for laboratories, faculties, study classes and technical rooms, the Company ensures a steady inflow of well-trained employees to its business. Every year Rosneft provides targeted assistance to higher education institutions, and these sums totaled RUB 141 mln in 2011. The Company also extended loans with total value of RUB 3.6 mln to 97 workers in 2011 to help them fund educational courses.

Charity

Charity is one of the instruments, by which Rosneft implements its social policy.

Charity efforts by the Company are mainly oriented to assisting socio-economic projects by regional administrations, supporting healthcare institutions, education, culture, and sport, and to strengthening the cultural and moral foundations of Russian society.

Special attention was paid in 2011 to projects for the revival and preservation of Russia's cultural, historical and spiritual heritage. Places of worship

and other religious sites are being built and restored in many regions of Russia with active support from Rosneft.

Examples include the construction in Smolensk Region of a church as part of the Katyn memorial complex, and the start of construction of a cathedral church in the town of Yuzhno-Sakhalinsk.

Financial assistance is also provided to Rosneft employees and members of their families, and to pensioners and labor veterans, based on criteria which have been approved by the Company.

Total spending by Rosneft on charity in 2011 was RUB 2.9 bln. All charity payments are based on decisions by the Board of Directors and the Management Board of the Company.

Maintenance of Rosneft Social Infrastructure

Rosneft is continuing staged implementation of its program to optimize social infrastructure in its ownership in order to reduce costs, which are not related to Company business. Various non-core facilities with limited importance for Company employees are being withdrawn from subsidiaries, as are some public-use facilities.

Spending by Rosneft in 2011 on maintenance of social infrastructures was RUB 1.0 bln.

089

ROSNEFT

Social Policy and Charity



Final games of Rosneft summer Spartakiada in the town of Sochi

Social policy is a part of Rosneft's corporate strategy, and is determined by the Company's strongly felt responsibilities towards all interested parties (government, business partners, Company personnel, communities in regions where the Company has operations, social organizations, etc.), based on equality of opportunity, mutual respect and the rule of law.

The Company's social policy is founded on unfailing observance of the following legal principles:

- standards of international law in respect of human rights;
- Russian law on social issues;
- Russian labor law.

39.9

TH. PENSIONERS AND VETERANS
RECEIVED CORPORATE PENSIONS IN 2011

The main objectives of Company social policy are to ensure safe and comfortable working conditions, a healthy lifestyle, housing, and improvements in the quality of life of its employees and their families. Rosneft also aims to provide professional training for its employees, and financial support to Company veterans and pensioners. In addition the Company acknowledges its commitments to social and economic development in Russian regions where the Company has operations, and to various charity projects.

Company spending on social programs was RUB 20.3 bln in 2011 compared with RUB 16.6 bln in 2010.

062

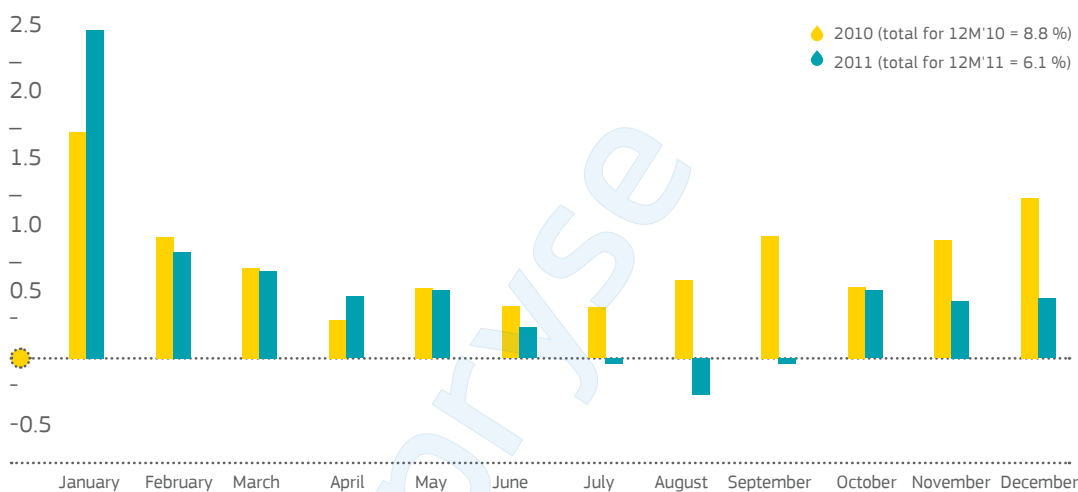
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USD/RUB Exchange Rate and Inflation

The USD/RUB exchange rate and inflation in the Russian Federation have an impact on Rosneft's results as most of the Company's revenues from

sales of crude oil and petroleum products are denominated in USD, while most of the Company's expenses are denominated in roubles. As a result, any depreciation of the rouble positively affects Rosneft's results, while rouble appreciation has a negative effect.

Rouble inflation (%)



USD exchange rate (RUB per USD)

