



117997 Russia, Moscow, 26/1 Sofiyskaya Embankment  
www.rosneft.ru



## REPORT ON SUSTAINABLE DEVELOPMENT OF ROSNEFT OIL COMPANY IN 2006

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- ▶ Economic efficiency
- ▶ Responsible nature management, labor protection and industrial safety
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## Address of the Chairman of Rosneft Oil Company Board of Directors



The strategic objective of Rosneft Oil Company is to become one of the largest world energy ventures. Achievement of this objective assumes execution of major projects to increase hydrocarbons production, to apply modern refining technology, to expand transportation infrastructure, to establish powerful retail network capable of satisfying public, business and state demand for high-quality and easily accessible energy resources.

Rosneft today is a unique fusion of two development models: a state energy venture and an international public company, recognized by the world investment community. This is the key factor of the Company sustainable development. First of all, the state equity participation reduces inevitable investment risks, associated with large long-term projects execution in the area of hydrocarbons production, refining and transportation. At the same time the corporate social responsibility is increased towards assurance of employees well-being, development of social/economic infrastructure in the

regions of employees residence, minimization of environmental impact of the Company production operations. Secondly, Rosneft, being a public company accountable to many thousands of shareholders, is constantly aimed at enhancement of production, economic and financial activity and establishment of modern corporate governance system ensuring the shareholders income through the Company capitalization growth and payment of dividends.

Over the past few years Rosneft Oil Company formed the basis for sustainable growth. The Company demonstrates the best economic achievements in the industry, the unique resource base and professional management; it is number one in Russia in terms of oil production, it performs large-scale upgrades of refining facilities, expands transportation and retail networks. Mutually beneficial international cooperation is an integral part of Rosneft Strategy. The Company not only exchanges the advanced

research and application expertise with the foreign partners, it also runs a number of large joint projects in the South of Russia, in Siberia and the Far East. This is the key driver for Rosneft entering the range of world-leading hydrocarbon producers.

In 2006 Rosneft became a world-level public company and ranked the top Russian oil company by its market capitalization. The initial public offering of 14.8% of charter capital at the Russian and world stock markets helped the Company gain \$10.7 billion of income. The number of Russian citizens now being the Company shareholders exceeded 115 thousand, which is a demonstration of trust and faith in the company future. A special structural unit was established by Rosneft to handle the minority shareholders matters. Nevertheless we should not stop there, and any requests from the shareholders are to be taken into account and used for improvement of the Company corporate culture.

One of the priorities for Rosneft is achievement of the world corporate governance standards. The Company Board of Directors now involves the independent directors, there are three new Committees: the Audit Committee, the HR and Compensations Committee and the Strategic Planning Committee headed by the independent directors. In 2006 the Board of Directors approved the Corporate Conduct Code of the Company developed in accordance with the Russian legal requirements and advanced corporate governance practice.

Rosneft will soon become a global oil company and a number of ambitious tasks are now being pursued. In 2008 the giant Vankor field will be on stream and further growth of oil and gas production will be ensured in West Siberia and offshore Sakhalin, the latter now entering the new stage of development as one of the key oil and gas provinces of Russia. As a result of massive upgrade and construction of refining facilities the refining depth will achieve 95% and petroleum products output will increase as well. The Company refining capacity will also grow through acquisitions in Russia and abroad. The important directions of strategic development are mineral resource base replenishment and logistics optimization.

Significant energy potential of Russia is the source of growing national wealth and an important element of international energy security system. New projects of Rosneft Oil Company in East Siberia, Timano-Pechora, the Far East, offshore Black and Azov Seas will make a potent contribution into the world economy energy supply in the mid-term and for the long-standing future.

Further development of Rosneft will be ensured through consistent implementation of growth strategy, wide-scale application of new technology, efficient administration by a strong management team in strict observance of the main precondition for sustainable development: the balance of interests of all parties involved: the shareholders, the state, the Company employees, suppliers and consumers and the society as a whole.

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## Address of the President of Rosneft Oil Company



This report, now brought to your attention, is the first corporate Social Report of Rosneft Oil Company, prepared in accordance with the standards of Global Reporting Initiative.

Over the past ten years, with the world economic development and the living standards improvement as the background, the demand for energy products has been steadily growing. Alongside with geopolitical instability in a number of large regions of oil production, this growth of the global demand has led to multiplication of hydrocarbon prices worldwide in comparison with the long-term average levels. Increase of the demand for oil, petroleum products and natural gas is observed in Russia as well, where the economy and well-being of the people have been rapidly growing for the last ten years. Rosneft therefore makes a considerable contribution into creation of good conditions for steady economic development of Russia and other countries of the world through increase of oil production and exports volumes.

A period of time between 2005 and 2006 was important for Rosneft Oil Company in its establishment as one of the leading energy companies of the world. The Company has acquired large new assets, has increased production of oil and condensate four times over this period, whereas the volume of oil refining was increased more than three times, the volume of gas production – almost one and the half times and the export of oil – more than five times. Gradually increasing its resource base, in 2006 the Company has achieved the world leadership in terms of proven hydrocarbon reserves volume, it has acquired licenses for development of several prospective areas in Siberia, the European part of Russia and in the Far East, keeping a substantial potential for future increment of reserves.

Over 2006 Rosneft has increased production of oil and gas by 8,3 % and 4,6 % accordingly in comparison with the previous year and demonstrated the best performance in the industry. A considerable part of this increase was attained through increase of production at large producing enterprises of the

Company –RN-Yuganskneftegaz and RN-Severnaya Neft, where oil production for the year has reached 9,3 % and 17 % accordingly, as well as through increase in gas production in RN-Purneftegaz that totaled 6,5 %. Due to introduction of the integrated production management system, application of modern methods of oil production and introduction of technological innovations, the Company has achieved the highest effectiveness indicators in business performance such as the lowest level of operating costs in Russia's oil sector per barrel of oil equivalent of produced hydrocarbons, the highest new wells flow rates and the lowest replacement cost per 1 ton of reserves.

The Company now exports over 70 % of produced oil to the countries of Western and Central Europe and to the growing markets of the Asian Pacific region. Therefore the condition of transshipment facilities, located on the main export directions, plays an important role in assurance of stability and efficiency of the Company operations. In 2006 the Company acquired Nakhodka Tanker Port – the largest specialized sea port on the Pacific coast of Russia. Currently Rosneft has its own export sea terminals on all main routes for transshipment of oil and oil products – the North and Barents Seas, the Black Sea and the Far East. All this makes the Company creative in management of export flows of oil and oil products subject to the existing market conditions and in maximization of the Company profits.

To add more value and to satisfy the growing need for quality oil products, the Company performs the large-scale refurbishment of its core refineries located in Tuapse and Komsomolsk-on-Amur. Upon completion of those upgrades, their total capacity will be increased by 70 %, and the depth of refining will reach 95%. It is equally important that with the installation of new equipment, the quality of produced fuel will be improved to Euro-4 and Euro-5 standards. Due to commissioning of a diesel fuel hydrotreatment unit at Komsomolsk refinery in 2006, the Company was the first in Russia to start the output of diesel fuel compliant with Euro-4 standard in terms of sulfur content and some other parameters.

The Company pays a lot of attention to diversification of the sources of business development financing, establishment of a reputation at financial markets, enhancement of transparency of its business for investors and shareholders. In May 2006 Rosneft Oil Company effectively launched the IPO, the largest one among all oil companies and the fifth largest one in the entire IPO history.

To meet the interests of its shareholders, the Company in 2006 has completed consolidation of its 12 subsidiary companies. As a result of that, thousands of former shareholders of those companies have had an opportunity to become the shareholders of one powerful company. For enhancement of business transparency and optimization of costs, the Company performs restructuring that includes separation from producing subsidiaries and merging the auxiliary and operating types of business into in the united company structure. Within the framework of restructuring in 2006 the Company has commissioned and merged the drilling services business units in a 100-percent subsidiary of Rosneft Oil Company. The next in line is the amalgamation of wells repair, transportation, production maintenance and HR business units into a single subsidiary company rendering services to producing subsidiaries.



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Expansion of the Company business and acquisition of the public company status means that special attention is to be paid to the interested parties: the Company personnel, its business partners, shareholders, local associations in the regions where the Company operates. Steady headway of the Company development depends upon good relationships with all of them.

Relations between the Company and its personnel are based on mutual respect of interests, responsible dialogue, creation of conditions for professional and career development of employees. In 2006 the Company carried out a large-scale social study among its employees, which made it possible to reveal their attitude towards the existing corporate culture, to understand the problems of maximum concern and the study has also helped outline the action program to improve the level of employees information awareness concerning the state of affairs in Rosneft and development of feedback channels. The Company continued the reforms of the corporate pension system, aimed at gradual increase of pensions for the Company veterans by 2011 to achieve 45–50 % of the amount of their pre-retirement salaries. The Company also continues implementation of the corporate mortgage program launched in 2005. In 2006 over 600 people joined this program. Within the framework of the program on the growth of personnel potential of the Company and training of competent young employees, the Company expanded the program of selection and pre-college training of the most talented schoolchildren in the regions of the Company operation, the Company has developed cooperation with specialized institutions of high education aimed at selection and employment of the most talented and well-trained students. Over 21 thousand employees underwent the training. Expenditures for these purposes were increased by over 70 %.

Enhancing the level of labor and industrial safety at the Company facilities and reduction of adverse environmental effects are the priorities for the Company. The most important programs in this area are the Gas Program, aimed at raising the volumes of the total associated petroleum gas utilization in Rosneft Oil Company to 95 % by 2011, as well as at solution of problems, which are the priorities for subsidiaries in the area of environment protection, plus the Target Program, aimed at enhancement of pipelines reliability. More than one and a half time increase in expenses on the environment protection in comparison with the previous year is a good evidence of importance of the environmental matters.

Support of the social/economic development of the regions of presence is an important element of the Company policy on establishment of favorable conditions for the Company business performance and development. The Company prudently follows its tax obligations against the local budgets, stimulates the economic activity through development of suppliers and contractors from among the local enterprises, provides charity aid to health care, social security organizations and socially challenged communities. In the regions where Rosneft Oil Company ventures perform the city-forming function, the Company entered into the agreements on cooperation with the regional and local authorities. The Company implements the joint programs on improvement of territories, housing and utilities, con-

struction of social infrastructure objects – sports centers, hospitals, clinics, children playgrounds. These facilities are used not only by the Company employees but also the members of their families and all other local residents.

Within the framework of preparation of the Corporate Social Report, Rosneft hosted eight Roundtable meetings. During those roundtables we informed the representatives of the local companies on our plans for development of enterprises of Rosneft Oil Company in the regions, we discussed the perception of ecological and social aspects of the Company enterprises operations with the local administrations, environmentalists and representatives of general public. These meetings were useful enough, and we intend to hold them regularly, while gradually expanding the coverage of regions and with the plans to hold those meetings by the time of preparation of the corporate Social Report in accordance with the GRI standards.

Our priorities in the area of sustainable development for 2007 include:

- Integration of the new large producing and refining assets into the Company in the first half of 2007;
- Adoption of the new long-term strategy for the Company development and beginning of its implementation;
- Improvement of the subsidiaries wage and welfare benefit systems, enhancement of the corporate pension and mortgage programs, involvement of employees of the newly acquired assets in those programs;
- Implementation of measures aimed at enhancement of labor and industrial safety, refurbishment of field camps for employees, construction of environment-friendly facilities in accordance with the target-oriented environmental program;
- Extension of social investment programs in the regions of presence to meet the interests of employees and the general public.

I hope that our first corporate Social Report will broaden the perception of the interested parties relative to various aspects of Rosneft Oil Company sustainable development. We will be grateful for any comments and criticism and we will certainly take it into account to improve the content of this report. Within the framework of our strategy for establishment and development of dialogue with the interested parties, we plan to publish the corporate Social Report in accordance with the international standards on the regular basis.









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This social report of Rosneft Oil Company (hereinafter referred to as Rosneft or the Company) opens a cycle of preparation and release of reports on sustainable development, designed in accordance with the Principles of Global Reporting Initiative, GRI. During its work at the report the Company based itself on the third version (G3) of the Guidelines for reporting in the area of sustainable development, including technical protocols to measures of efficiency, supplementing the Guidelines. When preparing the report, the Company has also used the Oil and Gas Industry Guidance on Voluntary Sustainability Reporting, IPIECA/API, 2005 by the International Petroleum Industry Environmental Conservation Association / American Petroleum Institute. The report complies with «B» level of GRI application. The Table of compliance of the report with the GRI and IPIECA/API standards is shown in Attachment 1.

Preparation of this social report (hereinafter referred to as the Report) turned to be an important step on the road to implementation of the Company strategy on enhancement of business transparency and development of responsible dialog with interested persons. This road is determined by the Company strategic objective – to rank among world’s largest oil and gas companies. In 2007, the Company performed a public offering at stock exchanges of London and Moscow, the first largest in the history of oil companies having seriously expanded a circle of the Company shareholders. A public status acquired by the Company imposes high requirements and claims accented attention to all aspects of its sustainable development. This Report is aimed to inform an expended circle of interested parties first concerning aspects connected with impact of production activity of the Company on environmental condi-

tions, level of industrial safety, motivation and development of personnel, impact of the Company on social/economic situation on areas of presence.

The Company, its subsidiary and dependent companies jointly form a group of enterprises (hereinafter referred to as the Group), including over 70 thousand employees as of the end of 2006. Financial and economic indicators specified in the Report are represented in accordance with US GAAP and (unless otherwise is stipulated) refer to the whole Group. The indicators and information with regard to management of personnel, social payments and benefits, environmental activity, industrial safety, labor protection, impact of areas of presence pertain to the Company and a group of its subsidiary companies involved in production, transportation, storage, sale and processing of hydrocarbon material. By the end of 2006, the Company and these subsidiary companies had a major part of proceeds and financial results of the Group and about 77% of the Group employees.

During preparation of the Report and collection of information, the Company intercommunicated with responsive group of consumers in eight key regions of its presence located in the North, in Siberia, in the Far East and on Krasnodar Territory. These regions had over 85 % of the Company hydrocarbon production, the total volume of own oil refining and a considerable share in sales of oil and oil products.

Intercommunication was in the form of open discussions during Roundtables, in which together with representatives of the Company representatives of regional and local authorities, state agencies of environmental and technical supervision, general public in the person of directors of regional educational institutions, expert centers, environmental organizations participated. Roundtables helped participants to better understand each other's positions on key questions and to outline development trends of their cooperation. This intercommunication cycle is represented in more details in the part Cooperation with interested parties of this Report.

This Report describes activities of the Company for the period of time from January 1, 2006 to December 31, 2006. Where relevant figures were available comparisons with two previous years and planned figures for 2007 were presented. In sections devoted to profile of the Company and strategy of its sustainable development, in some instances figures considering assets newly acquired in the first half of 2007, were specified. In all similar instances it is expressly specified in the text of the Report. This is the first report and it was not subject to external approval. It is supposed that subsequent reports will be subject to approval.

By publishing this Report, the Company invites the interested parties to continue a dialogue of social responsibility of the business and it will be thankful for any comments on these issues as well as for any feedback concerning the aspects of sustainable development of the Company.







## Company profile

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## Key performance indicators



As of the middle of 2007, Rosneft Oil Company is the largest vertically integrated oil company in Russia and ranks among ten largest oil and gas companies of the world. The principal activity of the Company is exploration, development, production and sale of oil and gas as well as production, transportation and sale of their derivatives in the Russian Federation and abroad.



In 2004 – 2006, a range of activity performed by Rosneft Oil Company is characterized by the following figures.

| Production and commercial operations                                     | 2004   | 2005   | 2006   |
|--|--------|--------|--------|
| Sales proceeds and other operating revenues, million US dollars          | 5262   | 23 863 | 33 099 |
| Net profit, million US dollars   | 837    | 4159   | 3533   |
| Capital and operating production expenses, million US dollars            | 1424   | 3567   | 5659   |
| Volume of assets as of the year end, million US dollars                  | 26 012 | 30 016 | 46 790 |
| Debts on liabilities as of the year end, million US dollars              | 9022   | 8198   | 7402   |
| Earning capacity on average capital employed (ROACE), %                  | 7,50   | 21,70  | 18,20  |
| Production of oil and condensate, million tons                           | 20,93  | 73,87  | 79,89  |
| Production of natural and associated petroleum gas, billion cubic meters | 9,36   | 13,06  | 13,65  |
| Oil refining, million tons   | 7,38   | 22,21  | 24,01  |

Source: Rosneft Oil Company.

| Personnel  | 2004   | 2005   | 2006   |
|--|--------|--------|--------|
| Average staffing number including subsidiary and dependent companies       | 63 221 | 68 288 | 74 024 |
| Expenses for salaries and social benefits of personnel, million US dollars | 515    | 639    | 939    |

Source: Rosneft Oil Company.

Detailed analysis of production and financial figures of the Company for the period from 2004 – 2006 is represented on the Company site: <http://www.rosneft.ru> in documents Analysis by management of financial standing and performance of the Company for 2006, 2005 and 2004 and Annual report of Rosneft Oil Company for 2006.





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| Labour protection   | 2004 | 2005 | 2006 |
|---|------|------|------|
| <b>Accident frequency rate (cases per 1 million of worked hours)</b>                      | —    | 0,5  | 0,34 |
| <b>Accident frequency rate with fatal outcome (cases per 100 million of worked hours)</b> | —    | 9,15 | 5,94 |
| <b>Expenses for labor protection and industrial safety, million rubles</b>                | —    | 689  | 710  |

Source: Rosneft Oil Company.

| Interested parties: state, shareholders, companies  | 2004 | 2005   | 2006   |
|---|------|--------|--------|
| <b>Tax payments in budgets of all levels, million US dollars</b>  | 2015 | 13 199 | 18 670 |
| <b>Dividends, including dividends paid out to minority shareholders in subsidiary companies, million US dollars</b> | 61   | 135    | 499    |
| <b>Investments in social objects, expenses for charity and social programs, million US dollars</b>                  | 125  | 91     | 105    |

Source: Rosneft Oil Company.

In the near term the Company plans to increase production of oil and gas by means of development of oil and gas deposits of Yuganskbteftegaz, Purnefteftegaz and Severnaya Neft. In the mid-term production will be increased due to development of fields in East Siberia. Shelf projects on Kamchatka and Sakhalin are sources for increase of production in the longer term.

Throughput will be increased due to reconstruction of available plants and acquisition of new refining assets. Upon completion of current reconstruction of Tuapse and Komsomolsk refineries the processing depth will reach 95 %.

For transportation and sale of additional volumes of production the Company is reconstructing transportation and transshipment capacities.

The Company will endeavor to lower scales of negative impact on the environment despite growth of hydrocarbon production due to introduction of modern technologies lowering environmental pressure, reducing the probability of incidents and industrial accidents as well as due to raising of level of use of associated gas.

The Company is actively introducing modern personnel management methods and will provide for employees worthy conditions and remuneration of labor.

Expansion of the Company operations will have stronger impact on development of the social/economic infrastructure of the regions of presence both due to increase of tax payments and creation of new jobs, demand for services of contractors and indirect economic effects.

The Company will continue to make voluntary investments in social/economic infrastructure of the regions of presence and supporting of social area by way of charitable works.

In future the rise in the cost of the Company business will increase returns to shareholders with a view to invested capital.

Detailed analysis of production and financial figures of the Company for the period from 2004 – 2006 is represented on the Company site: <http://www.rosneft.ru> in documents Analysis by management of financial standing and performance of the Company for 2006, 2005 and 2004 and Annual report of Rosneft Oil Company for 2006.



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## History of the Company establishment and development



Rosneft was established in **1993** as a state-owned enterprise. It became a successor of Rosneftegas, which in turn was established two years earlier instead of the abolished Ministry of Oil and Gas Industry of the USSR. In 1995, under the decree of the government of the Russian Federation, Rosneft was reorganized into an open joint stock company.

In **1995–1998**, on the background of negative macroeconomic situation in the country and unfavorable price environment at the world's oil market the Company development slowed down. For the Company this period was marked by decline in production and refining of oil to one third of production capacity. To bring the Company out from the crisis in 1998 the Russian government decided to invite a new team of managers headed by its actual President Sergey Mikhajlovich Bogdanchikov. Due to the policy on improvement of administration and consolidation of assets pursued by the management, Rosneft has managed to become a profitable company again and to increase oil production from 13,47 million tons in 2000 to 20,27 million tons in 2004.

In **2001**, in accordance with the Decree of the Government of the Russian Federation Rosneft and Zarubezhneft were appointed to act as authorized organizations for rendering assistance in securing

interests of the Russian Federation during preparation and implementation of production sharing agreement projects. In 2002, Rosneft started projects in Algeria, in 2003 proceeded to production of oil in the area of Caspian Sea on the territory of Kazakhstan. Key assets included Selkupneftegaz (2000), Company Severnaya Neft (2003), Veninsk Block on Sakhalin-3 (2003) and Anglo-Siberian Oil Company – holder of the license for development of Vankor field located in East Siberia (2003).

In December **2004**, the Company purchased 100 % of shares of one of the largest oil producing companies in Russia – Yuganskneftegaz, in 2005, became the second largest Russia's producer of oil and gas.

In the beginning of **2005**, Rosneft purchased at the auction a license for Vorgamusyursk area located in Timano-Pechorsk oil-bearing area. It provided further growth of oil production by subsidiary company Severnaya Neft, which production capacities located 80 kilometers away from this field. At the end of 2005, Rosneft declare purchase of 25,94 % of shares of Verkhnechonskneftegaz. Later on in addition to this purchase the Company acquired a license for exploration works at Eastern-Sugdinsk field.

In **2006**, Rosneft consolidated assets of 12 subsidiaries owned by the Company involved in prospecting and production of oil, refining and sale of oil and oil products.

In the first half of **2007**, the Company purchased through competitive tendering producing, oil-refining and oil and gas assets of Oil Company YUKOS – altogether 80 enterprises with about 60 thousand employees.



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## Structure and geography of assets



As of the end of 2006, the structure of the Company included 13 enterprises involved in production of oil and gas, 3 oil refineries, 15 enterprises for supply of oil products involved in transshipment and sale of oil and oil products, 13 long-term projects on development of Kamchatka and Sakhalin shelf, a group managing foreign projects consisting of 3 enterprises, 5 service enterprises, 3 scientific and research center, 5 transportation and logistics firms, 2 commercial banks and 8 other institutes. The majority of enterprises included in the Company structure are subsidiary companies with the predominant or 100-percent participatory interest of the Company.

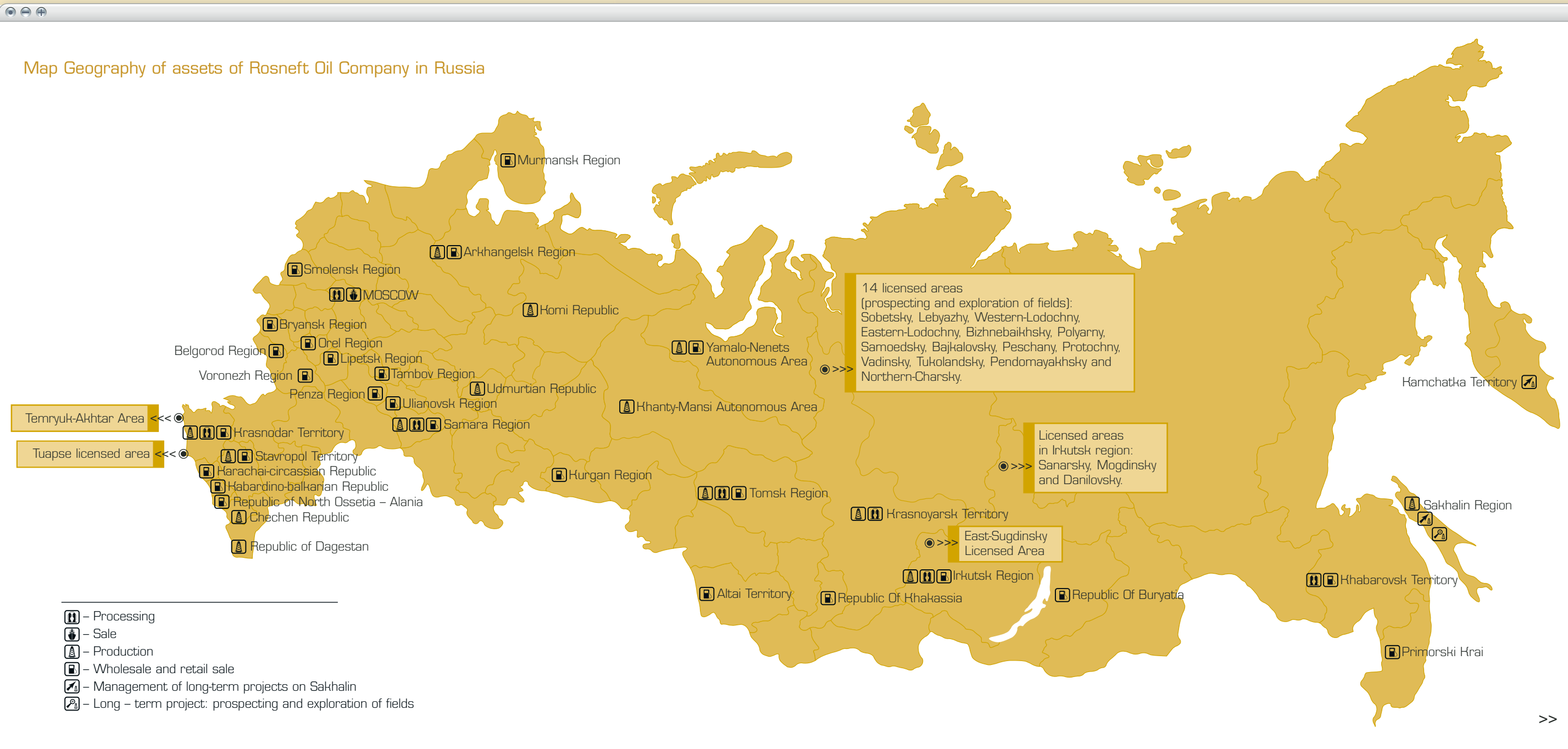
In the first half of 2007, the Company structure was supplemented by 2 gas and oil producing enterprises – Samaraneftegaz, Tomskneftegaz, 6 large oil-refining plants: Kuibyshev, NovoKuibyshev, Syzran, Achinsk, Strezhevsk Refinery and Angarsk Petrochemical Company, as well as a number of enterprises for supply of oil products. Rosneft Oil Company performs activities connected with prospecting and production of oil and gas in all key oil and gas regions of Russia: in the south and north of the European part of the country, Northern Caucasus, Volga region, Western and East Siberia, in the Far East, on shelves of the Black and Azov Seas, Sakhalin and Kamchatka.

Considering assets of the Company acquired in 2007, enterprises of the Company are represented in 64 regions and territories of the Russian Federation. The Company owns export oil terminals located in the south of Russia – in Tuapse, in the north – in Arkhangelsk, in the Far East – in Nakhodka and DeCastri.

Enterprises of the Company operate on over than 300 fields. A major part of oil and gas is produced on fields located in the West Siberia, Komi Republic and Nenets Autonomous Area. The Company performs its activities connected with production of oil and gas completely on the territory of the Russian Federation. The Company also participates in exploration works in Kazakhstan, Turkmenia and Algeria.

Information on all enterprises and participatory interests of the Company in their authorized capitals is represented on the website at <http://www.rosneft.ru>.

### Map Geography of assets of Rosneft Oil Company in Russia



>> Principal enterprises and projects of Rosneft Oil Company, including joint ventures with foreign partners

» MOSCOW

- **OAD Rosneft Oil Company – Moscow Plant Nefteproduct.**  
**Type of activity:** [processing](#) of hydrocarbon material, production of oil products.  
**Participatory interest** of OAO Rosneft Oil Company – 65,42 % the authorized capital.
- **ZAO FPK Hedr-M.**  
**Type of activity:** [sale](#) of oil products.  
**Participatory interest** of OAO Rosneft Oil Company – 100 % the authorized capital.  
**Note:** The asset was acquired in the first half of 2007.
- **ZAO NBA – Service.**  
**Type of activity:** [sale](#) of oil products.  
**Participatory interest** of OAO Rosneft Oil Company – 100 % the authorized capital.  
**Note:** The asset was acquired in the first half of 2007.
- **OAD Germes-Moscow.**  
**Type of activity:** [sale](#) of oil products.  
**Participatory interest** of OAO Rosneft Oil Company – 82,8 % the authorized capital.  
**Note:** The asset was acquired in the first half of 2007.
- **Mitischi fuel company.**  
**Type of activity:** [sale](#) of oil products.  
**Participatory interest** of OAO Rosneft Oil Company – 100 % the authorized capital.  
**Note:** The asset was acquired in the first half of 2007.

» KRASNODAR TERRITORY

- **OOO RN-Krasnodarneftegaz, Krasnodar.**  
**Type of activity:** [production](#) of hydrocarbon material.  
**Participatory interest** of OAO Rosneft Oil Company – 100 % the authorized capital.
- **OOO RN-Shelf-South.**  
**Participatory interest** of OAO Rosneft Oil Company – 100 % the authorized capital.
- **OOO Oil Company Priazovneft.**  
**Participatory interest:**  
42,5 % – Rosneft Oil Company;  
42,5 % – OAO LUKOIL;  
15 % – administration of Krasnodar Territory.
- **OOO RN – Tuapse Refinery, Tuapse.**  
**Type of activity:** [processing](#) of hydrocarbon material, production of oil products.  
**Participatory interest** of OAO Rosneft Oil Company – 100 % the authorized capital.
- **Rosneft Oil Company – Kubanefteproduct, Krasnodar.**  
**Type of activity:** [wholesale and retail sale](#) of oil products.  
**Participatory interest** of OAO Rosneft Oil Company – 89,5 % the authorized capital.
- **OOO RN-Tuapsenefteproduct, Tuapse.**  
**Type of activity:** [wholesale and retail sale](#) of oil products.  
**Participatory interest** of OAO Rosneft Oil Company – 100 % the authorized capital.

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>> » STAVROPOL TERRITORY

- **OOO RN-Stavropolneftegaz, Neftekumsk.**  
**Type of activity:** [production](#) hydrocarbon material.  
**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital
- **Rosneft Oil Company – Stavropolje, Stavropol.**  
**Type of activity:** [wholesale and retail sale](#) of oil products.  
**Participatory interest** of Rosneft Oil Company – 97,79 % of the authorized capital

» REPUBLIC OF DAGESTAN

- **Rosneft Oil Company – Dagneft, Makhachkala.**  
**Type of activity:** [production](#) hydrocarbon material.  
**Participatory interest** of Rosneft Oil Company – 68,7 % of the authorized capital
- **OAO Dagneftegaz, Makhachkala.**  
**Type of activity:** [production](#) of gas.  
**Participatory interest** of Rosneft Oil Company – 40 % of the authorized capital

» KABARDINO-BALKHARIAN REPUBLIC

- **Rosneft Oil Company – Kabardino-Balkarian Fuel Company, Nalchik.**  
**Type of activity:** [wholesale and retail sale](#) of oil products.  
**Participatory interest** of Rosneft Oil Company – 88,66 % of the authorized capital

» REPUBLIC OF NORTH OSSETIA – ALANIA

- **Rosneft Oil Company – Artag, Vladikavkaz.**  
**Type of activity:** [wholesale and retail sale](#) of oil products.  
**Participatory interest** of Rosneft Oil Company – 38 % of the authorized capital

» KARACHAI-CIRCASSIAN REPUBLIC

- **Rosneft Oil Company – Karachai-Cherkessknefteproduct, Cherkessk.**  
**Type of activity:** [wholesale and retail sale](#) of oil products.  
**Participatory interest** of Rosneft Oil Company – 85,99 % of the authorized capital

» CHECHEN REPUBLIC

- **OAO Grozneftegaz, Grozny.**  
**Type of activity:** [production](#) hydrocarbon material.  
**Participatory interest** of Rosneft Oil Company – 51 % of the authorized capital

» ARKHANGELSK REGION

- **OOO The Company Polar Lights, Arkhangelsk.**  
**Type of activity:** [production](#) hydrocarbon material.  
Joint Venture of Rosneft Oil Company on a parity basis with ConocoPhillips.  
**Participatory interest:**  
50 % – Rosneft Oil Company;  
50 % – ConocoPhillips.

- **Rosneft Oil Company – Arkhangelsknefteproduct, Arkhangelsk.**

**Type of activity:** wholesale and retail sale of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

» MURMANSK REGION

- **OOO Oil Terminal Belokamenka.**

**Type of activity:** storage and transshipment of oil products.

**Participatory interest:**

50 % – Rosneft Oil Company;

50 % – Bergesen DY ASA.

- **Rosneft Oil Company – Murmansknefteproduct, Murmansk.**

**Type of activity:** wholesale and retail sale of oil products.

**Participatory interest** of Rosneft Oil Company – 45,38 % of the authorized capital

» KOMI REPUBLIC

- **OOO RN – Severnaya Neft, Usinsk.**

**Type of activity:** production hydrocarbon material.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

» SMOLENSK REGION

- **Rosneft Oil Company – Smolensknefteproduct, Smolensk.**

**Type of activity:** wholesale and retail sale of oil products.

**Participatory interest** of Rosneft Oil Company – 66,67 % of the authorized capital

» BELGOROD REGION

- **OAD Belgorodnefteproduct, Belgorod.**

**Type of activity:** wholesale and retail sale of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

» BRYANSK REGION

- **ZAO Bryansknefteproduct, Bryansk.**

**Type of activity:** wholesale and retail sale of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

» VORONEZH REGION

- **OAD Voronezhnefteproduct, Voronezh.**

**Type of activity:** wholesale and retail sale of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

» LIPETSK REGION

- **ZAO Lipetsknefteproduct, Lipetsk.**

**Type of activity:** wholesale and retail sale of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

» OREL REGION

- **ZAO Orelnefteproduct, Orel.**

**Type of activity:** wholesale and retail sale of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007. >>





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## >> » PENZA REGION

### ● ZAO Penzanefteproduct, Penza.

**Type of activity:** [wholesale and retail sale](#) of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

## » TAMBOV REGION

### ● ZAO Tambovnefteproduct, Tambov.

**Type of activity:** [wholesale and retail sale](#) of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

## » ULIANOVSK REGION

### ● ZAO Ulianovskbfteproduct, Ulianovsk.

**Type of activity:** [wholesale and retail sale](#) of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

## » SAMARA REGION

### ● OAO Samaraneftegaz, Samara.

**Type of activity:** [production](#) of hydrocarbon material.

**Participatory interest** of Rosneft Oil Company – 51 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

### ● OAO Kuibyshev Refinery, Samara.

**Type of activity:** [processing](#) of hydrocarbon material, [production](#) of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

### ● OAO NovoKuibyshev Refinery, NovoKuibyshevsk.

**Type of activity:** [processing](#) of hydrocarbon material, [production](#) of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

### ● OAO Syzran Refinery, Syzran.

**Type of activity:** [processing](#) of hydrocarbon material, [production](#) of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

### ● ZAO Samaranefteproduct, Samara.

**Type of activity:** [wholesale and retail sale](#) of oil products.

**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

» UDMURTIAN REPUBLIC

● **ОАО Udmurtneft**, Izhevsk.

**Type of activity:** production hydrocarbon material.

**Participatory interest:**

49,4 % – Rosneft Oil Company;

47,5 % – Sinopec.

» KURGAN REGION

● **Rosneft Oil Company – Kurganefteproduct**, Kurgan.

**Type of activity:** wholesale and retail sale of oil products.

**Participatory interest** of Rosneft Oil Company –

83,32 % of the authorized capital

» YAMALO-NENETS AUTONOMOUS AREA

● **ООО RN-Purneftegaz**, Gubkinsky.

**Type of activity:** production hydrocarbon material.

**Participatory interest** of Rosneft Oil Company –

100 % of the authorized capital

● **Rosneft Oil Company – Yamalnefteproduct**, Salekhard.

**Type of activity:** wholesale and retail sale of oil products.

**Participatory interest** of Rosneft Oil Company –

49,52 % of the authorized capital

» KHANTY-MANSI AUTONOMOUS AREA

● **ООО RN-Yuganskneftegaz**, Nefteyugansk.

**Type of activity:** production hydrocarbon material.

**Participatory interest** of Rosneft Oil Company –

100 % of the authorized capital

» ALTAI TERRITORY

● **Rosneft Oil Company – Altainefteproduct**, Barnaul.

**Type of activity:** wholesale and retail sale of oil products.

**Participatory interest** of Rosneft Oil Company –

64,18 % of the authorized capital

» TOMSK REGION

AND KHANTY-MANSI AUTONOMOUS AREA

● **ОАО Tomskneftegaz**.

**Type of activity:** production hydrocarbon material.

**Participatory interest** of Rosneft Oil Company –

100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

● **ООО Strezhevsk Refinery**, Tomsk region.

**Type of activity:** processing of hydrocarbon material,

production of oil products

**Participatory interest** of Rosneft Oil Company –

100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

● **ОАО Tomsknefteproduct**, Tomsk.

**Type of activity:** wholesale and retail sale of oil products.

**Participatory interest** of Rosneft Oil Company –

100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007.

» KRASNOYARSK TERRITORY

● **ЗАО Vankorneft**, Turukhan region of Krasnoyarsk Territory and Dudinsk region of Tajmir Territory.

**Type of activity:** production of hydrocarbon material (commencing from December 2008).

**Participatory interest** of Rosneft Oil Company –

100 % of the authorized capital

● **ОАО East-Siberian Oil and Gas Company**, Evenki Autonomous Area, settlement Bajkit.

**Type of activity:** production hydrocarbon material.

**Participatory interest** of Rosneft Oil Company –

100 % of the authorized capital

**Note:** The asset was acquired in the first half of 2007. >>

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- **ОАО Achinsk Refinery, Achinsk.**  
**Type of activity:** [processing](#) of hydrocarbon material, [production](#) of oil products.  
**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital  
**Note:** The asset was acquired in the first half of 2007.

» IRKUTSK REGION

- **ОАО Verkhnechonskneftegaz, Katangsky district.**  
**Type of activity:** [production](#) hydrocarbon material.  
**Participatory interest:**  
25,94 % – Rosneft Oil Company;  
62,71 % – TNK-BP;  
11,29 % – administration of Irkutsk region;  
0,06 % – minority shareholders.

- **ОАО Angarsk Petrochemical Petrochemical Company, Angarsk.**  
**Type of activity:** [processing](#) of hydrocarbon material, [production](#) of oil products  
**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital  
**Note:** The asset was acquired in the first half of 2007.

- **ЗАО Irkutsknefteproduct, Irkutsk.**  
**Type of activity:** [wholesale and retail sale](#) of oil products.  
**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital  
**Note:** The asset was acquired in the first half of 2007.

» REPUBLIC OF BURYATIA

- **ОАО Buryatnefteproduct, Ulan-Ude.**  
**Type of activity:** [wholesale and retail sale](#) of oil products.  
**Participatory interest** of Rosneft Oil Company – 95,1 % of the authorized capital  
**Note:** The asset was acquired in the first half of 2007.

» REPUBLIC OF KHAKASSIA

- **ОАО Khakassnefteproduct, Abakan.**  
**Type of activity:** [wholesale and retail sale](#) of oil products.  
**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital  
**Note:** The asset was acquired in the first half of 2007.

» KHABAROVSK TERRITORY

- **ООО RN – Komsomolsk Refinery.**  
**Type of activity:** [processing](#) of hydrocarbon material, [production](#) of oil products.  
**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital
- **ООО RN-Vostoknefteproduct, Khabarovsk.**  
**Type of activity:** [wholesale and retail sale](#) of oil products.  
**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

» PRIMORSKI KRAI

- **OOO RN-Nakhodkanefteproduct**, Nakhodka.  
**Type of activity:** wholesale and retail sale of oil products.  
**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital

» SAKHALIN REGION

- **OOO RN-Sakhalinmorneftegaz**, Yuzhno Sakhalinsk.  
**Type of activity:** production hydrocarbon material.  
**Participatory interest** of Rosneft Oil Company – 100 % of the authorized capital
- **ZAO Sakhalin projects**, Yuzhno Sakhalinsk.  
**Type of activity:** management of long-term projects on Sakhalin.
- **Projects Sakhalin-1, Russia' first shelf projects upon conditions of production sharing agreement.**  
**Type of activity:** production of hydrocarbon material on the shelf.  
**Participatory interest:**  
20 % – Rosneft Oil Company;  
30 % – Exxon Neftegaz Limited;  
30 % – Sodeco;  
20 % – ONGC Videsh Limited.
- **Project Sakhalin-3, OOO Venineft.**  
**Type of activity:** long – term project: prospecting and exploration of fields.  
**Participatory interest:**  
74,9 % – Rosneft;  
25,1 % – Sinopec.
- **Project Sakhalin-4, OOO West – Smidt Invest.**  
**Type of activity:** long – term project: prospecting and exploration of fields.  
**Participatory interest:**  
51 % – Rosneft;  
49 % – BP.

- **Project Sakhalin-5, OOO West – Smidt Invest.**  
**Type of activity:** long – term project: prospecting and exploration of fields.  
**Participatory interest:**  
51 % – Rosneft;  
49% – BP.

» KAMCHATKA TERRITORY

- **Project West Kamchatka, West Kamchatka Holding B.V.**  
**Type of activity:** long – term project: prospecting and exploration of fields.  
**Participatory interest:**  
60 % – Rosneft;  
40 % – Korea National Oil Company (KNOC).





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## Reserves, resources, production

A huge raw-material base is the important competitive advantage of Rosneft.

The Company portfolio of reserves includes over 40 bn bl in oil equivalent of proven, probable and possible reserves of oil and gas. It is the largest portfolio among public companies of the world.

Base reserves are located in traditional regions, where hydrocarbons of the Company are produced:

- West Siberia (*Purneftegaz, Yuganskneftegaz*),
- Timano-Pechora (*Severnaya Neft, Polar Lights*),
- South of Russia (*Krasnodarneftegaz, Stavropolneftegaz, Grozneftegaz*),
- Central Russia (*Udmurtneft*),
- Far East (*Sakhalinmorneftegaz, Sakhalin-1*),
- as well as East Siberia (*Vankorneft and Verkhnechonskneftegaz*).

Oil reserves of Rosneft at the level of production reached by the Company in 2006, will be sufficient for almost three decades.

The Company continues to increase proven reserves by means of geological exploration of existing fields and structures as well as acquisitions. In 2006, replacement rate of hydrocarbon proven reserves taking into account acquisitions reached record in the industry 272,6 %, including 285,7 % of oil and 177,3 % of gas.

Prospective resources include the following: Vorgamusyursk Block in Timano-Pechora; licensed areas in East Siberia near Vankor field, in Irkutsk region and Evenki Autonomous Area; shelf projects on Sakhalin, Kamchatka, Black and Azov Seas; long-term projects of Yuganskneftegaz and Purneftegaz; foreign projects in Kazakhstan, Turkmenia and Algeria.

Yuganskneftegaz, Purneftegaz and Severnaya Neft are the core producing companies. In 2006, the cumulative volume of oil production by all producing enterprises of the Company amounted to 80,8 million tons.

In 2006, by the level of oil production Rosneft ranked among ten public oil producing companies of the world, and after acquisition of new assets in the first half of 2007, it has taken the fourth place among oil producing public companies of the world in the average daily production.

## Gas strategy

Today Rosneft ranks third by the level of production of gas among vertically integrated companies of Russia.

In the nearest future the Company, which has considerable continental and shelf reserves of gas plans to actively develop gas direction of its business.

The gas strategy of the Company covers continental and sea gas fields. The central project of continental gas production is development of Kharampursk field in West Siberia (Purneftegaz) covering 55 % of all proven gas reserves of the Company.

Sales of gas produced within the framework of this and other continental projects of Rosneft will be effected (by agreement with Gazprom) using existing gas structure of Russia.

Key shelf gas projects include – Sakhalin-1, within the framework of which commercial production of oil and gas has been carrying out since the end of 2005, as well as long-term Sakhalin-3, Sakhalin-4, Sakhalin-5 and the project on development of Western-Kamchatka shelf.

Gas produced in the Far East will be primarily served for Russia's nearest territories as well as for rapidly growing Asian markets.

[Map «Geography of assets of Rosneft Oil Company in Russia»](#)

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## Refining

As of the beginning of 2007, Rosneft Oil Company owned two large oil refineries – Komsomolsk Refinery and Tuapse Refinery for the total capacity about 10,8 million tons per annum, as well as three mini plants. Komsomolsk Refinery is located in the Far East near the Pacific Coast, Tuapse Refinery – on the Black Sea coast. Due to the good location of these enterprises the Company has an opportunity to profitably sell oil products at the domestic market and to export them to European and Asian countries.

In May of 2007, the Company acquired 6 Russia's large refineries, and the total capacity of the Company refineries currently exceeds 45 million tons per annum.



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## Transportation, storage, sale

### » Oil

For transportation of oil the Company uses pipelines of Transneft, Caspian Pipeline Consortium (CPC), railroad transport, sea ports. The Company exports oil to foreign countries also through its own infrastructure: transshipment capacities of OOO RN-Arkhangelsknefteproduct in Arkhangelsk sea port, connected with shuttle tankers with floater Belokamenka, and export oil port DeCastri. In 2006, a share of oil transportation through capacities owned by the Company reached 10 % (see the table below).

#### Structure of transportation of oil by Rosneft Oil Company to foreign countries

| Type of transportation   | 2004  | 2005  | 2006  |
|--|-------|-------|-------|
| <b>Pipelines and ports Transneft, railroad transport and other ports, million tons</b>   | 7,52  | 34,35 | 43,86 |
| <b>Rosneft ports: Arkhangelsk Sea Port – Belokamenka and port DeCastri, million tons</b> | 1,5   | 4,36  | 5,03  |
| <b>The total volume of deliveries to foreign countries, million tons</b>                 | 9,02  | 38,71 | 50,37 |
| <b>Share of oil deliveries to foreign countries through Rosneft ports, %</b>             | 16,63 | 11,26 | 10,29 |

Source: Rosneft Oil Company.

Transshipment capacities of RN-Arkhangelsknefteproduct and oil storage Belokamenka are used for export of oil produced in Timano-Pechora by the Company subsidiary – OOO RN – Severnaya Neft. Port DeCastri located in Khabarovsk Territory provides export of oil produced within the framework of project Sakhalin-1. In 2006, the Company shipped 2,21 million tons (16,17 million bl) of its oil through DeCastri. As far as production is increased within the framework of project Sakhalin-1 and after launching of the other shelf projects of the island the Company forecasts considerable increase of the volume of export deliveries. Thus, DeCastri will become a connecting link between large production capacities of the Company in the Far East and the oil market of countries of the Asia-Pacific Region.

## » Oil products

For transportation of oil products the Company uses the system of pipelines of Transnefteproduct, a part of OAO JSC Transneft, railroad transport and ports. However the majority of oil products are exported through the Company transshipment capacities in ports Tuapse and Nakhodka (see the table).

Tuapse oil-loading terminal is located in Krasnodar Territory on the Black Sea coast near Tuapse Refinery. It is a part of the Company subsidiary – OOO RN-Tuapsenefteproduct, a part of Rosneft distribution network.

The terminal capacity is 10,2 million tons per annum. In 2006, the volume of export deliveries of the Company oil products through Tuapse oil-loading terminal reached 5,36 million tons. In addition to oil products of Tuapse Refinery, the other volume of export of oil products through the terminal fell on products of Kuibyshev, NovoKuibyshev and Syzran Refineries included in the structure of the Company.

Nakhodka oil-loading terminal in Primorski Krai is the largest oil export port of the Russian Far East and a part of the Company subsidiary – OOO RN-Nakhodkanefteproduct.

The annual terminal capacity is about 7 million tons per annum. In 2006, export of the Company oil products through this terminal amounted to 2,7 million tons.

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### Structure of transportation of oil products by Rosneft Oil Company to foreign countries

| Type of transportation   | 2004   | 2005  | 2006  |
|--|--------|-------|-------|
| <b>System of Transnefteproduct, railroad transport and outside ports, million tons</b> | 0,00   | 4,31  | 4,49  |
| <b>Sea export terminals of Rosneft, million tons</b>                                   | 4,59   | 8,7   | 8,08  |
| <b>The total volume of deliveries to foreign countries, million tons</b>               | 4,59   | 13,01 | 12,57 |
| <b>Share of deliveries to foreign countries through Rosneft ports, %</b>               | 100,00 | 66,87 | 64,28 |

Source: Rosneft Oil Company.



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At the domestic market Rosneft has a powerful infrastructure to sell oil products. The Company owns 15 regional selling enterprises involved in wholesale and retail sales of oil products as well as rendering of services on their storage and transshipment.

As of December 31, 2006, subsidiary sales companies of Rosneft Oil Company owned 98 operating petroleum-storage depots for the total capacity equal to 1952 thousand cubic meters, including 511 thousand cubic meters for storage of light oil products.

The geography of retail business of the Company is very wide – from Murmansk in the north to Northern Caucasia in the south and from Smolensk on the west to Sakhalin in the Far East of Russia.

In 2006, the retail chain consisted of 684 own and leased fuel stations, as well as 83 fuel stations operating under Rosneft trade mark on franchising conditions.

In 2006, at the domestic market the Company sold 9,5 million tons of oil products, including 6,4 million – through subsidiary sales companies, of which 1,2 million tons of oil products were sold through the own chain of fuel stations.



## Authorized capital

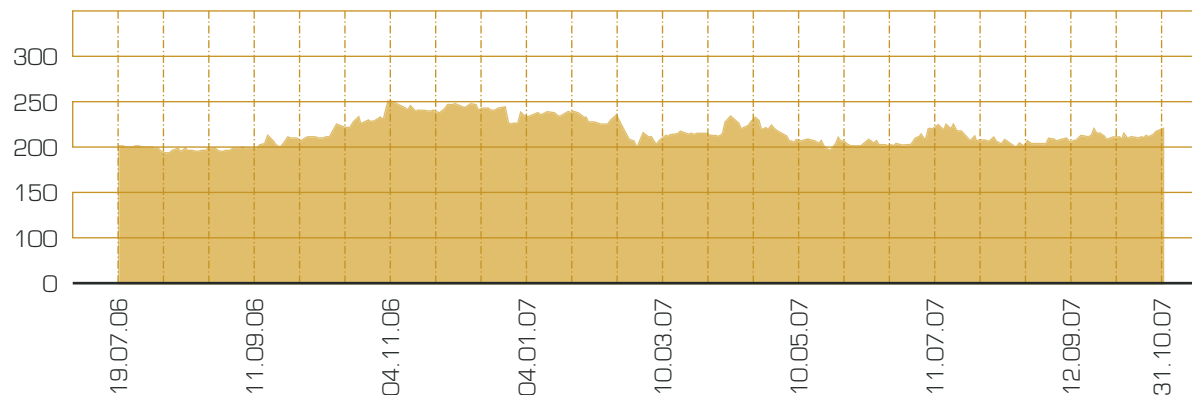


[Historical quotations of shares of Rosneft Oil Company at Stock Exchange Moscow Interbank Currency Exchange](#)

[Structure of authorized capital of OAO Rosneft Oil Company](#)

In July 2006, Rosneft made an IPO, which was the largest one among oil companies in the IPO history. The Company placed about 15 % of its shares at the London Stock Exchange as well as at Russia's stock exchanges and attracted 10,7 bn US dollars.

**Historical quotations of shares of Rosneft Oil Company at Stock Exchange Moscow Interbank Currency Exchange**



Currently, shares are circulating in Russia at the trading floors of Nonprofit Partnership Stock Exchange Russian Trading System, ZAO Stock Exchange Moscow Interbank Currency Exchange and at London Stock Exchange. The history of the Company share quotations at Moscow Interbank Currency Exchange is represented in the diagram.



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After IPO the structure of the authorized capital of the Company was as follows.

**Structure of authorized capital of OAO Rosneft Oil Company**

| Shareholders  | Number of shares, pieces | Share in authorized capital, % |
|---|--------------------------|--------------------------------|
| <b>OAO Rosneftegas</b>  | 7 965 816 383            | 75,16                          |
| <b>OAO Oil Company YUKOS</b>                                    | 1 000 000 000            | 9,44                           |
| <b>Savings Bank of Russia (nominal holder)</b>                  | 1 034 133 827            | 9,76                           |
| <b>Vnesheconombank (nominal holder)</b>                         | 332 119 664              | 3,13                           |
| <b>Other corporate entities holding less than 1 % of shares</b> | 197 126 186              | 1,86                           |
| <b>Individuals</b>  | 68 981 757               | 0,65                           |
| <b>Total</b>  | 10 598 177 817           | 100,00                         |

Source: Rosneft Oil Company.

OAO Rosneftegas is a major shareholder of the Company, its 100 % of shares are held by the state.

## Corporate social policy



The Company follows the policy of social responsibility to shareholders, employees of the Company and members of their families, population of the regions of presence, society on the whole.

In 2006, the Company allocated 7,59 bn rubles, 279,34 million US dollars for implementation of social program.

By their direction and scales these programs may be compared with social liabilities of world largest oil and gas corporations.

The Company provides for its employees ample opportunities for continuous improvement of their capabilities and skills. Perspective specialists and managers have all conditions for transfer to those subdivisions, where their potentials may be developed to the fullest extent.

Cooperating with leading higher educational institutions of the country and supporting them, Rosneft assists in training of highly qualified specialists for the oil industry. For improvement of labor conditions for and health

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of employees the Company makes investments in reconstruction of field camps, social and household objects, rents gyms and recreation grounds for employees to take exercises, compensates employees for cost of tickets in athletic clubs and sections. Yearly thousands employees are provided with voluntary medical insurance policies and vouchers to health resort-and-spa institutions from the Company funds. For improvement of housing conditions of its employees the Company has designed and is successfully implementing in the regions of its activity programs on housing construction and mortgage credit lending.

Rosneft pays pensioners and veterans of the Company corporate pensions, which amount is annually subject to indexation, renders to pensioners and veterans targeted welfare assistance, pays medical aid and health resort vouchers. In 2006, the Company spent 66 million rubles for medical aid and vouchers for veterans.

The Company makes a considerable contribution in social and economic development of the regions, where its subsidiaries are city-forming enterprises. Jointly with the regional authorities the Company makes investments in development of infrastructure of cities and villages, laying of roads, construction of schools, medical institutions, cultural, sporting and other objects. Social objects constructed by the Company in the regions are used not only by employees of the Company but also by members of their families and all inhabitants.

In 2006, Rosneft Oil Company and its subsidiaries won in several nominations of the Vth All-Russian Competition Russian organization of high social efficiency. The lead was gained: in nomination Implementation of social programs – Rosneft Oil Company; in nomination Conditions and protection of labor – OOO RN – Komsomolsk Refinery; in branch nomination – OOO RN-Purneftegaz.

Rosneft has developed and introduced an integrated system for industrial safety management, labor safety and environment complying with requirements of international standards ISO 14001:2004 and OHSAS 18001:1999. In production the Company applies latest technologies to create conditions safe for employees to minimize risks of emergency situations and accidents. Based on performance for 2006, Rosneft was awarded an honorable diploma of the 11nd All-Russian Environmental conference Leader of Environmental Activity in Russia, and nine best ecologists of the Company were awarded medals.

Being one of the largest Russian companies, Rosneft Oil Company strives to achieve not only high production and financial results, but also to make a considerable contribution in development and prosperity of the country and improvement of living conditions of its citizens.







## Strategy\* and vision

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\* The strategy under discussion was developed before public placement of shares of OAO Rosneft Oil Company conducted in July 2006. Currently, the Company is carrying out works on optimization of the Company development strategy





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## Mission of OAO Rosneft Oil Company

is to further dynamic development of Russia, to implement government programs and objectives with high operating efficiency of own business for the benefit of shareholders, society, state and employees of the Company.

## Vision:

Rosneft Oil Company is one of the largest state energy companies of the world following the policy of high social responsibility to its employees, population of the regions, where the Company performs its activity and society on the whole. The Company is a leader in the level of applied technologies, quality of products, industrial and environmental safety, cost efficiency. Activities of the Company shall facilitate development of the Company and improvement of quality of people's life.

## Strategic objective of Rosneft Oil Company

is to become a leading oil and gas company of the world demonstrative best production and financial figures in the industry.

Being on its scales the second (after OAO Gazprom) energy company in Russia and a major player at the world oil market, Rosneft is conscious of responsibility to the state as a major supplier of energy resources having a profound impact on economy, environment, socio-economic infrastructure of Russia and areas of presence. Implementation of the Company strategic objective aimed at growth of production, throughput and sales of oil and gas products in Russia and abroad, use of new technologies, enhancement of efficiency of management and financial-economic is consistent with the essence of sustainable development – satisfaction of needs of the present generation without prejudice for possibility of future generations to satisfy their own needs\*.

\* The objective of sustainable development formulated by World Commission on Environment and Development and recognized as Global Reporting Initiative (GRI) on sustainable development.

## Principles and directions of sustainable development of the Company



Expansion and efficiency  
of business

Enhancement of motivation  
and qualification of Personnel

Protection of environment,  
health and safety of people

Cooperation  
with interested parties  
and development of areas  
of presence

For achievement of the strategic objective and in accordance with its mission and Principles of sustainable development the Company concentrates efforts on the following:

### Expansion and efficiency of business

- Enhancement of production and economic – social performances: increase in volume of production of energy resources, volume and depth of their processing, growth of proceeds, profits, free cash flow and return on invested capital.
- Performance of strategic acquisitions and their integration in the Company structure.
- Reduction of unit current and capital costs, saving of energy saving program.
- Improvement in quality of the Company management.
- Implementation of measures on promotion of Rosneft brand associated with socially responsible company providing quality and environmentally clean products.
- Development of scientific and technical base of the Company and active introduction of innovations in production.
- Offering opportunities for sustainable growth due to integration in the Company development strategy of strategies in the area of personnel development, labor protection (health and safety of personnel), environmental protection, Social and economic development of areas of presence.



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## Enhancement of motivation and qualification of Personnel

- Improvement of the wage system, clear and direct dependence of remuneration on performance.
- Effective system of corporate training and career development aimed at complete use of employees' potential.
- Vocational-oriented education for youth, selection of high potential staff at early stages of professional training and their integration in work of the Company.
- Improvement of the intercommunication system raising efficiency of employees' interaction and level of satisfaction with work as an element of the corporate culture attractiveness.
- Provision of personnel with a system of social benefits aimed at improvement of the quality of life of employees and their loyalty to the Company.

## Protection of environment, health and safety of people

- Creation of attractive conditions for labor for high labor efficiency and preservation of personnel health.
- Minimization of environmental damage caused through production activities performed by the Company.
- Minimization of probability for occurrence of all types of failure, production accidents improving the state of fixed assets, technologies, introduction of integrated system of industrial safety and preventive measures.
- Manufacture of products meeting best international environmental standards.

## Cooperation with interested parties and development of areas of presence

- Openness to shareholders, consumers, suppliers, business partners, local companies and other interested persons.
- Fair and open discussion with parties interested in aspects of the Company activities having considerable influence on them, respecting their interests when planning and conducting the Company business.
- Enhancement of efficiency of cooperation with local companies on implementation of joint social/economic programs and measures for development of territories.
- Strict observance of all requirements of the legislation, payment of all taxes as an important condition for sustainable development of the Company and regions, where the Company carries out its activity.

When developing the strategy, the Company takes basic system risks inherent to its activity into consideration. They are described in details in the Annual Report of Rosneft Oil Company for 2006, placed on the Company website at [http://www.rosneft.ru/Investors/annual\\_reports](http://www.rosneft.ru/Investors/annual_reports).

## Achievements, tasks and challenges



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### Production development

#### » Strengths and achievements

- The lead in the volume of liquid hydrocarbon reserves among oil companies of the world.
- Best industry indices of integral substitution of proven reserves and increase in proven reserves on a per 1 exploratory well basis.
- Formation of an extensive portfolio of projects on production of hydrocarbon material being at the stage of exploration.
- Introduction of integrated production control system, advanced technologies for drilling and repair of wells.
- Russia's best well flow rates.
- The lead in rates of growth in production of oil and gas condensate in Russia.
- The second place among Russia's companies and in production of oil in 2006 and lead in daily average production of oil including assets acquired in the first half of 2007.
- Implementation of investment programs on reconstruction of oil refineries.

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- Availability of developed structure for transportation and sale of oil products at the domestic market, including wholesale and retail sales network.
- Beneficial geographic location of sea terminals for expansion of export of oil and oil products:
  - own sea terminals on all export directions;
  - location of refinery in proximity to export terminals.

#### » Tasks and challenges

- Increase in oil production at least up to 140 million tons per annum by 2010 and at least 160 million tons per annum by 2015.
- Increase in gas production volumes from 13,7 bn m3 per annum to at least 20 bn m3 by 2010 and to 50 bn m3 by 2015.
- Launch of projects being at the stage of exploration:
  - short-term perspective: further development of the fields Yuganskneftegaz, Purneftegaza, Severnaya Neft;
  - medium-term perspective: Vankor and Verkhnechonsk fields in the East Siberia;
  - long-term perspective: projects of Sakhalin and Western – Kamchatka shelves.
- Deepening of oil refining to 95 %, increase in volume of oil refining to 85-90 million tons by 2015, provision of a balance between producing and refining segments, production of oil products meeting worldwide standards:
  - effective reconstruction started at Komsomolsk and Tuapse Refineries;
  - acquisition of oil refining assets in Russia and abroad.
- Expansion and Upgrade of infrastructure for transportation, transshipment, storage of oil and oil products:
  - Arkhangelsknefteproduct – in connection with growth in deliveries of oil from Timano-Pechora;
  - port DeCastri – in connection with development of Sakhalin projects;
  - expansion of transshipment capacities of Tuapsenefteproduct up to 17 million tons per annum by 2010 to serve export flows of Tuapse Refinery.
- Increase in share of the Company at the domestic retail market of oil products up to 20 % by 2015 due to expansion and Upgrade of own network of fuel stations in the regions adjoining to refineries and petroleum-storage depots of the Company (Khabarovsk, Primorsky, Krasnodar, Stavropol Territories and Sakhalin Island), as well as due to expansion of in large cities – Moscow and St. Petersburg.
- Raising the level of gas disposition up to 95 %.
- Activization in the area of prospecting and development.
- Business diversification (petrochemicals, electric power, gas products (LNG, GTL).

## Corporate management and restructuring

### » Strengths and achievements

- Organization of production and territorial chains of the Company enterprises implementing production cycle from production of oil to sale of products to consumers.
- Experience in successful integration of new large producing assets in the Company structure in 2003–2006.
- Completion of the program on consolidation of key subsidiary companies and transfer to the unified share of the Company.
- Development of the system of corporate management and relations with investors:
  - approval of the Corporate Conduct Code of the Company;
  - election in the Board of Directors of authoritative independent directors, formation of committees and their work;
  - effective holding of IPO and a meeting of shareholders with an expanded shareholding structure.

### » Tasks and challenges

- Active improvement of organizational structure and business – processes, improvement of transparency in activity of organization departments and subsidiary companies.
- Expansion of internal communications between the Company and its subsidiaries considering vast geographic dispersion of assets.
- Segregation of service departments from the Company and improvement of experiences in their management.
- Transition to process – project management. Introduction of unified standards of management and reporting information.



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## Economics and finances

### » Achievements

- The lowest figure of replacement cost of 1 ton of reserves.
- Best figures of cost of production and processing in Russia on a per production unit basis.
- The lowest figure of administrative costs in Russia on a per production unit basis.
- The lead in capitalization among vertically integrated oil companies in Russia.



### » Tasks and challenges

- Ranking among ten largest oil companies of the world in capitalization by 2020.
- Achievement and maintenance of the lowest per unit capital and operating costs among world leaders.
- Increase in dividend payments.
- Formation of a specialized structure of accounting functions.
- Accelerated Upgrade of outworn fixed production assets of the Company.
- Optimization of performance measurements of investment projects: net discounted value, internal profitability index, payback periods, yield on average employed capital and return on owned capital.

- Hitting and maintenance of investment rating.
- Implementation of the system for management of debt load, including:
  - gradual reduction of debt;
  - mechanisms for debt restructuring;
  - diversification of sources and borrowing currencies.

## Development of personnel

### » Achievements

- Creation of the program on pre-university education within the framework of specialized Rosneft Classes.
- Organization of cooperation with high educational institutions for training of personnel for the Company enterprises.
- System for adaptation of young specialists (establishment of a young specialists board, tutorship institute).
- Implementation of the training system aimed at development of key competences of specialists in the area of exploration, development and production.
- Creation of a base for personnel growth due to internal potential of the Company, generation of strategy for internal growth, including:
  - the program on corporate training;
  - the rating scale of employee and employee's remuneration for high quality labor
  - creation of conditions for rotation of employees inside the Company of employees to any other sub-division of the Company for fullest development of their potential.
- Start of corporate programs on mortgage lending and non-state pension insurance.

### » Tasks and challenges

- Securing by personnel of the Company production growth in conditions of initiated reduction of man power in Russia.
- Attraction and holding of highly qualified personnel, including management personnel.
- Improvement of the system for stimulation of employees aimed at efficiency.
- Implementation of the system for development and training of personnel in conditions of loss of quality of professional training of youth in educational institutions.
- Establishment of world's best corporate training center to train specialists on the level of the best international requirements.
- Improvement of the system for performance evaluation: management based on the key performance indicator system.
- Specialists based on the UPC system.

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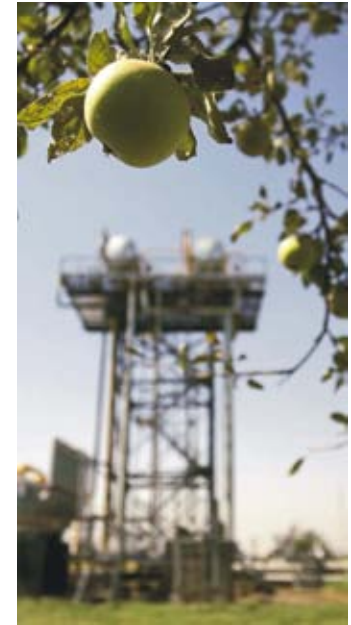


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## Environment, industrial safety and labor protection

### » Achievements

- Development of the Company policy in the area of industrial safety, labor protection and environmental conditions and medium-term implementation plan till 2009.
- Introduction of the system for environmental administration, environmental monitoring and audit in accordance with standards ISO 14001 and OHSAS 18001.
- Implementation of the integrated system for management of industrial safety, labor safety and environmental conditions subject to requirements of standards ISO 14001, OHSAS 18001, ISO 19011.
- Tending to lowering the level of traumatism, industrial accidents and incidents.
- Start of implementation of the targeted environmental program on construction of landfills for solid wastes, sewage disposal plants, organization of stations for response to oil and oil products spillage (OSR).
- Development of Gas program on disposition of associated gas.



### » Tasks and challenges

- Provision of safe work at newly acquired assets with high depreciation level.
- Solution of problems accumulated within previous years (slurry barns, oil lens in Tuapse, ownerless wells in the regions, where the Company performs its activity).
- Provision of high level of environmental safety in areas adjoining to protected areas (Krasnodar Territory, Khanty-Mansi Autonomous Area).
- Establishment of the powerful environmental service block and the system of environmental supervision guaranteeing:
  - zero level of waste storage;
  - zero level of environmental fines;
  - lack of disturbed soils as of the end of the reporting period;
  - exclusion of facts of violation of environmental protection legislation.
- Organization of oil-refining production meeting modern international requirements of environment safety and control and providing for:
  - output of products meeting standards Euro-4 and Euro-5;
  - Equipment of processing plants with monitoring and control systems meeting, meeting modern international requirements of environment safety and control.

## Social and economic development of the regions of presence

### » Achievements

- Availability of programs on development of socioeconomic infrastructure on territories of the Company presence on the basis of agreements on cooperation with the regional authorities.
- Quite a number of projects implemented jointly with the regional authorities.
- Charitable and sponsor activities highly appreciated by local companies.
- Established system for assistance to local indigenous people of the North in maintenance of their traditional way of life.

### » Tasks and challenges

- Standardization of the Company field camps .
- Offering an opportunity for people living in the regions with declining production and pensioners to move to live on territories, where conditions are more favorable.
- Establishment of more close cooperation with municipal authorities of a number of the regions of presence on problems concerning socioeconomic development of territories on the basis of long – term programs.
- Activation of projects on private and state partnership for development of socioeconomic infrastructure of areas of presence, including programs on the following directions:
  - solution of questions on construction of engineering communications for fuel stations and other production objects of the Company;
  - development of municipal objects (roads, energy sector, water supply, sewage disposal plants, etc.).
- elaboration and implementation of programs on cooperation of the Company and its subsidiaries with small business, including involvement of small business in implementation of plans on the Company development.
- Improvement of cooperation with the regional professional training institutions.
- Raising of the level of information awareness on activities of the Company in the regions.







# Management of the Company and cooperation with interested parties

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## Structure of the Company management



The current corporate management system of Rosneft Oil Company complies with best international standards recommended by the Corporate Management Code of the Organization for Economic Cooperation, and meets requirements of the Russian legislation on joint stock companies. The supreme management body is the meeting of shareholders electing by cumulative voting the Board of Directors consisting of nine members, the President of the Company (the one-man executive body) and members of the Auditing Commission of the Company. Members of the Board of Directors may not be shareholders of the Company. On presentation of the President of the Company the Board of Directors approves members of the Board of the Company (the collegiate executive body). In accordance with the Charter of the Company the Board of Directors forms committees in its structure, determined their functions and procedure for their activity. The internal documents of the Company establish the requirements to professional qualification (including education and work experience) of the President and the members of the Board, as well as non-executive directors – members of Committees of the Board of Directors.

As of December 31, 2006, the Board of Directors consisted of eight non-executive directors, including three independent directors. For determination of independency the Company uses conservative criteria set forth in the Corporate Conduct Code (available of the site <http://www.rosneft.ru/Investors/information/charter/>). Independent directors head committees formed by the Board of Directors for: strategic planning, personnel, remuneration and audit.

## BOARD OF DIRECTORS

### » Igor Sechin

**Chairman of the Board of Directors.**



Born in 1960. In 1984, graduated from Leningrad State University. Candidate of Economic Sciences.

From 2002 to 2004 – Deputy Head of Administration of the President of the Russian Federation.

From 2004 – Deputy Head of Administration of the President of the Russian Federation – Assistant to the President of the Russian Federation.

From 2004 – member of the Of the Board of Directors of Rosneft Oil Company.

### » Sergey Bogdanchikov

**President of Rosneft Oil Company.**



Born in 1957. In 1981, graduated with excellence from Ufa Institute of Petroleum.

From 1993 – General Director of Sakhalinmorneftegaz.

From 1997 – Vice-President of Rosneft.

On October 14, 1998, was appointed to the post of the President of Rosneft under the Order of the Government of the Russian Federation.

Doctor of Engineering Sciences and author of several scientific works.

### » Hans-Joerg Rudloff

**Independent member of the Board of Directors.**



Born in 1940. In 1965, graduated from Economic Faculty of Bern University.

From 2002 – Chairman of the Board of the Bank Barclays Capital.

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

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» **Andrey Kostin**

**Independent member of the Board of Directors.**



Born in 1956. In 1978, graduated with excellence from Economic Faculty of Moscow State University. Candidate of Economic Sciences.  
From 2002 – President – Chairman of the Board of Vneshtorgbank.  
From 2006 – member of the Board of Directors of Rosneft Oil Company.

» **Alexander Nekipelov**

**Independent member of the Board of Directors.**



Born in 1951. In 1973 graduated from Economic Faculty of Lomonosov Moscow State University. Doctor of Economic Sciences.  
From 2002 – Vice – President of Russian Academy of Sciences (RAS).  
From 2006 – member of the Board of Directors of Rosneft Oil Company.

» **Kirill Androsov**

**Independent member of the Board of Directors.**



University. Candidate of Economic Sciences.  
From 2002 to 2004 – First Deputy General Director of OAO Lenbenergo.  
From 2005 – Deputy Minister for Economic Development and Trade of the Russian Federation.  
From 2004 – member of the Board of Directors of Rosneft Oil Company.

» **Sergey Naryshkin**

**Deputy Chairman of the Board of Directors.**



Born in 1954. In 1978 graduated from Leningrad Mechanical Institute. Second higher education – graduated as an economist from St. Petersburg International Management Institute. Candidate for PhD Economics.

From 2002 to 2004 – Chairman of the Committee for Foreign Economic Relations with the Government of Leningrad Region.

2004 – Deputy Head of the Economic Department with the President of the Russian Federation, Deputy Head of the Russian Federation Government Office.

Since 2004 – Head of the Russian Federation Government Office – Minister of the Russian Federation, member of Rosneft Oil Company Board of Directors.

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» **Gleb Nikitin**

**Deputy Chairman of the Board of Directors.**



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

Since 2004 – Head of the Department for Property of Commercial Sector Organizations of the Federal Agency for Federal Property Management.

Since 2006 – member of Rosneft Oil Company Board of Directors.

Since 2007 – Deputy Head of the Federal Agency for Federal Property Management

» **Andrey Reus**

**Member of the Board of Directors.**



Born in 1960. In 1983 graduated from Lomonosov Moscow State University. Candidate of Economic Sciences.

From 2002 to 2004 – Head of Secretariat of Deputy Chairman of the Government of the Russian Federation.

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

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





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## STANDING COMMITTEES OF THE BOARD OF DIRECTORS

### » **Audit Committee**

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

### » **Strategic Planning Committee**

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

### » **HR and Compensations Committee**

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

Functions of the **Audit Committee** include formulation of recommendations to the Board of Directors on exercising control over financial and business activity of the Company.

In addition, the Audit Committee assesses candidates in auditors of the Company, audit opinions, efficiency of internal control procedures and prepares proposals on their improvement. The Audit Committee:

- provides continuous cooperation of the Board of Directors with the auditor; independent evaluator; the Audit Committee, Internal Audit Department, executive bodies and financial directors of the Company;
- determines the amount of remuneration for the auditor's services, assesses the quality of services rendered by the auditor and observance by the auditor of audit independency requirements;
- exercises control over completeness and reliability of taxation, bookkeeping and management accounting of the Company;
- recommends to the General Meeting of Shareholders the amount of dividends on shares and the procedure for payment; distribution of profits and losses based on results for the financial year;
- approves transactions provided for under chapters X and XI of the Federal Law On Joint Stock Companies;
- elaborates and approves procedures for internal control jointly with executive bodies and the Internal Audit Department of the Company;
- analyzes results of holding of integrated and thematic revisions, inspections and assessment of financial and business activity of the Company.

Functions of the Audit Committee also include analysis of observance and efficiency of internal procedures of the Company for management of risks. The Internal Audit Department is accountable to the Audit Committee of the Company. Head of the Internal Audit Department participates in all meetings of the Audit Committee.

In 2006, the Audit Committee gave recommendations on approval of Ernst & Young as an auditor of consolidated financial statements of Rosneft Oil Company for 2006 prepared in accordance with US GAAP, and amount of remuneration for the auditor's services; performed measures aimed at improvement of inter-relations with the external auditor of the Company, agreed on candidature of the company Accenture as a principal consultant of Rosneft Oil Company on the project for accelerated preparation of consolidated statements in accordance with US GAAP. The Audit Committee also performed an analysis of the internal control system of the Company.

The scope of tasks of the **HR and Compensations Committee**, established in June 2006, includes:

- assistance in involvement in management of the Company of qualified specialists and creation of required incentives for their successful work;
- elaboration of the personnel policy, regulation of questions concerning payment and stimulation of labor of employees of Rosneft Oil Company;
- elaboration of Principles and criteria for determination of the amount of remuneration and compensation for members of the Board of Directors, the Board and top managers of the Company;
- creation of bonus and option programs on long-term remuneration of employees.

In 2006, the HR and Compensations Committee held five meetings, at which it:

- recommended to the Board of Directors to approve the procedure for payment of remuneration to and compensation for expenses of the Board of Directors of the Company;
- approved amounts of remuneration to the President, First Vice-Presidents, Vice-Presidents and other top managers based on results of the Company activities in the first and the second halves of 2006 in accordance with conditions of labor agreements as for successful completion of public placement of the Company shares;
- approved the program on development of non-state (corporate) pension insurance of the Company employees for 2006 and subsequent years.

**Strategic Planning Committee**, established in June 2006 determines strategic objectives and priority lines of the Company activities. The scope of prime objectives of the Strategic Planning Committee includes:

- business – planning;
- preparation of budgets and plans of financial and business activity of the Company for short – term and long – term perspective;
- elaboration of the policy on increasing capitalization of the Company;
- elaboration of the investment, marketing, dividend and credit policies of the Company;
- assessment of efficiency of inter-relation of the Company with investors.

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In 2006, the Strategic Planning Committee held three meetings. The key decision was recommendation to the Board of Directors on adoption of a business – plan of Rosneft Oil Company for 2007.

### » Internal Audit Department

The Audit Committee plays a key role in exercising control over financial and business activity of the Company and its subsidiary companies as well as management of risks. The scope of functions of the Internal Audit Department includes:

- establishment of the unified system for control over financial and business activity in
- organizational departments, representative offices and subsidiaries of the Company;
- carrying out of integrated and sampling audits of production and financial activities of organizational departments, representative offices and subsidiaries;
- control over quality and timely execution of decisions of the Board of Directors and executive management of the Company;
- assessment, classification and minimization of possible risks arising during the Company activities;
- interaction with the Audit Committee and provision of the latter with information on state of internal control in the Company;
- methodical and methodological support of activities of auditing commissions and Internal Audit Departments of sub-divisions of subsidiaries.

Head of the Internal Audit Department (AD) participates in all meetings of the Audit Committee and quarterly reports to the Audit Committee on all questions concerning its activity and state of internal control of the Company. The current procedure for subordination of the Internal Audit Department to the Audit Committee and to the executive management of the Company ensures independency sufficient for performance of management functions and complies with best practice and international standards in the area of internal audit.

Together with the President current management of the Company is performed by the Board – the collective executive body consisting of eight members. The President of the Company shall be the Chairman of the Board. The scope of competence of the Board is determined under the regulation approved by the General Meeting of the Company Shareholders. For coordination of its management activity the Company established the budget, investment and strategy committees supervised by Vice-Presidents of the Company.

### Improvement of corporate management

In 2006, the Company performed much work for optimization of the of the Company structure, manageability, structuring of activities of the Board of Directors and other management bodies of the Company.

In summer 2006, the Company publicly offered its shares and on July 19, 2006, securities of the Company were put in free circulation at the London Stock Exchange (LSE), as well as at trading floors of Russia. Demand of investors for shares of the Company met expectations. As a result, the Company expanded a circle of its shareholders. Their number exceeded 115 thousand individuals. The total amount of individual investments in shares of the Company exceeded 750 million US dollars.



In October 2006, the Company completed the program on consolidation of subsidiaries aimed at formation of the optimal organizational and management structure of the Company.

The following 12 subsidiaries were affiliated to the Company as a result of consolidation:

- **7 oil producing companies:**

- Rosneft Oil Company – Krasnodarneftegaz;
- Rosneft Oil Company – Purneftegaz;
- Rosneft Oil Company – Sakhalinmorneftegaz;
- Rosneft Oil Company – Stavropolneftegaz;
- OAD Yuganskneftegaz;
- OAD Severnaya Neft;
- OAD Selkupneftegaz.

- **2 oil refineries:**

- Rosneft Oil Company – Komsomolsk Refinery;
- Rosneft Oil Company – Tuapse Refinery.

- **3 companies for supply of oil products:**

- Rosneft Oil Company – Arkhangelsknefteproduct;
- Rosneft Oil Company – Nakhodkanefteproduct;
- Rosneft Oil Company – Tuapsenefteproduct.

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In the regions, where affiliated subsidiaries carry out their activities 12 enterprises were established. These enterprises became operators for production of hydrocarbons, as well as for productions and sale of oil products. Due to consolidation the corporate structure of the Company was simplified, its manageability was considerably improved, levels of responsibility were differentiated more clearly, accountability of production plants was enhanced. Besides, consolidation of Rosneft Oil Company facilitated access of the Company to the capital market, which made it possible for the Company to finance new capital-intensive projects, as well as to simplify the process of credit structuring. Within the framework of consolidation minority shareholders of subsidiaries exchanged their shares for shares of the parent company, having become holders of marketable shares quotable at leading Russia's and international stock exchanges.

In May 2006, in accordance with its decision the Board of Directors approved the Corporate Conduct Code of Rosneft Oil Company, elaborated in accordance with the Federal Law On Joint Stock Companies, the Corporate Conduct Code recommended by the Federal Commission for the Securities Market of the Russian Federation, Corporate Management Principles of Organization for Economic Co-operation. The Code establishes Principles and fundamentals for functioning of the system for corporate management of the Company. Provisions of this document reflect the state of the best practices in this area including protection of rights and equal attitude to all shareholders; timely disclosure of information on the Company, including its financial standing, economic characteristics, structure of property and management; strategic management of the Company and effective control over activities of executive bodies of the Company, as well as accountability of the Board of Directors to the General Meeting of Shareholders.

The Corporate Conduct Code, the Charter and the Regulation on the Board of Directors of the Company (all these documents are available on the corporate website at [www.rosneft.ru](http://www.rosneft.ru)), and other internal documents contain the rules and procedures aimed at exclusion of the conflict of interests in the Board of Directors and the Management Board.

In particular, the members of the Board of Directors and the Management Board are obliged to refrain from actions, which may result in the conflict between their interests and the Company interests, and in case of occurrence of such a conflict they shall notify the Board of Directors and the corporate Secretary of the Company. Independent directors are obliged to refrain from actions that may eliminate their independent status. In case of occurrence of any circumstances that violate their independent status they are obliged to submit a relevant application to the Board of Directors.

Directors and members of the Board do not participate in voting on issues whose resolution may be to their personal interest. The President and a member of the Board may simultaneously hold offices in the management bodies of any other organization subject to preliminary consent of the Board of Directors.

The President and the members of the Board are obliged to notify the Board of Directors, the Audit Committee and the Auditor of the Company concerning their holding (individually or jointly with affiliated persons) of 20 and more percent of voting shares (participatory shares, equity interests) in the corporate entities.

The Company guarantees observance of all shareholders rights provided for under the applicable legislation and it creates the practical conditions for the shareholders to participate freely in the meetings of shareholders, to obtain information from heads of the Company and to notify the heads of the Company on their opinions. In accordance with the Corporate Conduct Code, the Company notifies shareholders on the general shareholders meeting in various manners (mail, personal delivery, publication), not limited to those stipulated under the Charter of the Company. Any shareholder may submit an issue for the agenda of the annual general shareholders meeting or request convocation of the extraordinary general shareholders meeting without presentation of an extract from the register of shareholders, if his / her / its rights to shares are registered in the system of the register maintenance, and in case his / her / its rights to shares registered on the depo account - subject to presentation of a statement of depo account only. The general shareholders meeting is held in a room admitting a number of shareholders registered for participation in the meeting. Persons participating in the general shareholders meeting held in the form of joint presence are registered at the place of the general shareholders meeting. Registration shall be conducted within the time sufficient for all participants to be registered. Registration of participants is continued after the opening of the general shareholders meeting as well. Persons registered for participation in the general shareholders meeting shall have the right to vote on all items of the agenda from the date of the meeting opening.



At the general shareholders meeting held on June 30, 2007, the minority shareholders posted a question concerning considerable expenses related to registration and custody of shares with the Company Register and depositary banks. The Company performed the work with the Register and the Russian banks rendering services on depositary custody of the Company shares. As a result, the tariffs for depositary/registration services for minority holders were considerably reduced. In the interests of minority shareholders many of whom became the holders of shares for the first time, the Company established a special department to meet the information needs of this group of shareholders.

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Members of the Board of Directors, executive bodies, the Audit Committee of the Company are obliged to be present at the general shareholders meeting and to give competent answers to questions of participants of the meeting. To offer an opportunity for the shareholders to obtain the most complete and objective information on the Company, there is the time for speeches during the meeting of the principal office holders of the Company, including the chairmen of Committees of the Board of Directors.



The Board of Directors elaborated and adopted documents regulating the procedure for formation of committees of the Board of Directors and their work, exercising of internal control, dividend and information policy. In 2006, the Company formed three committees of the Board of Directors: the Audit Committee, the Committee for Personnel and Remuneration, the Strategic Planning Committee. These committees were headed by independent directors, which complies with international standards in the area of corporate management.

### Management of the Company sustainable development aspects

In accordance with the working plan of the Board of Directors of Rosneft Oil Company, the Company (as a rule once a quarter) submits a report for consideration of the Board of Directors on achievement of targets of the approved Business Plan. The format of the report includes an analytical letter on the results of production and business activity in basic directions of business processes and implementation of the

target programs, as well as the table materials with the behavior of key figures against the targets and the respective indicators for a similar period of the previous year. Based on the results of consideration of the matter, the Board of Directors assesses performance of the Company within the reporting period. The Board of Directors considers and approves the Business Plan for implementation as well as the Annual Report for its subsequent submission to the general shareholders meeting of Rosneft Oil Company, together with the Development Strategy of Rosneft Oil Company for a medium-term perspective. At present, the Company has developed a new version of the Strategy to 2020 to be submitted for approval.

In accordance with distribution of their powers the President, the Board and the Board of Directors carry out general management of the Company activities in the area of sustainable development and corporate social responsibility (CSR). The Vice- President of CSR block bears responsibility for coordination of activities in the area of CSR in aspects connected with Personnel management, production social areas and programs on socioeconomic development of areas of presence (including charitable works. He is subordinated by the Personnel Department, Social Development Department, Corporate Culture Department and Department to operate with Governmental Authorities. The above Departments jointly with similar structures of subsidiaries perform the following functions (on aspects included in the area of their responsibility):

- elaboration of the strategy and the package of measures for implementation of the strategy on development of personnel and corporate culture;
- elaboration of policies in the area of motivation of personnel, social payments and benefits to personnel, programs on social development of areas of presence and charitable works;
- planning of measures required for implementation of strategies and policies and control over their fulfillment;
- monitoring of results, their analysis and making required corrections in plans of measures.

Aspects of environment, labor safety and industrial safety fall within the scope of competence of the Environment and Industrial Safety Department supervised by the Vice-President for Oil and Gas Production. The scope of his functions includes the following:

- elaboration and implementation of the policy in the area of environmental and industrial safety of the Company;
- support for functioning of the integrated system for environmental and industrial safety;
- analysis of operative records of subsidiaries, control over execution of targeted programs on implementation of the Company policies;
- elaboration of programs on training and raising of qualification of employees in subordinate areas.

Results of activities performed by the Company subsidiaries on implementation of plans and achievement of set objectives in the areas of corporate social responsibility, labor protection, industrial safety and environment are considered and assessed by superior management bodies of the Company.





## Cooperation with interested parties



The principal interested parties of the Company are the following:

- employees of the Company and members of their families;
- shareholders and institutional investors;
- local companies in the regions of the Company production activity and operation of retail network for sales of oil products (local authorities, youth, environmental and other public organizations, population, organizations of Northern indigenous minority population);
- administration of the regions of presence;
- interested parties at the Federal level;
- wholesale and retail consumers of oil and oil products;
- suppliers of goods and services;
- international environmental organizations.

This structure of the interested parties has been formed considering the importance of their cooperation with the Company and the degree of mutual interests.

## Principles and mechanisms of interaction with interested parties

Interaction of the Company with interested parties is built on the following general Principles:

- mutual respect of interests, aspirations, requests;
- responsible execution of assumed obligations;
- attention to history and traditions of population of the Company areas of presence;
- building relations subject to existing practices of business intercourse and international standards;
- unconditional observance of the legislation.

Interaction with employees of the Company is based on the conception of the social partnership, which is considered in detailed in the section Personnel relations. During implementation of corporate social programs the Company also strives to consider interests of members of employees' families: grants interest interest-free loans for payment of education for employees' children, provides children with free and privileged vouchers to rest homes and summer camps, allows members of families to use corporate social objects, pays leave trip for all workless family members. The Company performs methodical work for improvement of accessibility, quality and operativeness of information on corporate events as well as on all aspects on the Company activities, affecting interests of employees. For clarification of perception by employees of conditions of work in the Company representative pollings are regularly conducted involving external agencies, meetings between heads of subsidiaries and labor collectives and receptions on personal questions are organized, feedback channels are arranged through which any employee may express his or her opinion to any manager of the Company.

Relations with shareholders and investors got primary concern after the Company's successful public offering in June 2006. Through IPO a number of the Company shareholders considerably increased both among institutional investors and individuals. During the IPO, shares were purchased by over than 115 thousand people. In this new situation the Company decided to respect the interests and requirements of minority holders and established a special sub-division to address the private shareholders. All private investors were offered an opportunity to personally attend the Annual Shareholders Meeting first time after the IPO and ask top management of the Company any questions. Rosneft Oil Company increases the level of transparency of its activity and fulfills all the requirements to delivery of information due the public company status. The corporate website in the English and Russian languages is the key channel for operative informa-

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tion for all interested persons concerning the Company events. Regular meetings with top managers of the Company, TV conferences and road shows are organized for analysts and institutional investors.

The Company keeps a dialog with mass media both at the level of the corporate center and on areas of presence. Practically all subsidiaries have Public Relations Managers providing contacts with the regional press. On Sakhalin, in Nefteyugansk, Usinsk and Komsomolsk-on-Amur subsidiaries regularly inform population on their activity through local TV and radio programs.

In all regions of presence the Company performs charitable and sponsor activities: lends support to professional education institutions, hospitals, schools, boarding schools, sponsors municipal holidays and sporting events, develops social infrastructure of cities. Heads of subsidiaries personally meet on a regular basis with the representatives of regional administrations and local authorities to agree upon social investment plans of the Company in the region. In the cities where the Company subsidiaries perform city-forming functions, employees of the Company are represented in local legislative authorities, providing an additional feedback channel. Contacts on the level of subsidiaries are supplemented by regular meetings of top managers of the Company, heads of profile departments of the corporate center with the heads of administrations of key activity regions.

In order to reinforce positions at the regional wholesale and retail markets of oil products, the subsidiaries of the Company inquire customers about the quality of service and use the collected information to improve the performance.

Work with suppliers is built on a basis of respect of mutual interests and recognition of suppliers' significance for development of the Company. Contracts for delivery are executed on the tender basis. All other conditions being equal, the priority is given to the Russian or local (in case of purchases at the regional level) suppliers. The Company applies efforts to establish conditions for development of suppliers' business through conclusion of long-term contracts with transparent pricing rules for key suppliers and flexible terms of payment.

Rosneft Oil Company has active participation in the following organizations and associations:

● **Russian National Committee for World Oil Congresses.**

The Company has been a member of the Russian National Committee for World Oil Congresses since 1998.

● **Union of Russia's Oil and Gas Industrialists (OGI).**

The Company has been one of founders and members of the Union of Russia's Oil and Gas Industrialists since 1992.

- **Board of Trustees of the Gubkin Russian State University of Oil and Gas.**

The Company has been one of founders and members of the Board of Trustees of the Gubkin Russian State University of Oil and Gas since 1992.

- **Chamber of Commerce and Industry of the Russian Federation.**

The Company has been a member of the Chamber of Commerce and Industry of the Russian Federation since 2003.

- **Russian – Canadian Business Board.**

The Company has been one of founders and members of the Russian – Canadian Business Board since 2005.

### Contacts with interested parties during preparation of the Report

Within the framework of preparation of this Corporate Social Report, Rosneft hosted eight Roundtables in the territories of the Company presence within the period from May 25 to July 12, 2007. Representatives of the Company central office (Corporate Culture Department), general directors and key managers of the Company subsidiaries, representatives of regional and local administrations, heads of regional departments of natural, technical and environmental supervisory authorities, representatives of regional high education institutions and schools, scientific and consulting organizations, public environmental and youth organizations, representatives of Northern indigenous minority population took part in those Roundtables.

The primary objective of this roundtable cycle is to attain new quality of dialog with the interested parties in the regions of the Company presence – an open and joint discussion of perception by interested parties of capabilities for cooperation in resolution of the social and environmental problems in the regions. In particular, the following objectives were set:

- raising the level of awareness of authorities and general public in the regions concerning development plans, social and environmental activities of the Company and its subsidiaries;
- presentation and discussion of assessments and expectations of authorities and general public connected with the activity of the Company in the region and its influence upon social-economic and environmental situation in the region, problems giving rise to concern;
- search of new forms and directions of cooperation between the Company and regional administrations, educational institutions, public and environmental organizations;
- demonstration of the Company adherence to recognized international Principles of Sustainable Development, openness, readiness to discuss complex problems with the interested parties and seek for solutions.





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### Venues of roundtables and interested parties involved:

| Date  | Roundtable location       | Regional authorities | Local authorities | Supervisory authorities | Representatives of educational institutions | Representatives of Northern indigenous minority population | Public ecologists | Expert community, scientific institutions |
|-------|---------------------------|----------------------|-------------------|-------------------------|---|--|-------------------|---|
| 25.05 | <b>Arkhangelsk</b>        | -                    | + active          | + active                | + active                                    | -  | + active          | + active                                  |
| 07.06 | <b>Usinsk</b>             | + active             | + active          | + active                | + active                                    | -  | -                 | + active                                  |
| 08.06 | <b>Tuapse</b>             | +                    | + active          | +                       | + active                                    | -  | -                 | -   |
| 14.06 | <b>Gubkinsky</b>          | -                    | + active          | + active                | + active                                    | + active   | -                 | -   |
| 21.06 | <b>Yuzhno-Sakhalinsk</b>  | + active             | + active          | + active                | + active                                    | + active   | -                 | +   |
| 27.06 | <b>Homsomolsk-on-Amur</b> | -                    | + active          | + active                | + active                                    | -  | + active          | -   |
| 06.07 | <b>Krasnodar</b>          | + active             | + active          | + active                | -   | -  | -                 | + active                                  |
| 12.07 | <b>Nefteyugansk</b>       | +                    | + active          | + active                | + active                                    | +  | + active          | -   |

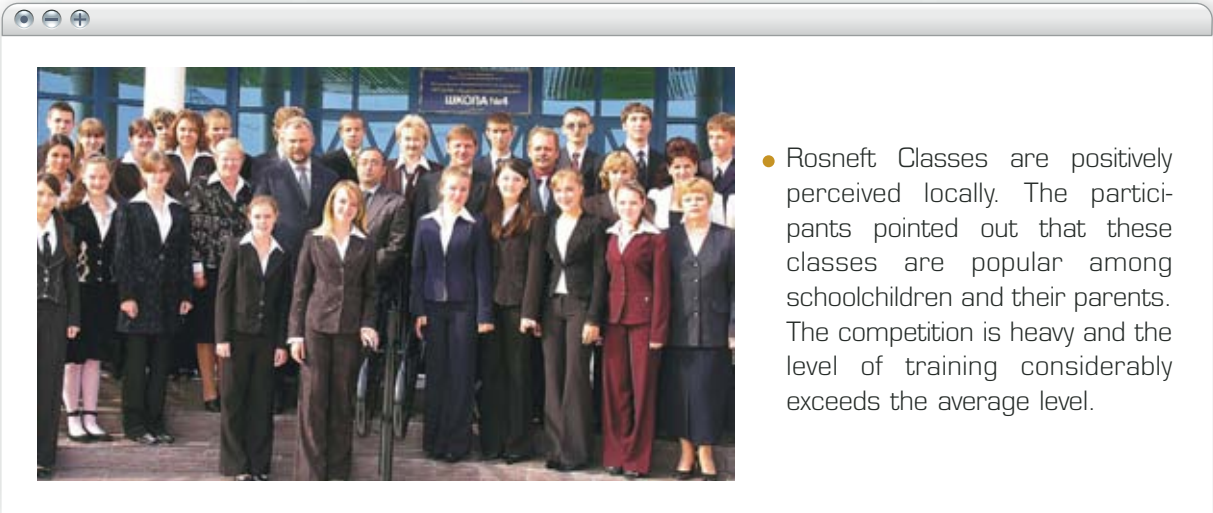
Within the framework of the Roundtables, the general directors of subsidiaries made presentations, in which they told about production activities of subsidiaries in the regions, social environmental results of work, scope and forms of charitable support for local community, investments in social development of territories. They gave information on prospects for the years immediately ahead of investments in development of production and processing of hydrocarbons, as well as on planned social programs on areas of presence.

During the Roundtables the Company tried to involve more and more representative and competent participants. Representatives of local authorities, supervisory authorities, representatives of educational institutions and indigenous minority population took active part in the discussion of topical problems.

Within the framework of the Roundtables the Company managed to form a clear opinion on perception by responsive groups of consumers of activities performed by the Company in the region and to understand expectations of interested parties. In general, these assessments come down to the following.

- As a result of their city-forming role, the Company and its subsidiaries have dominant influence on social and economic processes of such areas of presence as Usinsk, Tuapse, Gubkinsky, Okhinsk and Nogliki areas of Sakhalin region and Nefteyugansk. Representatives of regional and local administrations emphasized their interest in expansion of the Company activities on their territories.
- Wide-scale support of the Company in the social area on many territories is essential – without the Company support many social objects could not be built or would be in worse condition. This especially concerns large-scale capital-intensive programs and objects implemented by the Company either independently or jointly with the authorities, such as the program on construction of new houses for people after the earthquake in the settlements of Okha and Nogliki of Sakhalin region; construction of a sports and health-improvement center in Nefteyugansk, a Cultural Center in Gubkinsky, etc.
- Authorities are interested in enhancement of various effects of the Company efforts through more active involvement of contractors. Some administrations take practical steps for this purpose.
- Local administrations highly appreciated the fact that in addition to provision of financial resources, the subsidiaries have been supporting municipal authorities in organization of construction (project planning, selection of contractors, control over performance of work) of municipal objects, for which the municipal administrations have no qualification (Usinsk, Nefteyugansk).
- Roundtables, in which the sales organizations of the Company have participated, actively discussed the form and level of services at the Company fuel stations on the territories. It was mentioned that well-organized fuel stations in Tuapse region (including stores) change the surroundings and make it possible to get rid of temporary market places. For the regional population the fuel stations serve as a “calling card” of the Company. Besides, they produce an effect upon attractiveness and convenience of the territories. >>





- Rosneft Classes are positively perceived locally. The participants pointed out that these classes are popular among schoolchildren and their parents. The competition is heavy and the level of training considerably exceeds the average level.

- Among the internal social programs of the Company the mortgage program was mentioned, which has already started to form the demand for housing construction in the regions of activity of more advanced subsidiaries (RN-Yuganskneftegaz).

Discussions during the Roundtables also revealed a number of problems that are typical for many territories and are seeking resolution. They include the following:

- Contracts for cooperation between the Company and the regions give insufficient consideration to the interests of local governments. Municipal authorities propose switching back to trilateral form of contracts for cooperation (the Company – region – municipal formation). This will make it possible to protect the interests of particular activity territories, where employees of the Company and their families reside;
- All municipal authorities of the territories where the Company subsidiaries are city-forming, pointed out the insufficient coordination between subsidiaries development plans and those of the territories. They gave a typical example when the Company plans to build a training center and an affiliate of the local university may present ready-to-use premises for this purpose;
- Irregularity impairs efficiency of charitable aid from the Company to certain recipients. For example, recipients of the charitable aid provided by the Company from year to year say that the results of this aid could be more effective if the aid was provided as a long-term program; the recipients could be made aware of the scope of the aid in advance, so that they could appropriately plan their activities;

- Under-utilization of professional educational institutions potential in the local regions. Institutions of higher education are ready to more actively participate in training and re-training of personnel for the Company subsidiaries, providing research and design works on the basis of economic contracts. For this purpose they have training facilities, scientific and tutorial potential, required licenses and they are familiar with the local conditions;
- Under-utilization by subsidiaries of the potential of mid-level professional educational institutions that could ensure quality inflow of qualified workers – in the majority of the regions this cooperation is at a low level;
- Representatives of the interests of the Northern indigenous minority population participated in the Roundtables in Gubkinsky, Usinsk, Yuzhno-Sakhalinsk and Nefteyugansk and appreciated a substantial scope of aid rendered by the Company to the settlements of the Northern indigenous minority population and attention paid to their needs. At the same time they spoke up concerning the insufficient consideration of the lawful rights of the indigenous minority population, and posed a question on soundness of the compensations received by the indigenous minority population which may be assessed only within the framework of the ethnologic expertise.

Participants of the discussions pointed out that the Roundtables became an important step on the way towards establishment of the dialog with the interested parties and elimination of the lack of quality, providing multimedia information on the prospects for extension and directions of social and environmental activity of the Company. All participants highly appreciated the openness of the Company and its readiness for the dialog. On its behalf, the Company has demonstrated the interest in consideration of the requests expressed during the Roundtables. Proposals on new forms of cooperation in the development of the social area and improvement of the environmental situation in the regions were formulated and discussed jointly with the interested parties. The information collected during the Roundtables will be used for enhancement of efficiency of the social, environmental and information policy of the Company in the regions of presence.

The Company intends to hold similar discussions annually and to extend the list of the regions where they will be held. During the repeated Roundtables the Company will report on adjustments in its policy regarding the territories, based on the results of Roundtables from the previous years.









## Economic efficiency

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## Directions of economic policy of the Company on sustainable development



Economic policy of the Company on sustainable development includes the following principal components:

- Increase in value of the Company on the basis of enhancement of efficiency of operating activity, control over expenses, development and introduction of advanced methods for production of hydrocarbons, deepening of oil refining and improvement in quality of oil products, strengthening of the resource base through large-scale exploration works and development of new fields.
- Weighted policy in the area of assets management. Investment decisions are based on working out of a wide range of economic scripts and aimed at implementation of strategic advantages of the Company in the longer term.
- Formation of a stable collective of qualified and motivated employees through provision of competitive salary level, implementation of social programs for personnel, investments in training of personnel, programs on improvement of working conditions and health of personnel. A major part of personnel in production units of the Company is formed from local population.

- Priority-oriented financing of expenses for environmental protection, labor protection and industrial safety within the framework of the integrated system for control over environmental and industrial safety developed by the Company. Mitigation of impact and raising the level of industrial safety are also achieved by means of introduction of advanced production processes and technologies, development of new fields according to highest environmental standards.
- Contribution in Social and economic development and improvement of living conditions in activity regions through creation of jobs, payment of taxes, coordination of efforts of the Company and regional and local authorities for development of infrastructure, housing and public utilities, schools, health protection and other objects of the regional social area, charitable activity. Corporate social investments in activity regions are primarily aimed at creation for employees of worthy conditions for labor and living and formation of favorable conditions for the Company development.
- Maximization of indirect economic effects for regions through mutually-beneficial attraction of the local business for provision of goods and services. Arrangement of conditions for development of suppliers and improvement in quality of their work.
- Consolidation of the Company positions at the domestic market through increase of the Company share in wholesale and retail deliveries of oil products and diversification of export deliveries of hydrocarbons.
- Unconditional performance of obligations on effecting of all payments in the budget system of the Russian Federation established under the law.



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## Creation of value: steady growth of the Company business



### Factors of increase in value of the Company business

Business value increase is the key condition for sustainable development of the Company and its capabilities to finance programs in the area of sustainable development. This increase is based on the following factors:

- growth of the resource base;
- increase in volumes of production of oil and gas;
- increase in added value through increase in volumes and depth of oil refining;
- growth of income through enhancement of operating efficiency.

The Company demonstrates improvement of production and financial figures evidencing rise in value of business.

**Performance of Rosneft Oil Company in 2004–2006**  
(based on annual reports according to generally accepted accounting principles)

| Name of indicator  | Units         | 2004 | 2005 | 2006 |
|--|---------------|------|------|------|
| <b>Resource endowment of oil production</b>  | Years         | 18   | 27,4 | 27,2 |
| <b>Volume of oil and condensate production</b>   | Million tons  | 21,6 | 74,6 | 80,8 |
| <b>Volume of natural gas production</b>  | Bscm          | 9,4  | 13,1 | 13,7 |
| <b>Aggregate oil refining</b>  | Million tons  | 7,4  | 22,2 | 24   |
| <b>Sale of oil products in Russia</b>  | Million tons  | 4,0  | 8    | 9,5  |
| <b>Export of oil</b>   | Million tons  | 11,5 | 45,3 | 54,8 |
| <b>Export of oil products</b>  | Bn US dollars | 4,6  | 13,1 | 12,7 |
| <b>Total proceeds</b>  | Bn US dollars | 5,3  | 23,9 | 33,1 |
| <b>Capital expenses</b>  | Bn US dollars | 0,8  | 1,9  | 3,5  |
| <b>Payments in budgets of all levels</b>   | Bn US dollars | 2,0  | 13,2 | 18,7 |
| <b>Expenses for payment of labor and other payments and benefits to employees</b>                              | Bn US dollars | 0,5  | 0,6  | 1,0  |
| <b>Payments to suppliers of oil, services on processing of oil and transportation of oil and oil products</b>  | Bn US dollars | 1,1  | 2,9  | 4,5  |
| <b>Net profit</b>  | Bn US dollars | 0,8  | 4,2  | 3,5  |
| <b>Paid out dividends</b>  | Bn US dollars | 0,1  | 0,1  | 0,4  |
| <b>Investments in objects of social area of the regions, expenses for social programs and charitable works</b> | Bn US dollars | 0,13 | 0,09 | 0,11 |

Source: Rosneft Oil Company.

Factors of increase  
in value of the Company business

Growth of resource base

Growth of oil and gas production

Growth of scales and deepening  
of oil refining depth

Enhancement of operating efficiency

Behavior of finance indicators  
and investments in development



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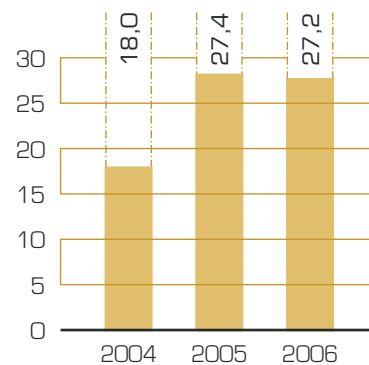
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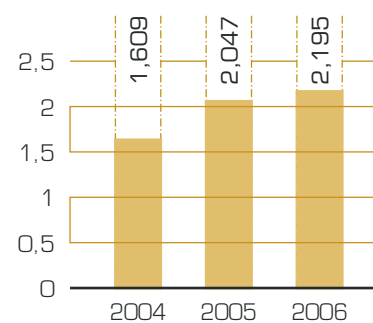
## Growth of resource base

In 2006, proven reserves of the Company oil amounted to 2,195 bn tons having increased by over than one third for the last two years. Endowment of the Company with proven oil reserves reached 27,2 years – the highest figure among world largest public oil companies. In 2006, proven reserves of Rosneft gas amounted to 701,1 bn cubic meters, endowment of the Company with natural gas reserves – over 50 years. Based on DeGolyer and MacNaughton assessment, the resource base of Rosneft has no equal. As of December 31, 2006, the resource base included 5,9 bn tons of total estimated oil resources and 3,359 trillion cubic meters of total estimated gas resources.

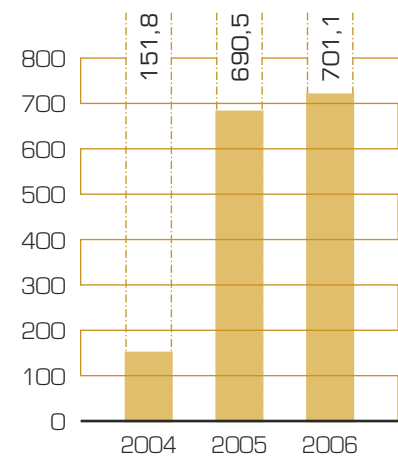
Supply of resources for oil production, years



Proven oil reserves, billion tons



Proven gas reserves, billion cubic meters

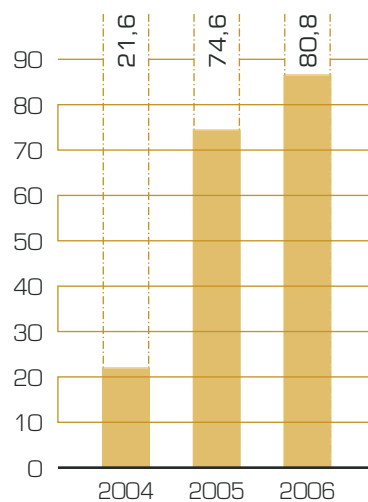


## Growth of oil and gas production

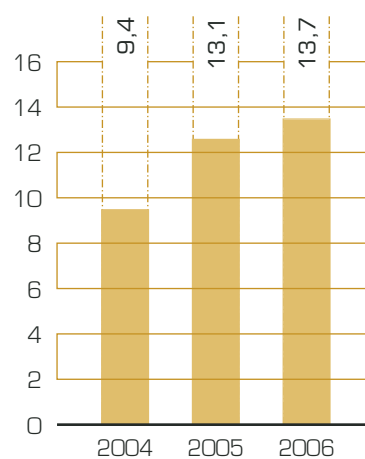
In 2006, the Company produced 80,8 million tons of oil and 13,7 bn cubic meters of gas, which exceeds by 8,3 % and 4,6 %, accordingly figures of 2005. A considerable part of Rosneft reserves is at the early stage of development forming a solid basis for future growth. By 2010, on retention of favorable economic conditions a volume of oil production (disregarding new acquisitions) may reach 100 million tons per annum and by 2015 – 160 million tons. In the nearest future the Company plans to actively develop continental and offshore fields of gas and to turn this direction of business into maximum probable one.

In the near term the growth will primarily be attained due to further development of Yuganskneftegaz, Purneftegaz and Severnaya Neft fields. In the mid-term the basic growth of production will be attained through the Company assets in the East Siberia- Vankor field and the project on development of Verkhnechonsk field jointly with TNK – VR. Implementation of shelf projects on Sakhalin and Kamchatka, as well as resources of Vankor group of licensed areas are the most prospective sources of stable production growth in the longer term.

Volume of natural gas production, billion cubic meters



Volume of oil and condensate production, million tons



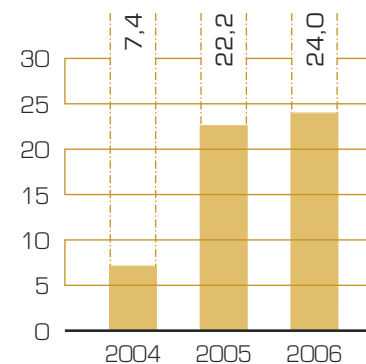
### Growth of scales and deepening of oil refining depth

In 2006, at its own refineries the Company produced 10,4 million tons of products – by 58 % more than in 2004, and the total oil refining reached 24 million tons. **The targeted on total oil refining for 2007 amounts to 38 million tons. In 2008, at its own refineries Rosneft Oil Company plans to process 48-50 million tons of oil – approximately 50 % of the Company production.**

This result will primarily be attained through inclusion in the production chain of refineries acquired by the Company during competitive sales of YUKOS assets. During reconstruction of Komsomolsk and Tuapse refineries owned by the Company the total throughput of oil at these refineries will be increased from 10,8 million tons to 19 million tons per annum, the depth of oil refining will reach 95 %, and the Company will be capable to produce oil products meeting the world standards.

In 2006, the depth of oil refining at Komsomolsk and Tuapse refineries increased by 0,6 percentage point, a share of production of top bracket gasolines at Komsomolsk refineries grew from 46,4 to 52,2 %. At the complex for hydrofining of diesel fuel commissioned in the first quarter of 2006, diesel fuel meeting standard Euro-5 in content of sulfur and other characteristics was produced first in Russia.

Total oil refining, million tons







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## Enhancement of operating efficiency

In its current activity Rosneft Oil Company strives to minimize operating costs, to optimize capital expenses and to increase returns to owned and employeeed capital. The Company introduced an integrated production management system to reveal the maximum potential of fields and to effectively distribute resources between drilling, hydraulic fracturing and mechanized extraction. This considerably reduces operating expenses.

The Company carefully selects more attractive investment projects. The Company implements a script approach, analyses net discounted value, internal rate of return, payback periods, volume of hydrocarbon reserves and all internal and external risks. Investment process is based on implementation of long – term capabilities but not on deriving of one-time market-based profit from short-term fluctuation of oil prices.

The Company continues to apply more efforts to elaborate internal standards, introduction and dissemination of new methods and practices for business management. Employees of the Company are regularly informed of such new methods and practices and must apply them in their day-to-day operations.

Efficiency of the Company is characterized by the following results obtained in 2006:

- industry-leading index of increase in proven reserves on the per one exploratory well basis;
- lowest index of cost of replacement of 1 ton of reserves;
- best flow rates of new wells;
- best index of unit costs for production and processing of oil in Russia;
- Russia's lowest index of administrative costs on the per production unit basis;
- average amount of operational costs of the Company for production and exploration was 2,49 US dollars for 1 bl of oil equivalent (not including payment of taxes), which is the lowest index in the industry.

## Behavior of finance indicators and investments in development

For 2006, sales proceeds and other operating revenues increased by 38,7 % both due to growth in volumes of production and processing of hydrocarbons, and prices for all types of the Company products. Net profit of the Company reduced by 15 % – to 3 533 million US dollars. Profits fell due to growth of tax burden on the Company, considerable rise in export duties as well as payment of profit tax in the amount of 1 285 million US dollars on extraordinary income in accordance with the decision of the court at the suit of the Company against YUKOS regarding lost profits brought at the end of 2006. Reduction of financial indices is also conditioned by macroeconomic risks connected with inflation of ruble expenses and strengthening of RUR – USD rate, implementation of large-scale programs on increase of production and reconstruction of refining capacities requiring additional investments not only in capital expenses but also in circulating assets. In spite of reduction of financial figures in 2006, their level is high.

## Key financial figures of the Company activity in 2004 – 2006

|   | 2004   | 2005   | 2006   |
|---|--------|--------|--------|
| <b>EBITDA Margin %</b>  | 28,90  | 29,50  | 22,00  |
| <b>Earning capacity on average capital employed (ROACE), %</b>                                    | 7,50   | 21,70  | 18,20  |
| <b>Return on average owned capital (ROAE), %</b>  | 19,60  | 47,70  | 23,10  |
| <b>Net debt – to employed capital ratio</b>   | 0,68   | 0,54   | 0,38   |
| <b>Net debt to EBITDA ratio</b>   | 8,36   | 1,57   | 1,83   |
| <b>Liquidity ratio</b>  | 0,89   | 0,72   | 0,87   |
| <b>EBITDA on oil barrel basis, US dollars</b>   | 10,26  | 13,13  | 12,63  |
| <b>EBITDA on oil equivalent barrel basis, US dollars</b>  | 7,48   | 11,49  | 11,09  |
| <b>Capital expenses for exploration and production on oil barrel basis, US dollars</b>            | 3,83   | 3,00   | 4,85   |
| <b>Capital expenses for exploration and production on oil equivalent barrel basis, US dollars</b> | 2,79   | 2,63   | 4,26   |
| <b>Operating expenses for production on oil barrel basis, US dollars</b>                          | 2,32   | 2,49   | 2,83   |
| <b>Operating expenses for production on oil equivalent barrel basis, US dollars</b>               | 1,69   | 2,18   | 2,49   |
| <b>Volume of assets as of the year end, bn US dollars</b>   | 26 012 | 30 016 | 46 790 |
| <b>Authorized capital, bn US dollars</b>  | 3335   | 7433   | 21 875 |
| <b>Short-term liabilities as of the year end, bn US dollars</b>                                   | 7708   | 8245   | 10 934 |
| <b>Long-term liabilities as of the year end, bn US dollars</b>                                    | 12 434 | 12 478 | 13 756 |

Source: Rosneft Oil Company.

Detailed analysis of production and financial figures of the Company for the period from 2004 – 2006 is represented on the Company site: <http://www.rosneft.ru>



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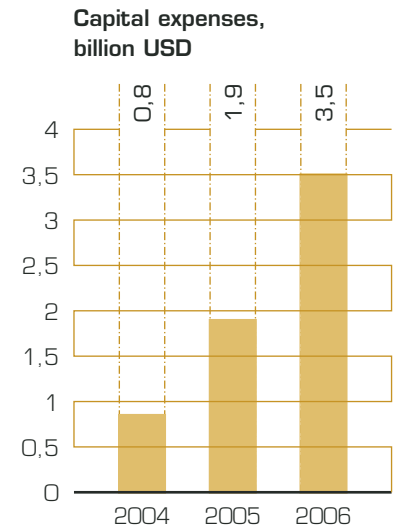
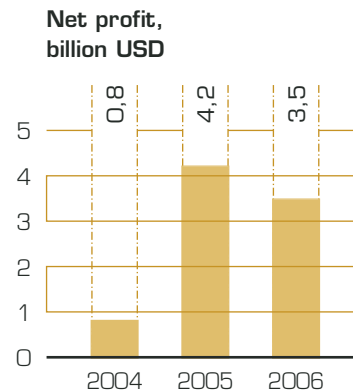
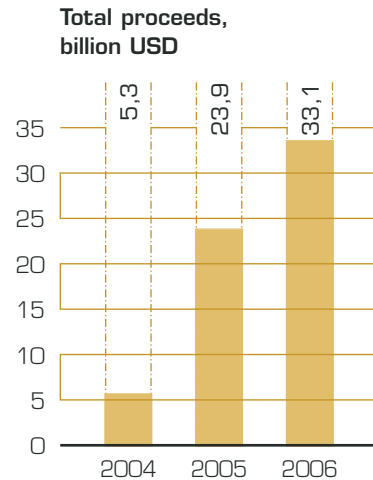
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Capital expenses for the year almost doubled having reached 3 462 million US dollars. Their growth was primarily conditioned by investments in geological exploration and production, first, in the regions of activity of RN-Yuganskneftegaz, RN-Stavropolneftegaz, and development of Vankor field. Stabilization and subsequent growth of oil production at the largest producing enterprise of the Company – OOO RN-Yuganskneftegaz required considerable capital expenses. In 2006, capital expenses for processing, marketing and sales amounted to 483 million US dollars, having increased by 59.4 % in comparison with 2005. Expenses for purchase of licenses amounted to 916 million US dollars – over than sixfold increase in comparison with the previous year. The Company won several auctions and acquired licenses for performance of works on prospective areas being at the stage of exploration.

In 2006, the Company won several auctions for purchase of licenses to carry out works on areas being at the stage of exploration. They include: oil-and-gas-bearing areas in close proximity from Vankor field; several areas interesting for the Company from the point of noticeable presence in Irkutsk region; Osovejsk area in Nenets Autonomous Area located in close proximity from the developed Cherpaysusk, Khasirgejsk and Nadejusk fields; Kulindinsk long – term oil-and-gas-bearing area in Evenki Autonomous Area; Vorgamusyursk oil-and-gas field located in Timano-Pechora.

In addition to capital investments described above the Company made a number of acquisitions and increased its share participation in a number of subsidiaries. [Detailed analysis of production and financial figures of the Company for the period from 2004 – 2006 is represented on the Company site: http://www.rosneft.ru](http://www.rosneft.ru) in documents Analysis by management of financial standing and performance of the Company for 2006, 2005 and 2004 and Annual report of Rosneft Oil Company for 2006.



## Distribution of value: investment in sustainable development



Financing of programs  
on the Company sustainable  
development

Investments aimed  
at production development,  
environmental protection,  
industrial safety and labor protection

Investments in personnel

Investments in social development  
of the regions of presence

Payments to state and shareholders

### Financing of programs on the Company sustainable development

Programs on sustainable development of the Company as well as all other programs of the Company are financed through the procedure of business – planning. Subsidiaries form their requirements for investments and submit them for approval of the Company. Formation of a plan for financing of investments in infrastructure and social objects of the regions of presence of the Company is based on agreements for socioeconomic cooperation between the Company and regions and consultations with management of regional and municipal formations. Based on results of consideration of applications for financing from subsidiaries by the central office of the Company management, the annual business plan is formed specifying objectives of financing, expenditure credit and terms for provision of funds. The Internal Audit Department of the Company exercises strict control over fulfillment of the financing plan and intended use of funds.

In 2006, the Company increased the volumes of financing on basic lines of activity connected with sustainable development: for remuneration of labor and development of personnel, environment, labor protection and industrial safety, social programs in activity regions. Tax payments and payments to shareholders grew considerably.



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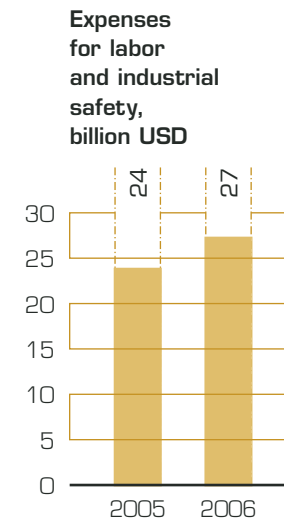
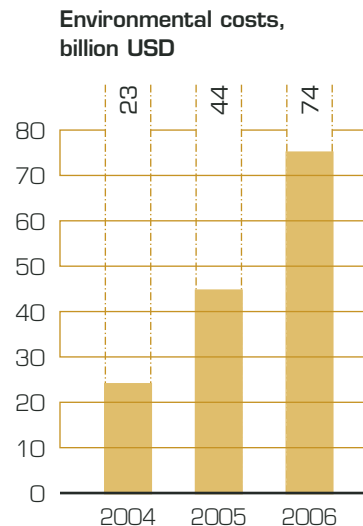
## Investments aimed at production development, environmental protection, industrial safety and labor protection

The strategy of Rosneft Oil Company provides for financing of a number of large investment projects on the following directions:

- increase in production of oil and gas at current fields;
- implementation of potential for production on fields being at the stage of geological exploration and development;
- large-scale reconstruction of producing, refining and transshipment capacities, raising their technical level, reliability and safety;
- optimization of production – sales chains;
- expansion of the Company presence on territories of Russia and abroad.

Implementation of these projects is aimed both at increase of the Company income, which is a source for financing of all directions of the Company sustainable development and at raising the level of industrial and environmental safety of the Company activity.

Solution of problems on reduction of environmental pressure, raising the level of labor and industrial safety in conditions of production scales expansion is not possible without increase of expenses for carrying out of measures on reduction of discharges and recycling of wastes, environmental monitoring, re-cultivation of disturbed soils, for implementation of targeted measures for labor protection. Growth of funds allotted for these measures and provision of timely financing give evidence to responsibility of the Company for life and health of people and environment.

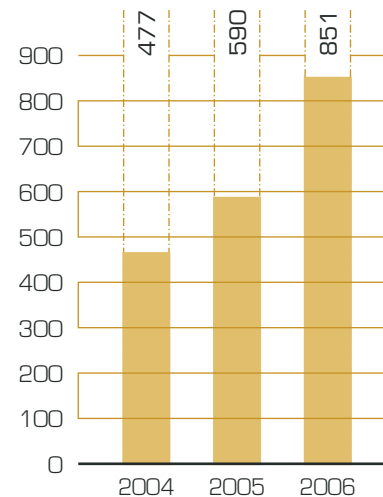


## Investments in personnel

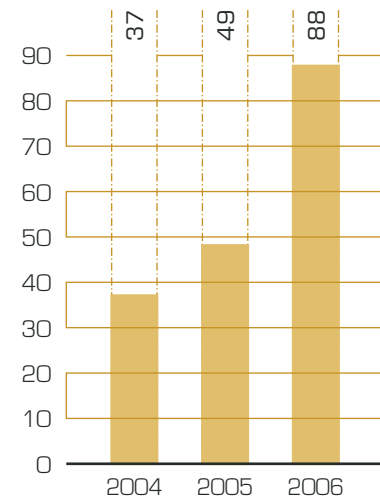
Qualified, loyal and motivated personnel is a key condition for successful and stable activity of the Company and rise in business value. The Company endeavors to form for its employees a competitive level of remuneration. Salaries are subject to indexation to the amount of inflation. The system of cash remuneration provides for monthly and quarterly bonuses, as well as bonus based on year performance. The Company has a system of bonus stimulation of top – managers. Remuneration depends on results of production and business activity of the Company and personal achievements. The Company has a developed system of corporate training. In 2006, each fourth employee improved his / her qualification or underwent re-training.

A package of social benefits include such components as leave travel payment for employees working in remote areas with heavy climatic conditions, medical and recreation allowances, voluntary health insurance, material assistance to employees being in tight life situation, privileged mortgage lending, interest-free loans for own education and education of children, corporate pension insurance for veterans. In 2006, labor costs and social payments grew more rapidly than a number of employees, and expenses for corporate training almost doubled.

Labor compensation fund,  
million USD



Social personnel benefits  
(including Company  
contributions  
to the corporate pension  
insurance),  
million rubles



## Investments in social development of the regions of presence

Investments in social area of the regions of presence are governed by agreements between the Company and regional administrations. According to these agreements, Rosneft undertakes obligations of production and social nature. On their part administrations undertake to render assistance in the form of obtainment of all required approvals and permissions, to provide tax benefits falling within the scope of their competence. Social obligations relate to charitable activity of the Company and financing

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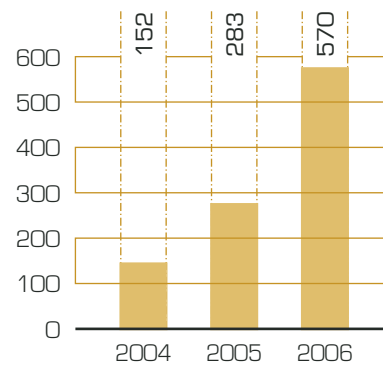
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**Expenses for social programs including investments in regions of presence and charities, million rubles**



construction of social objects: hospitals, cultural centers, sports complexes, sponsoring of holidays and cultural events.

Investments in infrastructure and social area of the regions of presence make an essential factor of creation of favorable conditions for activity of the Company and improvement of conditions for families of the Company employees and the population.

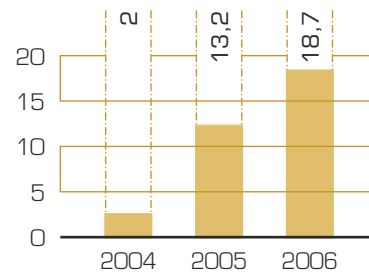
The Company also gives support to the Northern indigenous minority population, on residential territories, where it performs production activity. The scope and basic directions of these investments are stipulated in license agreements. Support is rendered by means of cash compensation for caused damage, supply of fuel and goods, transportation services, construction of housing and social and cultural objects, building of settlements.

### Payments to state and shareholders

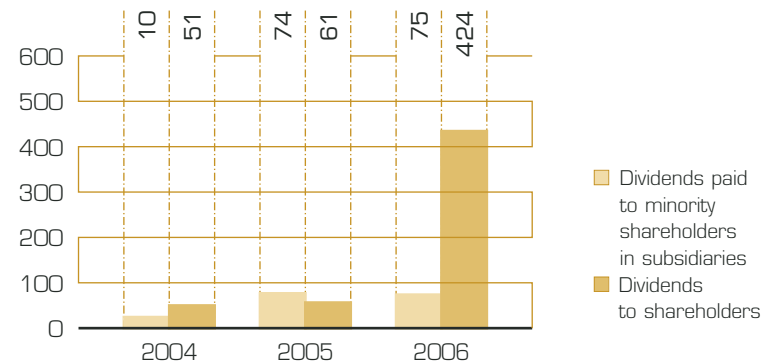
In accordance with the effective legislation the Company make required tax deductions in the federal budget and budgets of activity regions. In 2006, the amount of budget payments increased by 41% – up to 18,7 bn US dollars and exceeded a half of the Company proceeds.

Dividend amounts were also considerably increased.

**Payments to budgets of all levels, billion USD**



**Company dividend payments, million USD**



## Marketing and liability to consumers



[Sale of oil](#)

[Sale of gas](#)

[Sale of oil products](#)

The Company supplies to the market oil, oil products, gas and has an integrated strategy in the area of production, transportation and marketing of hydrocarbons. Being one of the largest suppliers of the Russian oil and oil products to the world and Russian market, the Company is responsible for performance of obligations on assortment, dates and quality of supplied products.

### Sale of oil

Rosneft Oil Company centrally purchases oil from subsidiary producing enterprises, sells it at the domestic and foreign markets, processes it at own and outside refineries and sells to wholesale and retail purchasers either directly or through sales companies. In 2006, subsidiaries of the Company produced 80,8 million tons of oil and condensate, about 4 million tons were purchased from third parties. From total resources of oil – 84,3 million tons – 68 % were sold for export, 2 % were sold at the Russian market, the other were processed in Russia at refineries of the Company (45% of the total volume of refined oil) and at outside refineries on conditions of processing.





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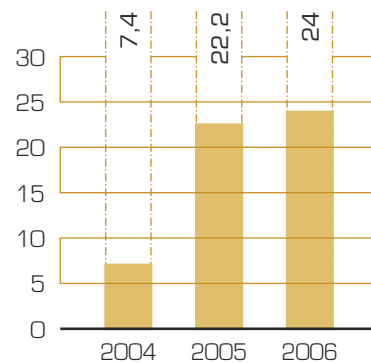
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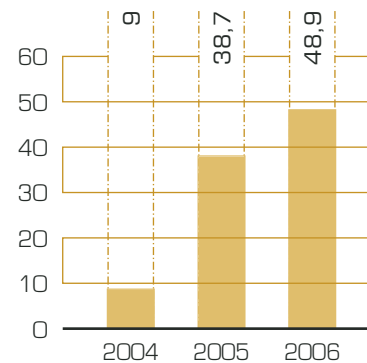
In geography of export oil deliveries a major part (about 41 %) falls on the Western and Central Europe, 27 % – on Mediterranean, 19% – on Asia-Pacific Region, 13 % – on Baltic states and CIS. For the last years, in the structure of export deliveries a share of Asia-Pacific Region increased and a share of CIS countries decreased. In 2006, China was the largest importer of oil in the Company and purchased 8,9 million tons of oil.

Beneficial geographic position of the Company refineries (one of them is located on the coast of the Black Sea, another – in proximity to the Pacific Coast), availability of a developed network of fuel stations and capacities for transshipment of oil and oil products make it possible to redirect volumes of sold oil and oil products to more favorable directions, optimizing profitability of deliveries depending on price conditions.

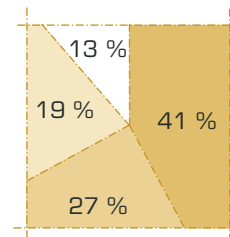
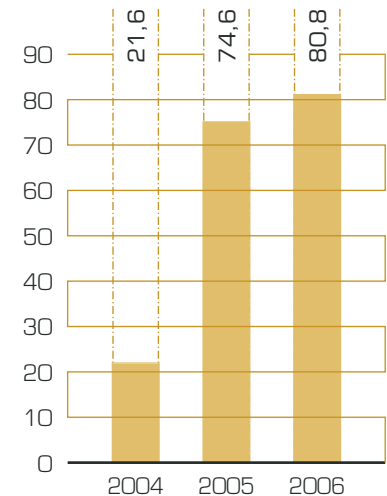
**Total oil refining, million tons**



**Oil exports, million tons**



**Volume of oil and condensate production, million tons**



**Geography of oil exports in 2006**

- 41 % – Western and Central Europe
- 27 % – Mediterranean
- 19 % – Asia and Pacific Region
- 13 % – Baltic states and the CIS

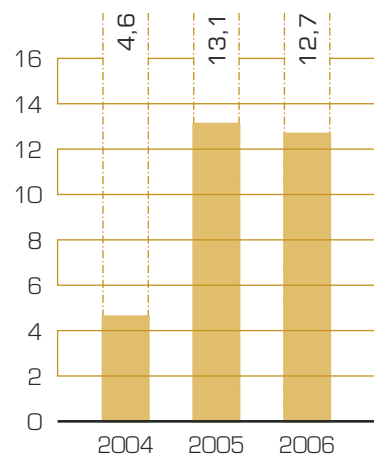
## Sale of gas

At the domestic market the Company sells gas in Krasnodar, Stavropol, Khabarovsk regions, Yamalo-Nenets and Khanty-Mansi Autonomous Areas, Sakhalin region and Republic of Dagestan. Gas is delivered to ultimate customers (OAO Novoroscement, Gubkinsky GPK, Sibur-Holding, Nevinomissk State District Power Plant, etc.), OAO Gazprom and gas traders selling gas to the population and industrial consumers. In the Far East subsidiary RN-Sakhalinmorneftegaz supplies gas practically to the whole territory of Sakhalin and Khabarovsk region. The total volume of gas deliveries in 2007 amounted to 9,57 bn cubic meters, having increased for 2005 – 2006 by 31 %. The strategy of the Company provides for considerable growth of gas deliveries. The Company fields are capable to quickly increase gas production, though until now the non-readiness of Gazprom to provide pipelines for gas transportation has been a limiting factor. In November 2006, the Company and OAO Gazprom concluded an agreement, under which Gazprom will purchase from Rosneft the natural gas produced in excess of production for 2006 at West Siberia fields connected with the unified gas-supply system of Gazprom.

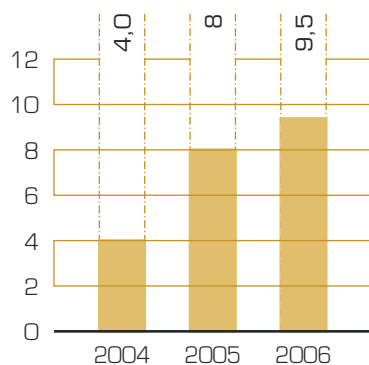
## Sale of oil products

For 2005–2006, the volume of oil products increased over than three times due to full loading of Tuapse Refinery, expansion of raw material delivery to Komsomolsk Refinery, as well as additional oil

**Export of oil products,  
million tons**



**Sales of oil products  
in Russia,  
million tons**





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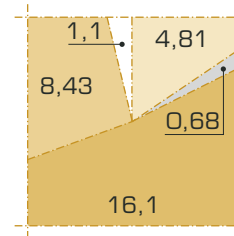
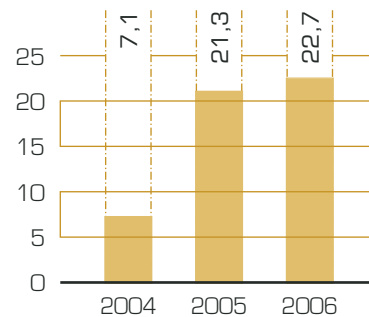
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refining by a group of Samara refineries, OAO Achinsk Refinery, OAO Angara NHH. This made it possible to fully meet requirements of selling subsidiaries of the Company and to expand wholesale sale of oil products. In perspective the volume of oil products supplied by Rosneft to the domestic market will grow as the demand for them grows and reconstruction of refining capacities aimed at satisfaction of this demand is performed.

**Oil products output, million tons**



**Sale of oil products in 2006 (total 22.9 million tons)**

- 16,1 – Export to Europe and other countries
- 8,43 – Wholesale sale at domestic market
- 1,1 – Retail sale at domestic market
- 4,81 – Export to Asia
- 0,68 – Export to CIS

### » International market

The primary markets of oil deliveries are countries of Southeast Asia, Black Sea – Mediterranean region, Baltic states, as well as China, Mongolia and Belarus. At the present time in the structure of export of oil products, a major part falls on oil residuum, which is used as raw for subsequent processing. This structure of deliveries is conditioned by low refining depth of the Company refineries. In future, during reconstruction of refineries and deepening of oil refining the Company will try to export primarily final production, which is economically more expedient.

At all stages – from production of oil products to their supply to consumers – the Company satisfies all requirements of Russian and international standards governing measures for industrial safety and reduction of negative impact on the environment during production, storage and transshipment of oil products.

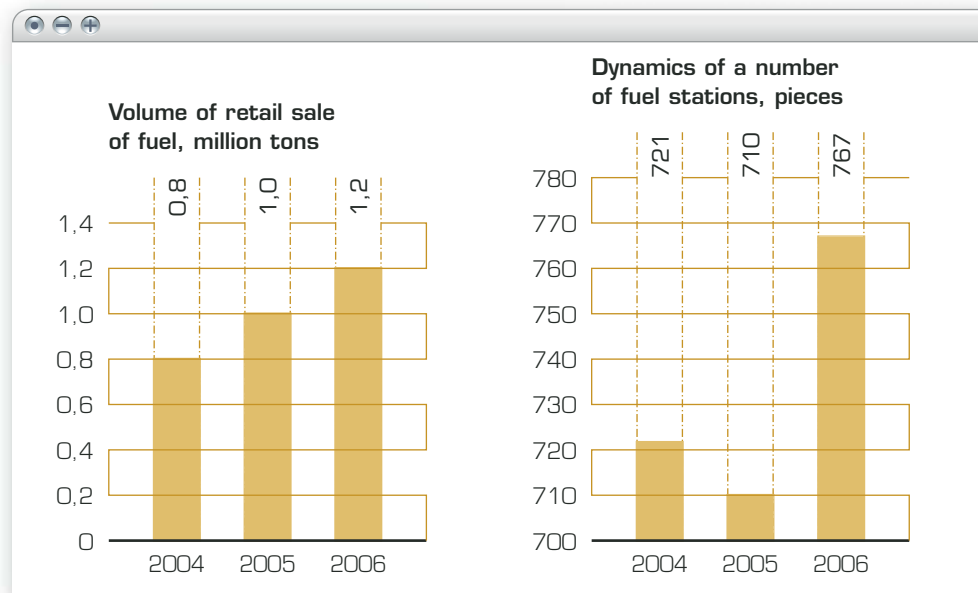
## » Domestic market

At the domestic market over 60 % of the total volume of oil products are sold through 14 subsidiaries of the Company involved in small wholesale and retail sale in the regions, the remaining part falls on a share of large wholesale sales. Wholesale purchasers of oil products are large ultimate customers, including state and municipal enterprises, as well as independent distributors. Principal types of products supplied to wholesale purchasers are burner fuel, diesel and aviation fuel.

As of the end 2006, the Company retail chain included 684 own and leased fuel stations and 83 fuel stations operating on conditions of franchising. For 2005–2006, a number of the Company fuel stations increased by 6,4 %, and volumes of retail sale of fuel grew one and half time for this period. The Company plans to intensively develop its network of fuel stations in the regions adjoining to refineries and petroleum-storage depots of the Company, as well as to strengthen its presence in the largest cities – Moscow and St. Petersburg.

In the regions basic consumers of oil products are local enterprises purchasing by wholesale from selling sub-divisions of the Company, as well as population and other consumers using services of the retail network of fuel stations. Considerable shares of Rosneft presence at regional markets give evidence to the fact that the Company exercises a significant influence on local consumers. The volume of sales through the retail network grows. Therefore its expansion and improvement of quality of services form one of strategic directions of the Company development.

Having its own distribution network for wholesale and retail supply of oil products, the Company maintains the quality of oil deliveries from this stage release from refineries to their supply to ultimate customers. For expansion of their market shares sales enterprises of the Company carry out active work on improvement of quality of services for retail customers, introduction of programs on raising the level of customers' loyalty.



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| Names of joint stock subsidiaries involved in supply of oil products | Regions of activity                     | Regional market share, % |
|--|---|--------------------------|
| <b>DAO Rosneft Oil Company – Altainefteproduct</b>                   | Altai Territory, Kemerovo region        | 19,0                     |
| <b>DAO Rosneft Oil Company – Artag</b>                               | Republic of North Ossetia               | 19,6                     |
| <b>DAO Rosneft Oil Company – Arkhangelsknefteproduct</b>             | Arkhangelsk Region                      | 39,0                     |
| <b>LLC RN-Vostoknefteproduct</b>                                     | Primorski Krai, Khabarovsk Territory    | 20,4                     |
| <b>DAO Rosneft Oil Company – Nakhodkanefteproduct</b>                | Sakhalin, Magadan and Kamchatka regions | 50,4                     |
| <b>DAO Rosneft Oil Company – Kabardino-Balkarian Fuel Company</b>    | Kabardino-Balkarian Republic            | 22,1                     |
| <b>DAO Rosneft Oil Company – Karachayevo-Cherkessknefteproduct</b>   | Karachayevo-Cherkessian Republic        | 28,4                     |
| <b>DAO Rosneft Oil Company – Kubanefteproduct</b>                    | Krasnodar Territory                     | 21,5                     |
| <b>DAO Rosneft Oil Company – Kurganefteproduct</b>                   | Kurgan region                           | 34,7                     |
| <b>DAO Rosneft Oil Company – Murmansknefteproduct</b>                | Murmansk region                         | 13,0                     |
| <b>DAO Rosneft Oil Company – Smolensknefteproduct</b>                | Smolensk region                         | 36,1                     |
| <b>DAO Rosneft Oil Company – Stavropolie</b>                         | Stavropol region                        | 15,0                     |
| <b>DAO Rosneft Oil Company – Tuapsenefteproduct</b>                  | Tuapse region of Krasnodar Territory    | 100,0                    |
| <b>DAO Rosneft Oil Company – Yamalnefteproduct</b>                   | Yamalo-Nenets Autonomous District       | 6,3                      |

## Improvement of quality parameters of oil products and reduction of environmental impact due to reconstruction of Komsomolsk Refinery

Due to the many-stage reconstruction performed from 1999, Komsomolsk Refinery is gradually improving quality of produced oil deliveries simultaneously reducing the negative impact of production processes on environment. For this time Komsomolsk Refinery has actually become a new plant producing high-antiknock unblended gasolines and diesel fuel demanded at the Russian market and in countries – partners of Russia in the Far East.

The enterprise was commissioned in 1942 in the structure of one atmospheric tubular plant for 500 thousand tons of oil per annum. In 1980, Komsomolsk Refinery commissioned ELOU-AVT-3 for 3 million tons of oil per annum.

In 1998, Komsomolsk Refinery began to use as fuel exclusively natural gas from Sakhalin and gas of own oil refining and , which sharply reduced load of air emissions on environment.

Fundamental reconstruction of the refinery began in 1999.

- Due to launch of catalytic reforming in 2001, Komsomolsk Refinery terminated production of antiknock gasoline. Sulfur content in petrol is reduced to 0,5 ppm (part per million percent).
- In 2002, Komsomolsk Refinery launched the block of isomerization and considerably reduced benzene content in a number of oil products.
- In 2006, Komsomolsk Refinery launched the system for hydrofining of diesel fuel. After hydrofining the level of sulfur in diesel fuel is reduced 100 times – up to 30 – 50 ppm. At the present time, only 25 % of fuel is subject to hydrofining. The Company supplies diesel fuel first to densely populated areas. Near-term prospects:
- Today Komsomolsk Refinery produces according to Euro-2 standard petrol, which consists of benzene and aromatic compounds. Upon completion of works on Upgrade of the reforming and the isomerization block in 2007 – 2009, content of aromatic compounds in fuel will be reduced, gasolines produced will meet Euro-3 and Euro-4 standards;
- In 2010, Komsomolsk Refinery will commission a hydrocracking plant and oil deliveries produced by the refinery will be subject to hydrofining.



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## Control over fuel quality and work with consumers in the retail network of OOO RN-Arkhangelsknefteproduct

In Arkhangelsk region OOO RN-Arkhangelsknefteproduct controls about 40% of the market of retail trade in oil products. Principal competitors are LUKOIL and Tatneft. The Company elaborated special programs for maintenance of established customers and attraction of new ones.

Analysis of fuel quality is performed by a certified laboratory. A through system of fuel quality has been introduced over the whole chain: refinery – transport tank – fuel stations, which provides a number of measures. For example, the company regularly cleans tanks of fuel tank trucks, as well as propellant retention reservoirs located at fuel stations. All products are subject to certification. Already now sold diesel fuel meets Euro-4 standard. In the nearest future, sold petrol will meet Euro-3 standard. Besides, OOO RN-Arkhangelsknefteproduct undertook a voluntary obligation to maintain the fuel quality.

RN-Arkhangelsknefteproduct regularly performs marketing research to determine the degree satisfaction of consumers with quality of services rendered by fuel stations. Research is based on questioning and analysis of preferences of targeted groups. For attraction of consumers RN-Arkhangelsknefteproduct introduced a system for raising the level of customers' loyalty based on cashless payments using plastic cards. Holders of plastic cards are offered a flexible system of discounts and bonuses. The system of discounts used by the company is widely advertised by the local television.

All fuel stations maintain high quality of rendered services: salaried positions of fuel station attendants were established, stores of auxiliary products, cafes, points for pumping of tires and replacement of special liquids were opened.

All fuel stations observe safety regulations. Double-walled tanks to store fuel are installed, Wan Presser filling stations complying with northern climatic conditions were purchased. All fuel stations have emergency tanks in the case of spill of oil products.



## Cooperation with suppliers



Services on transportation of oil and oil products

Suppliers of commodity and material resources

Service (contracting) organizations

Suppliers of goods and services represent an important interested party for the Company. Sustainable development of the Company business in many ways determines stability and quality of their work. Being a large client for many suppliers the Company, in its turn, facilitate increase in their economic activity in relevant regions. Expansion of business of the Company counteragents generates creation of new jobs, tax receipts in budgets of all levels, growth in consumer demand. This effect is especially significant in the regions of the North, Siberia and Far East, where subsidiaries of the Company are included in a group of largest economic agents and perform city-forming functions.

Suppliers of services and commodity/material resources of Rosneft may be divided into three basic groups:

- large transportation companies supplying oil, oil products and gas to Rosneft;
- suppliers of commodity/material resources (CMR);
- service and contracting organizations providing current production activity of Rosneft, as well as works on expansion and Upgrade of production capacities.





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## Services on transportation of oil and oil products

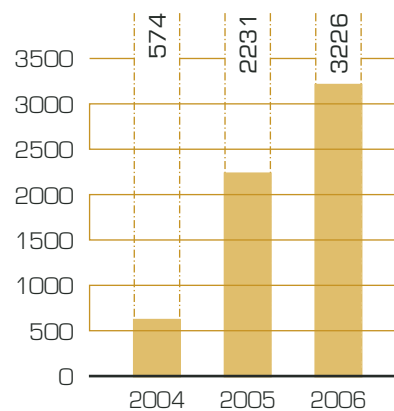
Expenses connected with services on transportation of oil and oil products form a considerable item of the Company expenses (see the diagram).

At the present time the Company uses the following main schemes of oil deliveries.

- Through the system of transfer pipelines of OAO JSC Transneft with pumping direction towards Poland, Germany, Belarus, Ukraine and Lithuania.
- By railway transport – to China, Belarus, export sea terminals, to the terminal of Caspian Pipeline Consortium (CPC) in the region of Novorossiysk port.. Services of OAO Russia's Railways and private operators are used for transportation.
- Through own system of pipelines of RN-Sakhalinmorneftegaz – to port DeCastri located on Sakhalin for deliveries in countries of the Asia-Pacific Region and to the continent – at Komsomolsk Refinery.

Oil products are transported through the system of pipelines of the state company OAO JSC Transnefteproduct as well as by railway and other types of transport. Export deliveries are made through sea ports of Nakhodka, Vanino, Arkhangelsk, Tuapse and some other ports.

Transportation costs, million USD



A major part of oil produced by the Company is delivered through the system of Transneft transfer pipelines. For oil transportation services Transneft collects payment from shippers according to tariffs established by the state agency for regulation of natural monopolies – Federal Tariff Service (FTS of Russia). Transportation expenses depend on the distance of a field route – ultimate destination, as well as on a number of transportation areas owned by Transneft.

The volume of transportation of oil and oil products by railway grew considerably after conclusion in January 2005 of a long – term contract with Chinese national company for delivery of oil from fields of Yuganskneftegaz and Purneftegaz. In 2006, a share of all export deliveries of oil and oil products by rail road amounted to 33 % and 22 %, accordingly. Rail transportation services are rendered by the state company Russia's Railways (OAO RR), tariffs of which are regulated by Federal Tariff Service of Russia.

Relations of Rosneft with large providers of services – OAO JSC Transneft and OAO Russia's Railways are based on long – term contracts specifying approximate volumes of oil and oil products, as well as Principles for formation of transportation tariffs.

In the absence of transfer pipelines to a final point of shipment for optimization of transportation expenses the Company applies various combined transportation schemes, including transfer pipeline sections with subsequent transshipment to railway and water transport. The northern route to Belokamenka floating oil terminal, which establishment made a substantial contribution in development of transport infrastructure of Arkhangelsk region may serve as an example.

Orders of the Company provide for OAO JSC Transneft, OAO Russia's Railways, sea and river ports and carriers considerable and growing volume of financial receipts, enabling them to expand business, to develop regional transportation infrastructure and to enhance capabilities to render services for the Company and other shippers.



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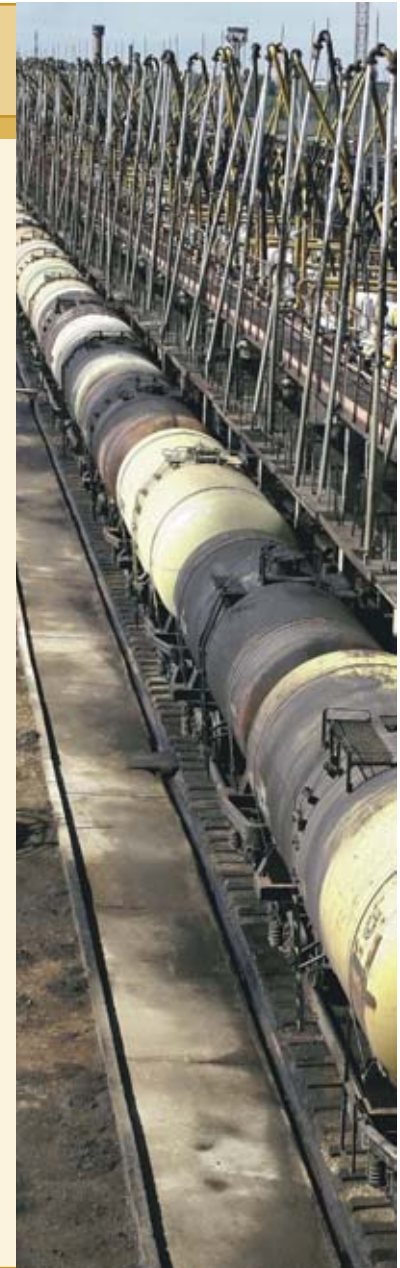
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## Development of rail carriers in the service area of Komsomolsk Refinery.

For Komsomolsk branch of Far Eastern Affiliate of Russia's Railways Komsomolsk Refinery is a large customer since practically all volume of oil products produced by it is exported by railway transport. The volume of loading operations of the refinery reaches about 50 % of the total volume of loading of the branch – approximately ten trains of 55 tanks a day, the annual scope of services on transportation of oil products – 4 bn rubles.

A rolling stock for transportation is leased from OAO Russia's Railways and private railroad operator Dalnefttrans, for which Komsomolsk Refinery is a strategic partner. For 6 – 7 years Dalnefttrans increased its assets and formed its own park of 6 thousand cars primarily through orders of the refinery. Due to a large transportation volume Dalnefttrans offers to the refinery a favorable tariff – lower than to small shippers.

Due to the volume of transportation of Komsomolsk Refinery products, it was possible to reconstruct Zemga railroad station. After that the process of loading of oil products is compliant with all required standards. A washover – steaming station was put into operation and technical and technical inspection before loading was introduced. The rail road made capital repair of the station, replaced sleepers on the section Komsomolsk-on-Amur – Zemga station for concrete ones, equipped railway crossings with video surveillance systems, installed software. As a result, speed of trains increased two times. Zemga station serves not only Komsomolsk Refinery, but also other enterprises of the city, which also benefit from improvement of quality of services: Gagarin Aircraft Factory, sea port, Alliance petroleum-storage depot, dairy plant.



## The role of OOO RN-Arkhangelsknefteproduct in development of Arkhangelsk trading port.

OOO RN-Arkhangelsknefteproduct is engaged in wholesale and retail sale of oil products, supply of petrol, aviation and diesel fuel to Chukotka and Yakutia within the framework of north delivery, as well as performs works on transshipment for export of oil and oil products. The Company structure includes 11 petroleum-storage depots and 44 filling stations.

Arkhangelsk trading port, located on the White Sea estuary of Northern Dvina river, has three loading – unloading terminals. In addition to OOO RN-Arkhangelsknefteproduct principal counter-agents are timber yards surrounding cleft timber; Onega wood-sawing-woodworking plant exporting timber; coal companies Kuzbassugol and Vorkutaugol.

In 1990-s, due to decrease in the cargo turnover, the port decayed. Recovery of activity began in 2004, when Rosneft started implementation of the project on transshipment of oil through the port. According to the project, oil produced by subsidiary OOO RN – Severnaya Neft is delivered through the transfer pipeline to Privodino transshipment railway in Kotlassk district of Arkhangelsk region. There it is reloaded in tanks and is delivered by rail road to the Company terminal in Arkhangelsk port. After that oil is re-loaded in shuttle- tankers, which deliver oil to Belokamenka floating oil storage plant (FOSP) located in a bottom-water bay of Kola Gulf in the area of Murmansk. Belokamenka is located in the zone of a year-round access of purchasers' supertankers.

For implementation of the project Rosneft performed Upgrade of the port infrastructure, increased efficiency of oil rack from 15 cistern cars to 54, constructed port terminals. Besides, the Company maintains one of the shipping channels in navigable condition. Due to the project, volumes of oil transshipment grew from 1 to 3 million tons. The amount of port duties paid by Rosneft also increased. This made it possible to improve the whole port infrastructure, which is also used by other customers. Arkhangelsk sea trading port is characterized as freezing. Therefore, for provision of a year-round movement of tankers to Murmansk, the Company organizes icebreaker assistance. Navigating its vessels using icebreakers, the Company allows to navigate vessels and other shipowners to the northern sea-ice margin of the White Sea thereby providing a year-round navigation to Barents Sea and further to Europe.



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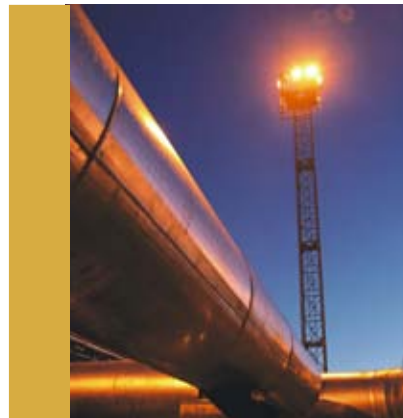
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## Suppliers of commodity and material resources

Rosneft policy in the area of purchases of commodity and material resources (CMR) is governed by internal normative documents and standards of the Company and includes centralization of purchases and selection of suppliers on tender conditions as key provisions. The policy complies with international standard ISO 9001:2000.

Centralized purchase of CMR primary nomenclature on the basis of applications submitted by subsidiaries makes it possible to save funds due to scale effect. Pipe and cable products, drilling, down-hole, capacitance and tank equipment, chemical agents, power units and plants purchased on the centralized basis. A share of centralized deliveries in cash terms approximates to 80 % of the total volume of purchases. The other 20% are purchased by subsidiaries individually. All in all the Company is served by more than one thousand suppliers of CMR.

Conditions of tenders held by the Company and subsidiaries provide for compliance of products with standards, technical conditions and requirements of Rosneft on quality, guarantees, service maintenance, price characteristics, terms of payment and dates of delivery. All other conditions being equal preference is given to Russian suppliers, whose share in the volume of purchased CMR amounts on an average to about 70 %. This policy facilitates development of the national economy and development of territories, where the Company performs its activity.



The agreement between Rosneft and one of Russia's largest pipe suppliers – Pipe Metallurgical Company (PMC) serves an example of strategic partnership.

A contract of long – term strategic partnership is concluded for 3 years subject to probability of subsequent prolongation. Strategic partnership of two companies include coordination of joint activity on development of new types of pipes and delivery from PMC enterprises of steel pipes used by Rosneft in oil and gas production.

Rosneft prefers to cooperate with its ultimate CMR producers. With its most important suppliers Rosneft concludes contracts of strategic partnership stipulating mutual long – term obligations on vol-

umes of deliveries and price formation Principles. Orientation of the Company towards long – term cooperation with large Russia's suppliers capable to generate big cash flows in the regions, where they carry out their activities stimulates through suppliers economic and social activity in these regions, contributes in their sustainable development.

The Company is aimed at improvement of quality of products of its CMR Suppliers, which is mutually beneficial both for suppliers and the Company. With stable long – term orders of Rosneft suppliers are capable to modernize its production base.

The system of under-control operation of equipment applied by the subsidiary RN-Purneftegaz serves as an example of mutual relations, having positive influence on improvement of quality of suppliers' products.



RN-Purneftegaz practices under-control operation of equipment with the right of its repurchase. Within the framework of this relationship model the enterprise takes equipment from the supplier in experimental operation for a period of time up to 6 months. In this case during experimental operation the supplier may test equipment and to eliminate revealed defects. In case of successful experimental operation, the enterprise purchase this equipment. Subject to these conditions the Company purchases screw pulsers, operator stations, electric submersible units.

Cooperation of regional suppliers with Rosneft subsidiaries is maintained by regional authorities. Tyumen authorities provide the Company and its subsidiaries with tax benefits, if orders are placed on enterprises located on the territory of the region.

In their turn, subsidiaries of the Company also strive to stimulate activity of regional suppliers – to economize on transportation expenses and facilitates general recovery of the local industry.

To improve quality and to guarantee timeliness of deliveries subsidiaries of the Company try to bring their requirements to local suppliers for 1 – 2 years in advance. Due to this fact local enterprises may better their production activity and timely expand production capacities for execution of the Company orders.

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## Initiative of Komsomolsk Refinery on establishment of cooperation with suppliers of Khabarovsk region in connection with reconstruction.

Komsomolsk Refinery places a considerable volume of orders among suppliers of Komsomolsk-on-Amur and Khabarovsk Territory. Permanent suppliers of the refinery include:

- plant Amurcabel – the only enterprise in the region manufacturing cable products. The volume of deliveries varies from 5 to 20 million rubles monthly;
- OOO Legat, supplier of special clothing. The Company purchases the basic mass of special clothing (garments, coats) for subsidiaries on a centralized basis. Legat supplies to the refinery an additional assortment – glove, etc. The plant was the first largest customer of OOO Legat at the time of commencement of activity. For five years of cooperation the firm has expanded the business – acquired a base, warehouse, store, organized production on tailoring of special clothing – and currently provides with its products not only the refinery, but also other regional enterprises;
- a shipbuilding yard located in Komsomolsk-on-Amur supplies to the refinery collets, pipeline components, manufactures non-standard products;
- for many years enterprise Amurmetall cover requirements of the refinery in rolled metal products (leaf, channel beam, corner) and armature. The volume of current requirements of the refinery varies from 300 – 500 thousand rubles monthly;
- local suppliers of sand-and gravel mixtures fully cover requirements of the refinery in these products.

In connection with reconstruction requirements of Komsomolsk Refinery in supply of various materials grow considerably. The refinery is interested in placement of the maximum volume of orders at local enterprises since it guarantees reduction of transportation expenses, capability of correction at the stage of manufacturing of ordered products, more flexible payment conditions. The refinery tries to attract its permanent suppliers to deliveries of materials and goods required for reconstruction. Thus, in connection with reconstruction regular deliveries of metal specialties by Amurmetall are expected to increase 20 times – up to 10 million rubles monthly. The enterprise submit its proposal to the administration of Khabarovsk Territory for increase by Far Eastern region enterprises of the volume of CMR deliveries, formulated its requirements for 2007 –2009. The administration of Khabarovsk Territory brought this proposal to the attention of profile enterprises operating on Khabarovsk Territory. This fact creates conditions for increase in the nomenclature of deliveries by regional enterprises.

## Service (contracting) organizations

Rosneft and its subsidiaries actively involve contracting organizations in rendering services to provide primary activity, construction and reconstruction of facilities.

Transportation services, drilling, repair of wells, pipelines, basic manufacturing and power-generating equipment, construction works are the most important types of activities.

Cooperation of the Company with contractors is governed by the following internal documents: Policy of the Company in the area of capital construction, Regulation on organization of tenders for contract works in the area of construction for Rosneft Oil Company and its subsidiaries, Regulation on organization of technical supervision and procedure to operate with contracting organizations at construction, reconstruction and capital repair of objects of Rosneft Oil Company.

Enterprises servicing primary production of the Company include both subsidiary grand organizations of the Company and outside Russian and foreign firms. Like in the case of organization of CMR purchases, selection of contracting organizations is based on tenders.

The Company tries to conclude with service organizations long-term contracts for up to three-year planning horizon. These contracts stipulate conditions for price formation, scopes of works and time for their fulfillment, terms of payment. Due to this practice, contractors may plan their work much more effectively.

In their activities large regional subsidiaries of the Company (producing, refining and selling enterprises) facilitate formation of a group of service contracting organizations. This group makes a considerable contribution in the Gross Regional Product of the presence territory, generates working places and budgetary recharge with taxes.

Looking to long – term cooperation many contractors make investments in equipment, establish affiliates and build bases in the regions of production activity of subsidiaries.

Working initially only for Rosneft subsidiaries they are developing and expanding the area of their activity, starting to serve also any other customers. For example, ZAO Zodchy – Purneftegaz contractor located in Gubkinsky – has been carrying out construction and installation works for Purneftegaz for several years. Based on Purneftegaz orders Zodchy has constructed a mini – refinery producing petrol and diesel fuel and currently supplies fuel for the population of the city and region.

Attracting sub-contractors, contractors thereby create multiplicative effects for development of economy of territories of the Company presence.







**Group of service enterprises of OOO RN-Yuganskneftegaz.**



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A number of employees directly working for RN-Yuganskneftegaz (YNG) is 6,5 thousand people. YNG cooperates with a great many contractors rendering transportation services, services on capital and remedial well repair, repair of pipelines, construction, drilling of wells. Without constructors of contracting organizations servicing YNG, a number of employees approximates to 20 thousand people, and with constructors – 50 thousand people. YNG largest regional contractors are characterized in the table below.

**Characteristic of YNG largest regional contractors**

| Name   | Works performed for YNG  | Notices  |
|--|--|--|
| <b>Center of production services</b>               | Unites enterprises involved in construction of pipelines, roads, repair of wells, maintenance of electric submersible pumps, transportation, anticorrosion internal and external covering of piping. | Subsidiary of Rosneft.   |
| <b>Neftmontazh (Surgut)</b>                        | Repair and installation of pump and compressor pipeline stations, preliminary water discharge plants.  | A majority of orders from YNG for their execution attracts sub-contractors. Developed on orders from YNG, was subject to ISO certification. Has its own base in Nefteyugansk, owns steel construction plant in Surgut. |
| <b>Nefteyugansk affiliate of OAO Stroytransgaz</b> | Repair and installation of pipelines.  | Stroytransgaz is a leader among Russia's engineering construction companies in oil-and-gas industry Performs works in many regions of Russia. Affiliate in Nefteyugansk was established to operate with YNG.           |



>>

| Name  | Works performed for YNG   | Notices  |
|---|---|--|
| <b>Zapsibelektrosetstroy (Surgut)</b>                 | Construction of electrical substations and electrical power transmission lines.   | 200–400 people work at YNG objects. Orders from YNG are numerous, subcontractors are attracted for their execution.                                |
| <b>Nefteyugansk affiliate of OOO Incomnefteremont</b> | Construction of electrical substations and electrical power transmission lines, electrical installation works.                        | Affiliate in Nefteyugansk is established to operate with YNG, subcontractors are attracted for performance of works.                               |
| <b>Sinpromstroy (Surgut).</b>                         | Construction of pumping and compressor stations, central oil gathering point.   | Orders are executed by Sinpromstroy organizational department № 7, to a considerable extent oriented to YNG. About 250 people work at YNG objects. |
| <b>Yuganskspetsstroy</b>                              | Performs a substantial volume of works on stacking of multiple-well platforms, construction of roads, re-cultivation of sludge barns. | Affiliated with Rosneft.   |
| <b>ZAO Complex (Surgut)</b>                           | Preparation for drilling : stacking of multiple-well platforms, construction of roads.  | YNG is one of its large customers.   |
| <b>Road construction Department Nyagan</b>            | Construction and repair of roads.   | YNG is one of its large customers.   |

YNG also cooperates with some of large service companies including Schlumberger, Halliburton, Reda, FAB.

Transportation services in YNG are fully transferred for outsourcing, YNG has only 20 cars for management on its balance. In its production and business activity the enterprise as well as its contracting and servicing organizations widely use services of motor, water, air and railway transport. These transportation services provide over 40 regional transport enterprises. A group of enterprises included in subsidiary RN-Service render to Yuganskneftegaz approximately a half of the total volume of transportation services.

The Company cares that its contracting and servicing organizations have sufficient resources for rendering quality services and worthy payment for employees. For example, when service enterprises for repair of wells introduce new technologies, OOO RN-Yuganskneftegaz is ready to raise tariffs subject to covering of expenses for introduction of these technologies. On the initiative of the Company at service and contracting enterprises collective contracts with employees of service and contracting organizations are introduced, tariffs are systematically reconsidered for the purpose to raise the salary level.





## Responsible nature management, labor protection and industrial safety

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## Policy and organization of activity in the area of environment control, labor protection and industrial safety



### Main direction of the Company policy in the area of environment control, labor protection and industrial safety

Strategic objectives of Rosneft Oil Company include attainment of the highest level of environmental and industrial safety and labor protection among oil-and-gas companies of the world. For achievement of this objective it is necessary to:

- securing all types of safety of the Company production activity and minimization of impact of production activity on environment;
- transition to output of eco-friendly products meeting the highest world standards;
- implementation of active scientific and technical policy, establishment of modern resource-saving HLA complexes, which provide effective production of hydrocarbon material, its processing and delivery to consumers with minimum consumption of energy and resources.

In 2006, Rosneft Oil Company adopted a document [Policy of the Company in the area of industrial safety, protection of labor and environment](#).

Basic provisions of this Policy are represented on the Company site

<http://www.rosneft.ru/>

[Main direction of the Company policy in the area of environment control, labor protection and industrial safety](#)

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#### Implementation of the Policy provides for the following:

- planning and commissioning of new objects subject to adherence to highest standards in the fields of environmental impact and industrial safety fully considering industrial risks of current and planned activity;
- implementation of the whole accessible and practically realizable package of measures for prevention of emergency situations, and taking complete package of measures for mitigation of consequences of emergency situations in case of their occurrence;
- purposeful work on reduction of oil and gas losses and prevention of their entry into environment;
- gradual reduction of figures of industrial injuries, crashworthiness and negative environmental impact;
- introduction of advanced technologies for the purpose of reduction of specific consumption of natural resources, materials and energy;
- demanding from operators and contractors of the Company to observe technical and environmental standards and norms adopted in the Company;
- attraction of the Company personnel to active participation in activity on revelation and management of industrial risks; motivation, training and raising of qualification of the Company personnel;
- observance of requirements of applicable legislation, industrial and corporate standards and norms;
- informing of interested parties concerning activity of the Company in the area of industrial safety, protection of labor and environment.



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In 2007, by order of Rosneft Oil Company independent consulting company Royal Haskoning developed the **Company strategy in the area of industrial safety, protection of labor and environment till 2027**, aimed at bringing the system of management in this field in the Company in compliance with world best practices. The Strategy includes recommendations on improvement of the management system, system of targeted figures in the area of industrial safety, protection of labor and environment as well as criteria for their assessment.

### Management structure and responsibility

Functions on coordination of and control over activity in the area of environment and labor protection, securing industrial safety of the Company are trusted on the Environmental Safety Agency and Industrial safety and Labor Protection Agency, which are parts of the **Environmental and Industrial Safety Department**.

The Department coordinates development and implementation of the policy in the area of environmental and industrial safety, as well as development and introduction of the integrated system for management of securing environmental and industrial safety. The Department analyzes operative records of subsidiaries, prepares, coordinates and controls execution of targeted programs on implementation of the Company policy and programs on training employees in subordinate areas. Divisions for environmental and industrial safety and labor safety are available in all subsidiaries of the Company. For the last years a number of environmental specialists working in the Company increased in connection with the Company growth.

All employees of the Company undergo necessary training in the area of environment and labor protection, industrial safety and observance of safety regulations. The Company systematically implements training programs on exchange of experience in the area of environment and labor protection. Based on performance for 2006, the Company was awarded an honorary diploma of the II All-Russian Environmental Conference Leader in environmental activity in Russia, and nine best ecologists of the Company were awarded medals.

### Management system

The Company integrated system for management of industrial safety, environment and labor protection is based on modern approaches and was subject to certification according to international standards ISO 14001:2004 and OHSAS 18001:1999 (certificates BVQI were issued on May 5, 2006).

Certificates cover the majority of subsidiaries; at enterprises acquired by the Company in 2005 – 2006, management systems are being improved and prepared for certification. Certification of a major part of new assets is planned for May 2008. The integrated system for management of industrial safety, environment and labor protection is built on Principles of involvement of personnel of all levels in reduction of negative environmental impact. To support performance of the system the Company elaborated and introduced 13 standards, which are regularly reconsidered and improved.

Standards implemented in the Company concern significant environmental aspects and key risks connected with environmental impact and study of hazardous operations, personnel and local people. Identification of environmental aspects and risks considers regional peculiarities and characteristics of each object. Results of assessment of aspects and risks are considered at elaboration of objectives, plans and programs of the Company and its subsidiaries. The Company obtains permits, licenses, and approvals, develops special procedures, action plans and regulations, provides necessary equipment required by the Russian legislation in order to support management of significant aspects and key risks.

## Programs

For minimization of environmental impact the Company has developed the **Targeted Environmental Program for 2006 – 2010**. The program is aimed at priority problems of subsidiaries in the area of environment protection. Basic directions of capital expenses of the program include establishment and equipment of landfill for utilization of oil sludge, construction and reconstruction of sewage disposal plants, sludge tanks and oil removers, re-cultivation of disturbed and contaminated lands, water proofing of drilling unit bases and re-equipment of drilling units for organization of drilling without water storage pits, reconstruction of eliminated posts for liquidation of accidental oil spills in the Chechen Republic.

In the area of reduction of air pollution emissions the Environmental and Industrial Safety Department actively cooperates with the Oil and Gas Production Department working on raising of the level of disposition of associated petroleum gas (APG) and elaborating the **Targeted Gas Program of Rosneft Oil Company for 2008–2012**.

The Oil and Gas Production Department also implements the Targeted Program on Pipeline Reliability Enhancement aimed at reduction of a number of leaks of oil-products pipelines and minimization of their consequences. In its turn within the framework of the Environmental Safety Program the Environmental and Industrial Safety Department works on provision of timely response to and minimization of consequences of leaks.

### Programs:

[Targeted Environmental Program for 2006 – 2010](#)

[Targeted Gas Program of Rosneft Oil Company for 2008–2012](#)



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## Expenses

For reduction of industrial load on environment the Company has considerably increased capital investments in environmental constructions and equipment: in 2006, capital expenses for environment protection grew by 77 % in comparison with 2005, almost 6 times in comparison with 2004. Current expenses of the Company for environment protection also increase due to revitalization of environmental activity and expansion of the Company activities.

- large objects of capital expenses include construction of landfills for waste emplacement in OOO RN – Severnaya Neft, on Barsukov field of OOO RN-Purneftegaz, on the right-bank part of Priobsk field of OOO RNPH-Yuganskneftegaz, sludge dumping grounds on Asomkinsk field of OOO RN-Yuganskneftegaz;
- construction of sewage disposal plants Coalescent for industrial wastewater and bank protection of Tuapse river (the right bank) and sewage disposal plants (the left bank) of OOO RN-Tuapse-nefteproduct, sewage treatment facilities for field camps of Barsukov field of OOO RN-Purneftegaz;
- reconstruction of sewage disposal plants of Arkhangelsk terminal of OOO RN-Arkhangelsk-nefteproduct;
- acquisition of oil sludge processing plants with crude oil outcome for OOO RN-Yuganskneftegaz and oil-gathering equipment for OOO RN-Sakhalinmorneftegaz, OOO RN-Stavropolneftegaz and OAO RN-Grozneft, biological sewage disposal stations and preparation of drinking-water for ZAO Vankorneft, state-of-the-art equipment for liquidation of accidental spills of oil products for OOO RN – Tuapse Refinery and OOO RN-Sakhalinmorneftegaz;
- works on bacteriological purification of masout-contaminated subsoil and oil sludge in OOO RN-Krasnodarneftegaz, oil sludge in OOO RN-Tuapsenefteproduct.



## Preventive actions and long-term projects of the Company



[Assessment of environmental impact, involvement of general public and evaluation of projects](#)

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### Assessment of environmental impact, involvement of general public and evaluation of projects

All projects of the Company are subject to the state environmental expertise and public consultations with attraction of interested parties on territories, where projects are implemented. At hearings of projects with interested parties information on hearings is preliminary published in press.

Public hearings are usually held in administrative centers of the regions and human settlements involved in a project. Hearings are recorded, their results are attached to a package of documents submitted to governmental authorities for obtainment of approvals for implementation of projects.

In 2007, within the framework of preparation of the Report on sustainable development of Rosneft Oil Company Roundtables were held with participation of representatives of governmental environmental supervisory authorities, local authorities and general public on eight territories of the Company presence, which among other questions discussed impact of the Company on environment, plans of the Company on reduction on environment of the regions and liquidation of existing shortcomings in the

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area of nature management. The Company undertook to annually carry out similar measures and to inform interested parties concerning the work performed for a year. A list of territories, where similar measures will be performed on a regular basis will be expanded.



For assessment of the state of natural environment before commencement of project implementation, timely revelation and minimization of negative effects during its activity, the Company is monitoring environmental objects. Contractors, including Russian and international scientific – research institutes are widely involved in this work. In production regions the Company performs an integrated monitoring of geologic environment within licensed areas, annually assesses the state of surface waters, sea-floor sediments, soils, ground waters, flora and fauna. The Company performs constant monitoring over parameter of air environment, snow covering, underground water supply sources, elemental composition of drainage waters, perpetually frozen soil under facilities; determines temperature conditions of waste substances buried in a landfill. On the shelf of Sakhalin Island and in the inundable zone of Azov Sea on Krasnodar Territory the Company implements an integrated program on examination of biological resources, geo- and hydro-chemical, as well as hydro-meteorological conditions. A detailed monitoring program is being implemented on oil-refining enterprises and other industrial facilities of the Company: monitoring of atmospheric air parameters on the boundary of the sanitary protection area, characteristics of air emissions and drainage waters, composition of industrial wastes.

Development of fields on the environmentally sensitive shelf of Sakhalin Island may serve as a case study of the Company thoroughness in consideration of environmental questions during project planning. Due to work experience approaches of the Company may be combined with method of works and practices accepted by foreign partners. For each project the Company determines a policy based on standards of Rosneft and its project partners, which provides for observance of Russia's environmental protection legislation and maintenance of high environmental reputation of Rosneft Oil Company and its partners.

After that the Company develops an environmental route chart, analyzing all environmental project risks and determining criteria, which observance will enable the Company to effectively solve potential problems revealed. These criteria are also applied, when tenders for selection of contractors are held. Selection of methods and implementation solutions is individual for each running project and is based on local conditions and capabilities.



### Cooperation with contractors

The Company widely uses services of contractors at drilling of wells, construction of fields, utilization of oil sludge, construction of tanks for storage of oil and oil products, etc. Since activities of contractors are performed at the Company objects, the level of environmental properties and safety of their work has direct impact on success and reputation of the Company in these fields. Therefore, Rosneft Oil Company imposes on contractors requirements regarding environment protection and industrial safety similar to requirements imposed on own enterprises of the Company. The Company exercises strict control over compliance with established regulations. For projects characterized by large volumes of work or enhanced responsibility, the Company preliminary holds tenders for contractors before completion of elaboration of project solutions.



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## Atmosphere effect



### Control over pollution emissions at oil and gas production and Gas Program of the Company

A major part of air emissions falls on the oil and gas production sector; its share in the total volume of emissions increased from 95 % in 2004 to 98 % in 2006. Flare burning of associated petroleum gas (APG) is determinant in the volume and composition of air emissions. Carbonic oxide makes a dominant part in the composition of emitted pollutants, a considerable share also falls on solid substances and hydrocarbons. The Company does not use and emit ozone depleters.

Gas Program adopted by the Company for 2008 – 2012 in 2007 is aimed at increase in a share of used associated gas. Due to implementation of the program by 2011 the level of use of associated oil gas will reach 95 % on the whole in the Company, the volume of flare burnt gas will be reduced by 3227 mln.m3/year. Associated gas will be disposed by means of its transfer to the gas transport structure of OAO Gazprom for processing and sale to consumers. In addition, associated gas will be used at objects of oil and gas production for generation of power at gas turbine and gas piston stations, for process needs and warming of premises. On fields, where considerable quantity of produced

associated gas can not be efficiently used for some time associated gas will be injected in underground gas storage. Within the framework of the program it is planned to construct:

- gas transportation systems and compressor stations for increase of gas deliveries in the Unified System of Gas Supply (USGS) of OAO Gazprom to gas processing capacities of OAO Sibur-Holding on Homsomolsk, Priobsk, Prirazlomny and Ombinsk fields, Ugutsk-Kinyaminsk, Strizhevsk and Luginetsk group of fields, group of fields CPF Zimnyaya Stavka, etc.;
- gas gathering, gas transportation systems and booster compressors for gas injection on Kharampur group of fields constructing temporary underground gas storage and on Chkalovsk field for enhanced oil recovery;
- intrafield gas gathering and transmission pipelines for collection and transportation of gas to consumers (in majority of subsidiaries);
- compressor plants, plant for preparation, compressing and treating of gas, multiphase pumping stations for joint transportation of oil and associated gas to objects for gas treatment and disposition of gas, small-size gas processing plants;
- own objects of power generating capacities (gas turbine plants). First, it is a large gas turbine electric power station for 315 mW for disposition of associated gas produced on Priobsk field (area of operations of RN-Yuganskneftegaz) and gas turbine electric power station for 20 mW of North-Oil field.

Plans also include use of gas for own needs for treatment of oil and reconstruction of operating plants for gas treatment, gas gathering, gas distributing and transportation networks.

[Control over pollution emissions at oil and gas production and Gas Program of the Company](#)

[Reduction of exposure to atmosphere at oil and gas processing and sales](#)



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## Reduction of exposure to atmosphere at oil and gas processing and sales

In 2006, the structure of the Company had two oil-refining plants operating in Tuapse and Komsomolsk-on-Amur. Currently, the refineries are being at the stage of Upgrade, which will provide 95 % of depth of oil refining, product release complying with standard Euro-4, enhance flexibility, efficiency and capacity. In the first quarter 2006, Komsomolsk Refinery commissioned a complex for hydrotreating of diesel fuel, first in Russia to produce diesel fuel complying with standard Euro-4 in sulfur content and other characteristics.

During reconstruction oil refineries are actively implementing solutions enabling them to reduce pollution emissions in the atmosphere. Such solutions include equipment of tanks for oil and oil products with pontoons, construction of closed physical and chemical sewage disposal plants instead of open mechanical ones, introduction of plants for tank breathing vapour recovery, minimization of discharge to flare, more complete disposition of oil products and hydrogen sulfide, as well as transition to use as fuel of natural and process gas, which was performed at Komsomolsk Refinery.

Irrespective of increase in volumes of processing, these solutions enabled refineries to considerably reduce not only specific air emissions but also gross emissions in 2006 in comparison with 2005.

Progressive solutions are also introduced in sales and transshipment of oil and oil products reducing air emissions. They include gas-handling stations for recycling of vapour of oil products and vapor-tight loading systems.



## Water consumption and water objects effect



In 2005 the volume of water consumption in the Company has considerably increased in connection with acquisition of new assets; water consumption was also increased in 2006 in connection with increase of volumes of production activity of the Company. At the same time the Company attained considerable increase in volumes of repeated and circulating consumption of water. For enhancement of efficiency of water consumption on fields the Company is introducing plants for preliminary water discharge.

In 2005, due to construction and Upgrade of waste water treatment units on fields as well as high level of usage of strata waters for maintenance of strata pressure total volumes of disposal of waste waters and volumes of raw waste waters were considerably reduced. For subsequent reduction of discharge of raw waste waters the Company continues its work on construction and reconstruction of plants for treatment of industrial and sewerage waste waters and oil removers, performs capital repair and replacement of emergency sections of oil pipelines in water protection zones. During construction of new multiple-well platforms at lease dumping The Company uses insulating materials (polyethylene film, synthetic material), preventing pollution of surface and ground waters. Underwater crossings are built applying directional drilling.



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## Production waste management



Oil sludge resulting from the Company activity is utilized according to schedule agreed upon with governmental supervisory authorities. The schedule is strictly kept. The work on utilization of oil sludge is performed by contractors holding necessary licenses. The Company purchases plants for processing of liquid and solid oil sludge, which are transferred to contractors for use. Processing is performed biologically and chemically. When a chemical method is applied liquid oil sludge is divided into water and oil, from solid oil sludge oil is extracted by special chemical agents. Water thereby received is used repetitively. The Company also applies microbiological method for processing of oil sludge and oil-contaminated subsoil, ultrasound cavitation and mechanical plants for processing of oil sludge.

For utilization of industrial and oil-contaminated wastes in 2006, the Company constructed landfills on Bagansk and Khasirejsk fields of OOO RN — Severnaya Neft, in 2007 commissioned a landfill on Barsukovsk field. The Company plans to complete construction of landfill on Tarasov field, to commence in 2008 construction of a landfill on Kharampur field of OOO RN-Purneftegaz. The Company has considerably progressed reducing generation of wastes and raising the level of their utilization: in spite of inclusion in 2005 – 2006 in the Company structure of large enterprises and repeated growth of oil production the Company managed to reduce the volume of wastes formation in comparison with 2004 and to start active work on processing earlier accumulated wastes.

## Use and restoration of lands and protection of biological diversity



### Re-cultivation of lands

### Maintenance of biological diversity and traditional land-utilization

### Failures and incidents

### Re-cultivation of lands

Simultaneously with increase in volumes of oil production the Company performs active work on reduction of amount of lands, which are irrationally used, especially oil-contaminated ones. Due to active re-cultivation and reduction of accidental spills, the area of contaminated lands was considerably reduced from the beginning of 2005 till the end of 2006.

In 2006, on its areas of oil production the Company performed inventory of oil-contaminated lands and sludge barns for identification of masout-contaminated areas, their environmental hazard, improvement of re-cultivation. Annually subsidiaries of the Company hold tenders for selection of contractors to carry out re-cultivation. Specialized contractors elaborate a plan of works for each object specifying methods and materials applied. A project on re-cultivation is subject to state expertise. Re-cultivation is performed in two stages: technical and biological. The first stage of re-cultivation of contaminated lands include the following works: pumping of oil, removal of contaminated subsoil or processing of subsoil with microbiologic agents, removal of scrap metal, bulk waste, formation of surface and fertile soil layer; planting of forest cultures and sowing of permanent grasses. The quality of re-cultivation is tested by governmental authorities.

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## Maintenance of biological diversity and traditional land-utilization

The Company performs production in several regions, where the density of population is high and agricultural activity is intensive, as well as in areas adjoining to conservation areas and territories with high value of biological diversity. When working close to sensitive natural territories the Company pays special attention to prevention of leakage connected with line rupture. The Company applies advanced technologies for cleaning of pipeline inner surface. For decrease of corrosion before transportation gas is separated from liquid fractions, inhibitor and electrochemical protection of pipelines is applied. The Company implements monitoring program, which among other things covers the level of contamination of ground-waters with oil products, the state of biosphere. When planning its activity the Company obligatory assesses environmental impact subject to aspects of prevention of biological diversity impact. Among other things assessment of environmental impact includes analysis of activity impact on the vegetable and the animal world and development of measures for prevention or mitigation of negative changes. Environmental professionals annually assess condition of surface waters, sea-floor sediments, soils, ground waters, flora and fauna.

## Failures and incidents

In spite of its efforts to prevent failures and incidents and to provide timely response to their occurrence, the Company is not capable to fully avoid them. Incidents took place in 2006, were primarily caused by corrosion of pipelines, illegal tapplings, as well as organizational and technical reasons and defects of materials.

Within the framework of introduction of the system for control over industrial safety, labor safety and environment, the Company performed a large scope of work for identification, analysis and systematization of risks for safety of production and environment in the Company. This work enabled the Company to concretize and to focus the personnel training programs, in which special attention is paid to practical training and actions in case of occurrence of failures and emergency situations. In accordance with governmental requirements all employees of the Company undergo regular training on questions concerning labor protection and industrial safety.

For prevention of failures and accidents the Company introduces new types of equipment excluding presence of people in hazardous zones. Automated measuring apparatuses are put into operation on well clusters with output of data to remote terminal, level remote control is established on new tanks. Due to these measures the Company is capable to reduce impact of human factor on safety of production facilities.

## Prevention of emergency situations and readiness to actions at their occurrence



[System of warning  
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### System of warning and liquidation of emergency situations

The primary objective of the Company for prevention of emergency situations and response to them is reduction of the risk of occurrence of failures, fires and incidents on the Company objects, as well as prompt localization and elimination of consequences of emergency situations, minimization of damage to health of workers, population and natural resources, as well as loss of the Company property in case of occurrence of such situations.

The Company has an operating system for warning and liquidation of emergency situations, which forms a part of the United State System for Warning and Liquidation of Emergency Situations (USSWLES) and is integrated in the general departmental system of USSWLES of the Ministry of Industry and Energy.


Basic lines of activities within the framework of the system are:

- maintenance of forces and facilities of the Company in the state of readiness for prevention of emergency situations and response to them;
- securing fire and anti- flush safety;
- prevention and liquidation of emergency situations at sea objects.

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As of January 1, 2007, the Company has 160 operating formations for prevention of emergency situations and response to them, totally including 5 000 people. The Company established the system for control over readiness of forces and facilities of the system for response to emergency situations; established successfully functioning commissions for prevention and liquidation of emergency situations and for fire safety.

For actions on liquidation of emergency situations, localization and liquidation of oil spills, fires and other off-nominal situations all subsidiaries of the Company use modern home and foreign equipment, facilities and technologies.



For maintenance in the state of permanent readiness of forces and facilities and building of a team with other bodies and forces of the system of USSWLES of the Russian Federation tactical - special exercises involving all services, which may participate in liquidation of probable emergency situations and minimization of caused damage are regularly conducted on territorial and regional levels.

207 training exercises, including 25 complex ones were conducted in 2006.

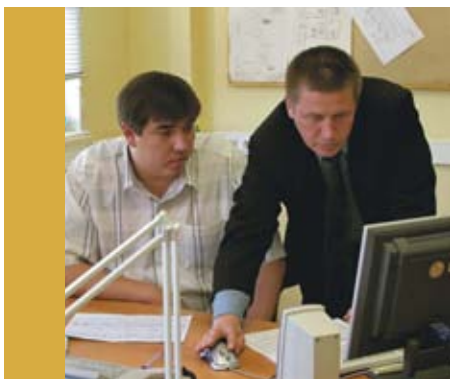
Prevention of oil spills is one of the most important tasks for securing industrial safety. In this connection the following measures were taken at all objects of the Company: implementation of oil spill response plans (OSR), equipment of posts, maintenance standby of OSR ships in offshore zone of oil-loading terminals, carrying out active work for monitoring of condition and enhancement of pipeline reliability, maintenance of constant readiness of emergency service personnel.

The system for layer-by-layer fire fighting on tanks, unattended pipeline pumping stations for fire water supply, automatic foam makers for suppression of fire at objects of oil-loading racks are installed at new and reconstructed objects. The most environmentally safe foamers are acquired for fire fighting. At the present time Komsomolsk Refinery continues reconstruction of its tank farm. Reconstruction



began in 1999, over two thirds of the whole tank farm of the refinery has been replaced by new tanks. All reconstructed tanks are equipped with units of the subsurface foam fire fighting system. For old tanks, on which the system has not been installed yet, Komsomolsk Refinery acquired special monitors to supply foam to possible not spots not using special lifting facilities.

In 2006, no emergency situations took place at Komsomolsk Refinery.



For enhancement of response to failures and emergency situations, subsidiaries of the Company OOO RN – Severnaya Neft and OOO Polar Lights, operating in sparsely populated areas of Arkhangelsk region, Komi Republic and Nenets Autonomous Area initiated a contract for mutual assistance in the area of environmental safety in Timano-Pechora. Within the framework of this contract a united breakdown elimination group was organized.

Other oil-producing enterprises of the region — OAO Total Exploration Development Russia, OAO Pechora-Oil and ZAO North TEK have already joined the contract.

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## Labor protection



Rosneft Oil Company is aimed at creation for its employees safe and healthy working environment and at minimization of risks of emergency situations, accidents and occupational diseases. For this purpose the Company uses modern forms of control over industrial safety, up-to-the minute technologies and advanced production methods based on international experience.

In general industrial safety, labor safety and health is secured by means of implementation of coordinated management and technical measures on all levels, including due to:

- consistent policy in the area of industrial safety and labor protection;
- assessment of industrial safety risks at the stage of designing of objects;
- training at job sites and specialized education, use of the best samples of equipment and instruments, special clothing and individual protective means.

For implementation of adopted policy subsidiaries elaborate and regularly implement plans on:

- industrial safety;
- main events on improvement of conditions and labor safety, prevention of industrial injuries;
- replacement of worn-out equipment not complying with industrial safety requirements.

Employees of the Company are involved in permanent educational programs on exchange of experience in the area of protection of labor and environment, industrial, fire and environmental safety. Enterprises are equipped with modern training aids, training simulators are widely used.

A constituent part of collective contracts concluded between employees and administration of enterprises is agreement on labor protection. The Company maintains activity of trade union organizations of employees for control over conditions of labor and observance of labor protection regulations, elaborates comprehensive programs on protection of health of employees. In accordance with corporate standards the social package includes financing of voluntary health insurance, disease prevention and health resort-resort therapy. In 2006, Rosneft Oil Company spent 93,8 million rubles for voluntary health insurance used by over 21 thousand employees. Subsidiaries of Rosneft Oil Company also render assistance to employees and pay for their health resort-resort therapy. In 2006, the Company provided 7 300 employees with trip tickets for leisure and medical treatment. Expenses of the Company for these purposes amounted to 158 million rubles. In 2006, regular medical examinations are conducted at enterprises of Rosneft Oil Company within the framework of a schedule agreed upon with Rospotrebnadzor.

In 2006, a priority in activity of the Company in the area of health protection was a program on reduction sickness rate of employees at least by 30 % by 2011. The Company conducted the re-attestation of working places by labor conditions. In spite of revelation during attestation of working places, at which the possibility for occupational diseases exists, no cases of professional diseases of employees of Rosneft Oil Company were established. Based on results of the attestation the following measures were taken at enterprises of the Company: Upgrade of ventilation systems, replacement of outdated equipment, introduction of measures for reduction of noise impact. All employees are provided with special clothing and necessary individual protective means, and quantities and characteristics of used means are determined subject to local conditions, specific character of enterprises and requests of employees. Employees of the Company are also provided with corporate types of special clothing of winter and summer variants. The quality of special clothing and individual protective means is controlled by a special commission.

For prevention of injuries departmental (step-like) control over observance of labor protection requirements is established within the framework of the integrated system for management of labor protection and industrial safety.

In 2006, due to implemented measures for labor protection the general level of traumatism on per 1 million of worked hours basis in Rosneft Oil Company decreased by 32 % in comparison with 2005. In 2006, the level of traumatism with fatal outcome decreased by 35 %.









## Personnel relations

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## Principles and approaches



Employees form the most important interested party and a key factor of successful and sustainable development of the Company in the longer term. The Company is aimed at formation of a stable collective of qualified, loyal and motivated employees adhered to objectives of the Company and proud of work in it.

The personnel policy of the Company is built on the following Principles and approaches:

- development of partnership relations with personnel, joint search of ways to solve problems, conflict situations;
- respectful attitude to trade union organizations of the Company;
- motivation of employees through competitive salary level depending on efficiency of work, creation of conditions for raising of qualification and career development;
- flexibility in relations with personnel, consideration of individual peculiarities and requirements of employees without prejudice to interests of the Company;
- the system of social privileges and programs aimed at improvement of conditions for leisure and life of employees and members of their families, support of employees in difficult of unforeseen situations;

- development of corporate real estate mortgage as a factor for creation of normal housing conditions for employees and members of their families;
- continuous improvement of labor conditions and the level of labor safety through introduction of state-of-the-art technologies, training of employees, provision of employees with necessary individual protective means;
- attention to veterans of the Company, care of veterans, development of the system for corporate and non-corporate pension insurance;
- implementation of programs for improvement of personnel health, propaganda of healthy life-style.

Adherence to strict observance of human rights in accordance with the Constitution of the Russian Federation is the most important principal of activities performed by Rosneft Oil Company. When regulating labor relations the Company complies with provisions of the Russian legislation, generally recognized Principles of international law. The Company exercises the right to unite employees in public organizations at its own discretion, allows no forms of discrimination and compulsory work. Each employee is granted equitable opportunities for implementation of his / her labor rights irrespective of sex, race, age, place of location, confession, political opinions and other circumstances not connected with business qualities of an employee. The Company does not use labor of persons, who are under 16 and meets requirement of the Labor Code of the Russian Federation concerning prohibition to attract women and persons under 18 to hazardous jobs.

In recent years the Company has acquired new assets, integrated in its structure large collectives with their labor and social traditions. At the same time the Company took active measures on restructuring: consolidation of fixed assets of the Company subject to change of the status of subsidiaries, separation as as autonomous units of organizational departments rendering core business services. In 2006, based on organizational departments of producing subsidiaries rendering to primary production drilling services, subsidiary of the Company RN-Burenie was established with work force of 3,8 thousand people. In 2007, based on service organizational departments of producing subsidiaries and dependant organizations of the Company (including assets acquired in the first half of 2007) the Company initiated the process for formation of 100-percent subsidiary RN-Service, which will render to subsidiaries of the Company services on repair of wells and equipment of oil- and gas production, maintenance of production and personnel facilities, transportation. In summer 2007, due to acquisition of new assets in the area of production of hydrocarbons and oil refining, a number of the Company enterprises increased by 80 ones with work force approximating to 60 thousand people.



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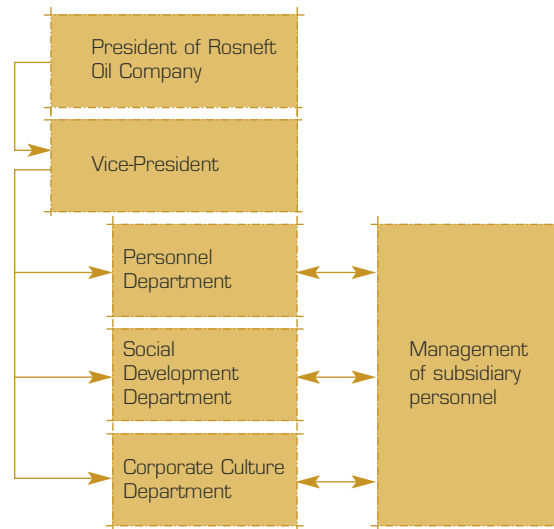
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In 2005 – 2006, key tasks in the area of personnel management were as follows:

- integration of employees of acquired enterprises in the Company system for stimulation and development of personnel;
- restructuring subject to observance of employees' rights;
- improvement of wage and social benefit systems at enterprises of the Company, personnel attestation systems;
- introduction and development of social programs aimed at improvement of living conditions of employees and improvement of social security of the Company veterans – privileged real estate mortgage and corporate non-state pension insurance;
- further development of vocational-oriented education through expansion of a network of Rosneft Classes in the regions, where the Company performs its activity, establishment of more close cooperation with higher educational institutions for attraction of capable and trained employees in the Company.



On the Company level a complex of tasks concerning personnel management and development of the corporate culture is directly regulated by the Personnel Department, Social Management Department and Corporate Management Department subordinating to the Vice-President of the Company. Organizational departments supervising relevant directions of the Company activity participate in formation of the personnel reserve and the system of personnel technical training.

Organizational departments of the Company central office are in the first turn in charge of elaboration of the strategy, local regulatory documents in the area of personnel management, approval of programs on management of personnel of subsidiaries, formation

of personnel reserve on the Company level, preparation of a package of programs on centralized training of personnel. Current work on implementation of programs is performed by organizational departments for management of personnel of subsidiaries of the Company.

## Social partnership



Mutual relations with trade unions

Collective contracts

Intercommunication  
and feedback system

The system of social partnership existing in the Company includes:

- consideration of mutual interests at development and implementation of key solutions affecting interests of personnel;
- equal right dialog at elaboration of solutions and responsibility of each party for their implementation;
- search of mutually acceptable solution of arising problems;
- strict observance of labor legislation

### Mutual relations with trade unions

Overwhelming majority of subsidiaries have trade union organizations. A number of their members include 68 % of the Company employees. The Company creates conditions for activities of trade union committees in accordance with the legislation: free-of-charge provision of the trade union committee with premises equipped with communication and office facilities in offices of subsidiaries, preserves for employees elected as full-time trade union officials, their work places and all social benefits, not prohibits trade union representatives to visit production and personnel facilities of subsidiaries provides if required transport vehicles to bring them to these objects.

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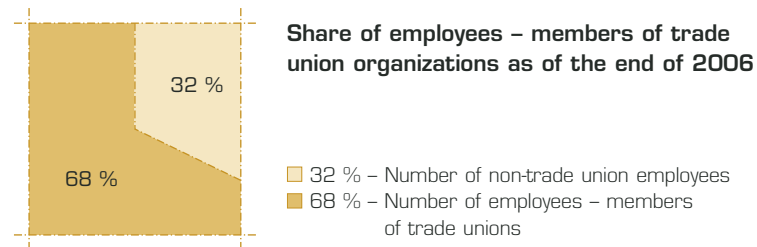
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Employees of subsidiaries, who are authorized representatives of trade unions committees for labor protection may undergo labor protection training at the expense of the Company in the area of labor protection and participate in performance of public duties preserving their salaries. Relations between management of subsidiaries and heads of trade union organizations are based on mutual respect and understanding of common tasks set both before the management of the Company and a labor collective. Heads of trade union organizations and management of subsidiaries regularly meet for discussion of existing problems and elaboration of agreed decisions. Twice a year representatives of trade union organizations of subsidiaries meet with the management of the Company. Main directions of activities performed by trade union organizations in subsidiaries include:

- protection of rights and interests of employees;
- participation in collective negotiations for preparation and conclusion of collective contracts between representatives of employees and employers and control over their implementation;
- control over conditions for labor, daily round and leisure of employees;
- participation in commissions for labor disputes;
- participation in commissions for social protection of employees conducted jointly with employers;
- participation in organization of cultural - mass and sporting events for employees of subsidiaries, shows – competitions of professional skill.



### Collective contracts

A collective contract between employees and employers is a basic document regulating social and labor relations at the Company enterprises. Local regulatory documents of subsidiaries regulating social and labor relations may not contradict to conditions of collective contracts.

In commissions for preparation of collective contracts, a labor collective is represented by a trade union organization, in the absence of a trade union organization – by authorized representatives of a labor collective. Collective contracts are in effect in all subsidiaries and cover 100 % of employees. Collective

contracts are adopted at conferences of labor collectives of subsidiaries. The purpose of collective contracts concluded in subsidiaries is establishment of mutual obligations of the employer and employees for stable activity of enterprises, creation of favorable conditions for labor and labor remuneration. A majority of collective contracts concluded in subsidiaries stipulate minimal levels of payment for employees' labor; procedure for indexation and payment of salaries, payment for overtime working, social benefits for individual groups of employees (young people, women, employees having children of tender years), conditions for provision of trip tickets to health resorts and rest homes with full or partial payment at the expense of an enterprise, conditions for provision of material aid to employees injured at the place of production and to members of their families, benefits for employees dismissing in connection with old age retirement, assistance to veterans of the Company, etc. A list of benefits reflects both traditions existing in labor collectives and the policy of the Company on improvement of the supplementary benefits system. In the majority of cases benefits established in collective contracts exceed considerably those established under the law both by their list and amounts. Some collective contracts provide for the following: free meals for employees, supplementary benefits for female employees being in a child-care leave, shortened working week for women, systematic material aid for employees having handicapped children, payment for keeping of employees' children in infant schools, trip tickets for leisure and medical treatment and education in educational organizations of children of employees died at the place of production, etc.



### Intercommunication and feedback system

A developed intercommunication system plays an important role in creation of favorable conditions in labor collectives of the Company: employees must receive adequate information on corporate events affecting their rights and obligations and have an opportunity to bring their opinions to notice of the Company management. The Company formed a system for information of employees on objectives, prospects for the development and current affairs of the Company. By means of information stands available in each subsidiary, general corporate newspaper, internal information portal all employees are informed on events in the Company, explained management decisions. Many subsidiaries have their own corporate newspapers



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or bulletins published weekly or monthly. All managers regularly meet labor collectives for clarification of the corporate policy, removal of tension, prevention and denial of rumors, answers to questions actual for employees. General Directors of subsidiaries or their deputies monthly receive employees on personal questions.

The standard of the Company **On internal communications** establishes formation of the shared communication space in the Company and development of channels of intra-corporate communications. For enhancement of efficiency of communications the Company provided formation of a professional team of specialists for internal communications, who have to organize informational work at the level of the Company in general and separately in each subsidiary.

One of important elements of the system of internal communications is a feed back between employees and managers of subsidiaries. The standard provides for development of internal communications and introduction of a set of feed back tooling: feed-back box, mail, telephone, e-mail.



## Intercommunication system of OOO Yuganskneftegaz

According to a representative survey conducted in 2006 among employees of the Company, a share of employees of OOO RN-Yuganskneftegaz satisfied with the level of its information awareness considerably exceeded the average level in the Company.

Each workshop of the Company monthly holds a meeting of a labor collective. If employees have any questions to managers of the Company, relevant information is submitted to the Company administrative staff and one of managers or specialists come to meet with employees. The enterprise has a schedule of meetings between managers and labor collectives. All managers, including the General Director regularly come to visit fields. Meetings are held at time most suitable for employees. The enterprise has a system for collection of questions from employees, which are sent out to specialists of the Company administrative staff. Answers to questions are sent back to employees asked them. Electronic newspaper of the enterprise FACE-TO-FACE is another way of direct communication with employees. Any employee may ask its question on an electronic page. Most urgent and interesting questions are included in the wall newspaper of the enterprise. Basic points of employees' interest in March 2007 include the following: provision of employees with new special clothing, mortgage program, raising a tariff part of salary, payment of a half-yearly bonuses. Employees were also interested in increase of non-state old-age insurance and amounts of allowances for 1,5 year-old childcare.

The following problems were classified by employees as the most urgent ones within the framework of survey conducted by the Company among employees of one of organization departments:

- material problems(increase in salary);
- housing improvements;
- problems with education of children (high education);
- upgrading;
- family vacation (wish to have summer leave once in two but not in four years);
- employment of children;
- career development;
- health.





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### Collective contract and system of social benefits in OOO RN-Yuganskneftegaz



A collective contract concluded between the employer and employees of OOO RN-Yuganskneftegaz for 2006–2009, stipulates in details questions concerning payment for labor, including formation of a permanent part of salary, procedure for establishment for employees of additional incentives for high qualification and a range of these incentives, payment of bonuses for current results of work, payment of bonuses from the manager's fund for a particular contribution of an employee in solution of production tasks, lists of other possible additional payments and allowances, etc. The collective contract issued in the form of a brochure and available for all employees gives employees a clear idea of the system for material stimulation of labor in the Company, allowances and bonuses, as well as conditions and procedure for their establishment and payment. The collective contract provides in details for benefits and compensations connected with labor conditions, deviating from normal conditions (irregular working hours, work in harmful conditions on outlying fields), and a list of job positions, having the right to these benefits and compensations. For raising the level of social security of employees at in case of their dismissals due to reduction in force or personnel the contract clearly specifies criteria for mass release of employees and procedure for information of the trade union committee concerning a list of reduced employees and list of available vacancies. According to the contract simultaneous dismissal of two employees of the com-



pany, who are members of one and the same family shall be prohibited; in case of expansion of production earlier dismissed conscientious employees have priority at employment. Employees notified concerning a forthcoming dismissal due to reduction in force or personnel shall be additionally on a weekly basis granted one day paid by the employer for search of a new place of employment. Employees dismissed from the company due to reduction in force or personnel shall preserve their right to places in preschool institutions equally with employees of the company. Some articles of the contract are devoted to labor safety and health of employees, work with young people and guarantees of activities performed by trade union of the company.

According to the collective contract the trade union shall have the following obligations:

- facilitation of stable activity of the company applying trade union methods and direction of employees to quality performance of labor duties;
- participation on a permanent basis in the commission for conduct of negotiations at conclusion of the collective contract, established on a parity basis by representatives of the administration and the trade union. Functions of the commission also include control over implementation of the collective contract;
- consideration the following jointly with the employer:
  - plans for qualification of employees and establishment of special work schedules conditioned by production necessity (for example, break-down of a working day into two parts);
  - dismissal due to reduction in force or personnel, participation in elaboration and implementation of measures for reduction of social tension, including assistance in employment and rendering material aid during in the course search for jobs;
- schedule of annual leaves for employees;
- plan for purchase of trip tickets for health resort-resorts and leisure with full or partial payment at the expense of various sources;
- participation in activity of the commission for social security established on the parity basis by the employer and the trade union and making decisions on granting to employees of the one – time material aid;
- participation in investigation of accidents, production injuries and occupational diseases;
- carrying out jointly with the employer analysis of employees' sickness rate and elaboration of a plan for sanitary - health-improvement measures;
- active participation in organization of cultural – mass and sporting - sanitary measures for employees and professional skill competitions.

The contract provides for the entire system of social benefits and compensatory payments existing in the Company: reduced working hours for individual categories of employees, additional leaves, amounts of compensations injured at the place of production (in case of death employees compensation is paid to members of their families), lump sum payments to employees retiring on reaching age limit, additional payments to leave, grounds for receipt of non-recurrent material aid, etc. Many benefits and compensation and stimulating payments are granted additionally to those established under the effective legislation or in amounts larger than those established. These benefits and payments include the following:

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- 36-hour working week for women at preservation of full salary;
- a working week reduced by 4 hours for employees aging from 16 to 18 years old and employees with harmful labor conditions, reduced by 5 hours – for disabled of category 1 and 2;
- the right to a part-time working day or a part-time working week for pregnant women, one of parents of a child under 14 years old and persons caring for a sick member of the family;
- the right to additional leaves in connection with special events (delivery of a child, own wedding and wedding of children, seeing children in the military, etc.);
- provision of privileged trip tickets for rehabilitation and leisure once in two years, and for employees registered in dispensary, annually;
- various types of material aid to employees' families having: disabled children, income below subsistence line, turned out to be in complicated life situations (death of relatives, in case of fires, floods, etc.);
- lump sum payments in the amount varying from 75 thousand to 400 thousand rubles to employees (members of their families), died or got physical disability or occupational diseases at the place of production;
- monthly material aid to children of employees died at the place of production, payment for keeping these children in preschool institutions, annual provision them with free trip tickets for medical treatment or leisure, payment for their education in Russia's professional education institutions;
- payment of return leisure fare for employees and non-working members of their families once in two years;
- payment depending on the length of service of a nonrecurring aid in the amount varying from 100 to 220 thousand rubles to retiring employees;
- regular material aid to pensioners of the company.

The collective contract of OOO Yuganskneftegaz took the first prize at the show – competition for the best organization of work in the area of labor protection and regulation of social – labor relations in Khanty-Mansi Autonomous Area – Yugra in the nomination Collective contract – basis of labor relations.





### Social studies of perception by employees of the situation in the Company



In August – September 2006, by order of the Corporate Culture Department of the Company, social studies were performed with regard to perception by employees of the situation in the Company and at individual enterprises. Questions were asked concerning attitude of employees to the management of the Company, assessment of work of the personnel service, wage system and social programs for personnel, labor conditions, quality of internal communications and the level of satisfaction of personnel requirements in information concerning the state of affairs in the Company. The studies covered employees of 14 enterprises of the Company (including 6 producing, 6 selling and 2 refineries) and the administrative staff of the Company. Methods of studies included questioning of all categories of enterprises' employees (4915 questionnaires), 51 focused group interview with workers and specialists, as well as expert questioning of managers of various levels (85 interviews).

Based on results of the studies, 75 % employees consider their work to be interesting and absorbing, two thirds are proud of their work in the Company. In this regard, the predominant view of employees is that growth in their prosperity is behind prosperity of the Company. This opinion especially prevails in producing and refining enterprises of the Company and to the least extent – at selling ones. Professionalism, forethought and concurrence of actions, corporate spirit are recognized to be Strengths in the management of the Company, low level of care of employees, disregard of the opinion of masses in making of decisions, problems with delegation of powers and responsibility – to be weak points.

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A number of problems in the area of personnel motivation were pointed out: in addition to low satisfaction with the salary level the following aspects were mentioned: dissatisfaction with behavior in remuneration of labor in comparison with the inflation level, non-transparency bonus payment and small dependence of salary on an actual contribution of an employee. About a half of employees incredulously assess possibilities for raising of qualification and career development in the Company. It is worthwhile to say that, perception of possibilities for career development for 2006, has considerably changed for the better.

A number of problems in the system of internal communications was revealed including the following: formal character of these communications, lack of non-regularity in bringing information to employees and consequently – low level of information awareness of employees concerning the state of affairs in the Company. In particular, employees turned out to be insufficiently informed concerning objectives of the Company in the area of development of personnel and prospects of development of their enterprise. One of substantive causes of such situation is lack of a well-organized feedback system. Therefore, the top management received incomplete and distorted information concerning situation at job places.

Based on results of the studies, more intensive organization of the labor remuneration system in subsidiaries was initiated aimed at raising the general level of payment for a number of not well job positions and professions, as well as for introduction of a bonus plan, which is more transparent and dependent on individual contribution of an employee.

The Company develops a standard for internal communications providing for introduction of a wide range of internal communication channels: corporate newspaper, internal informational portal, information stands at enterprises of the Company. The standard also provides for introduction at enterprises of such feed-back tooling as: feed-back boxes (mail, telephone, e-mail). The Corporate Culture Department of the Company was given a task of prompt information of the entire personnel of the Company concerning corporate events.

The studies revealed the need of employees in formulation of underlying principles, which could become common for all enterprises and employees. Therefore works were intensified on the Code of Conduct to be introduced in 2007.

It was decided to annually carry out social studies of perception by employees of the Company affairs and corporate culture beginning from 2008.

## General characteristic of personnel



For 2005–2006, a number of the Company employees (including subsidiary and dependent companies) increased by 17,1 % – up to 74 thousand people. In 2006, middle age of employees reached 41 years; a number of employees with high education was 15 thousand people, executive positions were occupied by 6,8 thousand people. 13,5 thousand people, including 800 young specialists were employed for the year.

A major share of employees falls on Siberia, a place of concentration of large producing enterprises of the Company, and the south of Russia, where together with production of hydrocarbons large selling enterprises and Tuapse Refinery operate. Over a half of personnel (53 %) of subsidiaries is involved in oil production, 14 % – in sales, 3 % – in oil refining.

As share of workers in the total number of employees approximates to 70 %, specialists and executives – 20 %, managers – 10 %. Young employees (aging under 30 years old) amount to 19,4 %, employees older than 50 years old – 23,2 %. For 2006, a share of young employees grew by 0,4 percentage point due to reduction of a share of older employees.





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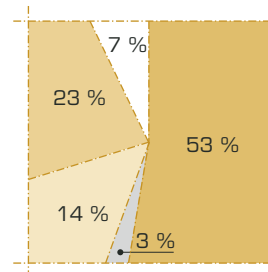
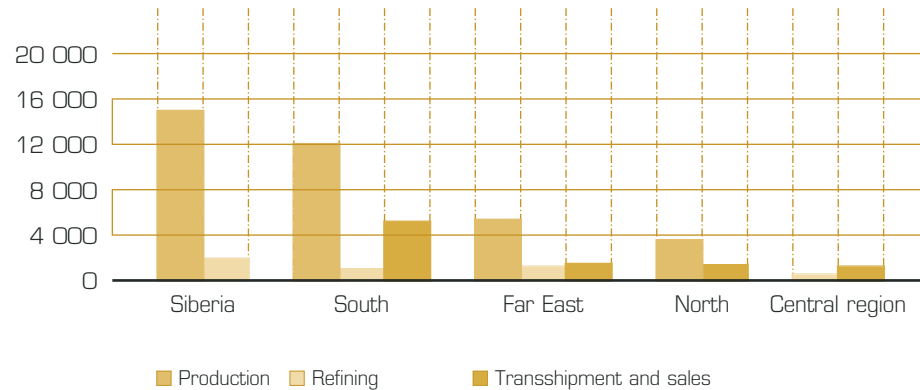
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Due to the fact that the work on oil refineries is connected with arduous working conditions, and a considerable part of the Company is performed in the regions with special natural - climatic conditions, men prevail in the structure of employees: their share approximates to 72 % of the total number of employees. It is no wonder that, a share of men is especially large among workers – 78 %, and the structure of managers, specialists and executives is more balanced – a share of men here amounts to 59 %. It should be also noted that a share of women is especially low in producing subsidiaries of the Company located in the north and Far East (17–27 %), while in selling subsidiaries, in which labor conditions are not so arduous, a share of women reaches 36 – 54 %.

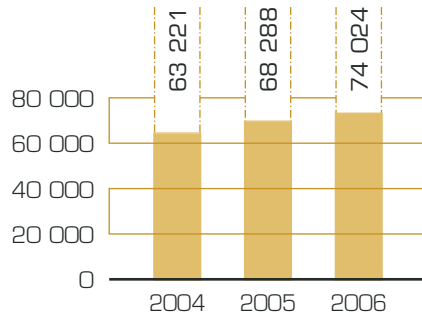
**Distribution of company personnel by regions and areas of activity**



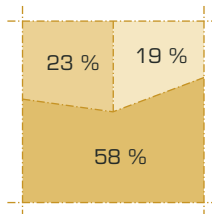
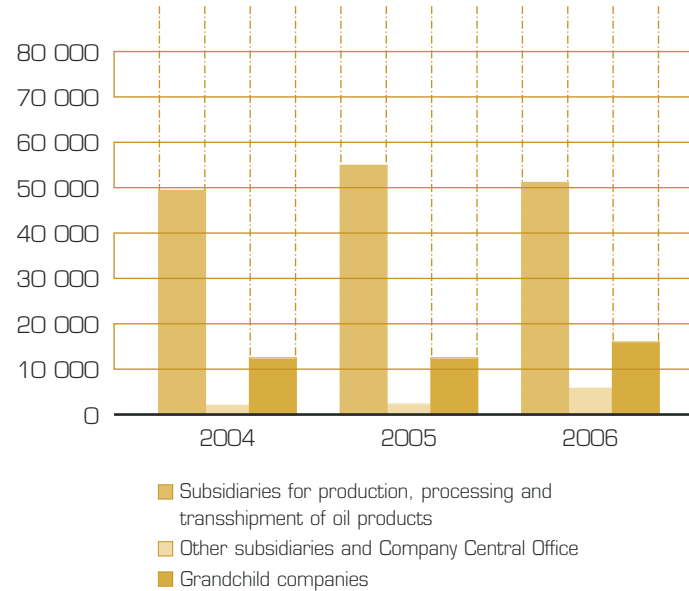
**Distribution of personnel by areas of activity**

- 53 % – Oil production
- 3 % – Oil refining
- 14 % – Sales
- 23 % – Companies controlled through subsidiaries
- 7 % – Other

**Average listed number of employees in 2004 – 2006 including subsidiary and dependent companies**

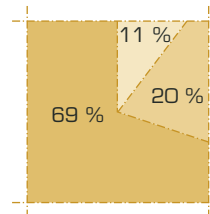


**Dynamics of total number of company employees and distribution by subsidiaries**



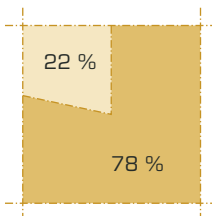
**Distribution of employees by age as of the end of 2006**

- 19 % - Under 30 years old
- 58 % - 30 - 50 years old
- 23 % - Above 50 years old



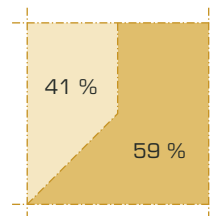
**Composition of employees of Rosneft Oil Company as of the end of 2006**

- 11 % - Managers
- 20 % - Specialists and executives
- 69 % - Workers



**Proportion of men and women among managers and executives as of the end of 2006**

- 78 % - Men
- 22 % - Women



**Proportion of men and women among workers as of the end of 2006**

- 59 % - Men
- 41 % - Women

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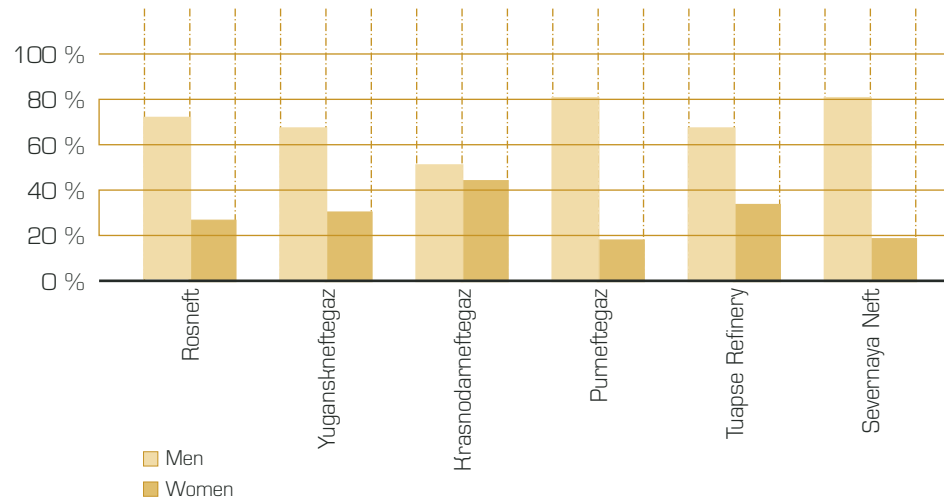
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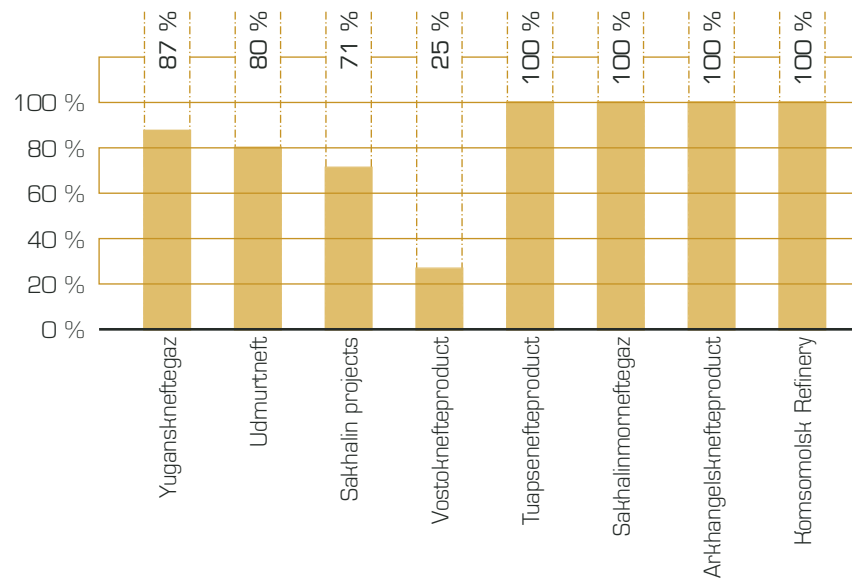
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**Proportion of men and women in the Company and some subsidiaries**



**Share of local people among managers of subsidiaries.**



An overwhelming part of personnel in subsidiaries is represented by local people. A share of managers from among local people is high enough in the majority of subsidiaries.

## Motivation of personnel



Remuneration of labor and social package

Social payments and benefits

Housing program for employees

Corporate pension insurance and care of veterans

Incentive of employees for their labor

The Company secures motivation of personnel to effective, conscientious work through:

- competitive salary,
- system of social benefits and payments (social package) aimed at creation of conditions for health improvement and leisure of employees and members of their families, support in tight life situations, solution of problems connected with acquisition of dwelling and education, as well as worthy pensions upon termination of labor relations;
- moral incentive in the form of public recognition of more conscientious and successful employees;
- opportunities for raising of qualification, professional and career development.

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## Remuneration of labor and social package

The level and the system of labor remuneration play a decisive role in motivation of employees to conscientious and effective work labor, as well as in retention in a labor collective of the most qualified employees. Since subsidiaries of the Company work in the regions with various subsistence minimums and salary levels for various professions, salary levels in subsidiaries differ considerably. Salary of employees include a permanent and a variable part.

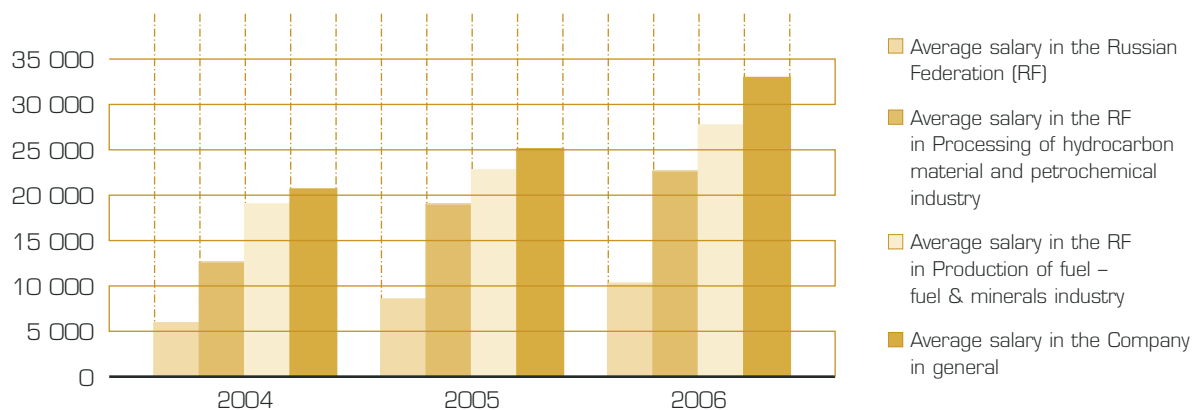
### A permanent part includes:

- tariff part (wage), considering the trade, type of work and employee's skill level man;
- additional payments and allowances for special, arduous and harmful labor conditions, for work in unfavorable climatic conditions,

### A variable part includes:

- stimulating payments, which amount depend on performance of the company, organization department and individual contribution of employee in this performance;
- bonuses based on year performance;
- non-recurrent payments for performance of tasks of especial importance.

**Ratio between the Company salary and average salaries in Russia and in industry in 2004 – 2006**



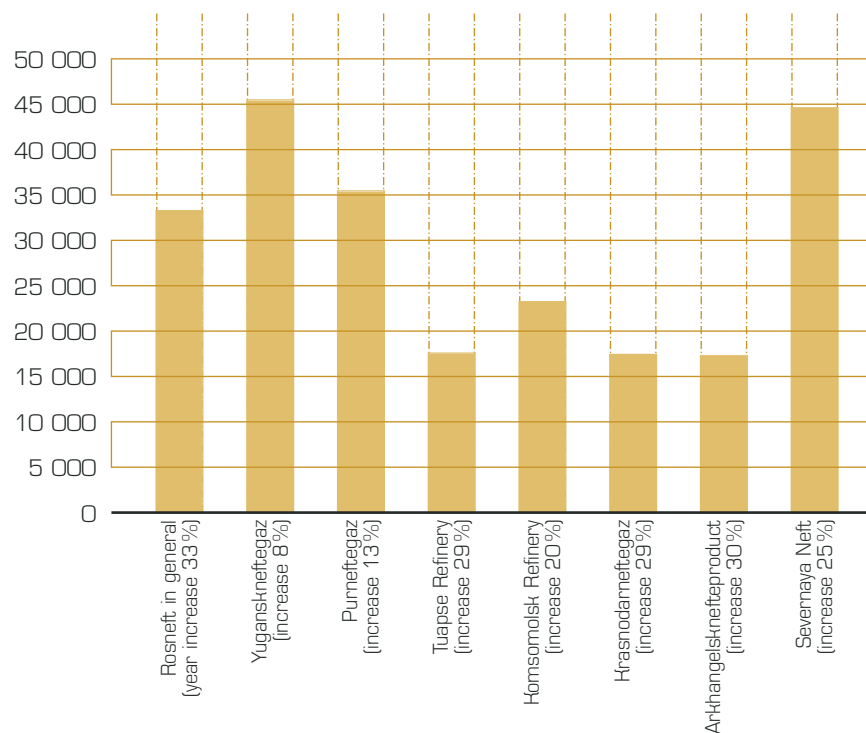
When regulating remuneration of labor the Company proceeds from the following Principles:

- competitiveness of the salary level for each trade subject to regional specific features and actions of competitors. Personnel services of subsidiaries monitor the situation existing in a region and notify the administrative staff of the Company. The general principle – middle salary level shall border the third and the fourth quarters of a relevant region and trade;
- allowances for employees of primary trades;
- quarterly indexation of salary, not lower than the level of inflation.

A special situation connected with remuneration of labor exists in subsidiaries operating in Caucasus regions with high level of unemployment – Chechnya and Dagestan. Taking into consideration high social importance of working places in these regions and tense situation the Company carefully implements programs on enhancement of efficiency connected with reduction of employment.

In 2006, the average monthly salary in the Company increased by 34 % – up to 33 525 rubles, the rate of its increase exceeded many times the level of inflation. By the figure of the average monthly salary (considering expenses for consolidation) the Company exceeds 3,15 times the average Russia's level and by 21 % – the average Russia's salary level in the industry, and the Company's break off from Russia's average salary level, and from the industry average level in the industry increased in 2006.

**Average salary in the Company in general and in subsidiaries in 2006**



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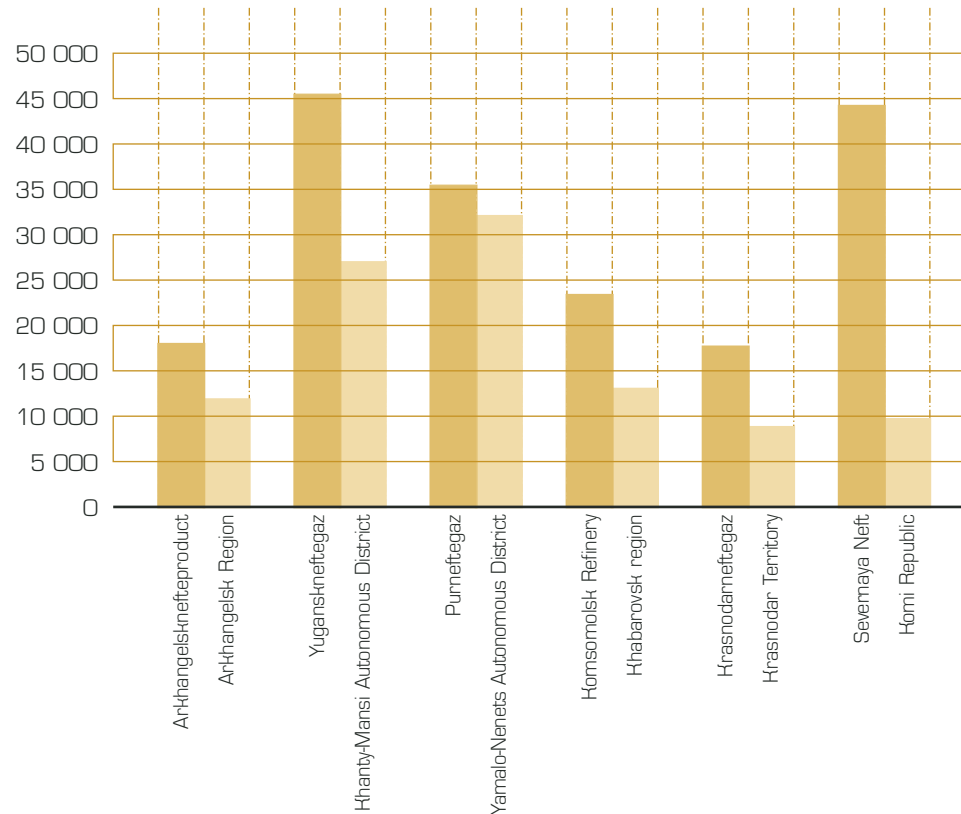
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**Salary level in subsidiaries and regions of presence in 2006**  
(to the left – salary in the Company, to the right – in region of presence)



Questioning conducted among employees of the Company in 2006 revealed dissatisfaction of employees with poor interdependence between the quality of employee's labor; his / her contribution and the salary level. In some subsidiaries employees are fully withdrawn bonuses even in case of inconsiderable non-fulfillment of a plan, bonus payment figures poorly reflect specific character of work. Personnel service of the Company performs work for arrangement of wage systems in subsidiaries and elaboration of the unified salary policy.

## Social payments and benefits

In 2006, the amount of social payments and benefits to employees of the Company (excluding contributions in the Pension Fund and the amount of housing and educational credits) amounted to 1,12 bn rubles – by 32 % more than in 2005. The structure of benefits and especially their amount in various subsidiaries depend on conditions set forth in the collective contract. All of the subsidiaries:

- grant benefits aimed at protection of health and provision of quality leisure – voluntary health insurance of employees, full or partial payment for trip tickets for health resort-resort treatment and leisure for employees, trip tickets for summer leisure for children, payment once in two years of leisure return fare for employees and non-working family members, material aid in case of long-term disease;
- pay non-recurrent material aid in difficult life situations – in case of disability or death due to an accident at the place of production, death from common diseases, death of family members of an employee;
- provide regular material aid (in addition to pension) for non-working veterans of the Company;
- grant employees working in the Company not less than 10 years the right for an allowance in a form of single payment in case of retirement at pensionable age. In addition to support of adaptation to a new life situation, this measure is also aimed at renewal of staff;
- grant employees the right to obtain interest-free loan from the Company for payment of relevant high education as well as for payment of education for their children in any accredited high educational institution in the Russian Federation. In 2007, the Company allocated 26,5 million rubles for these purposes.





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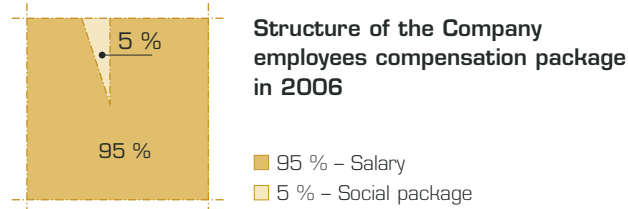
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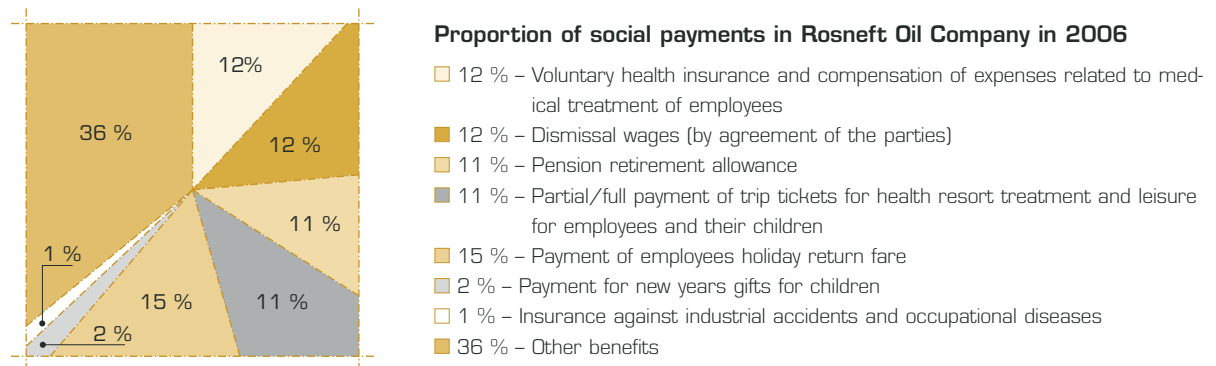
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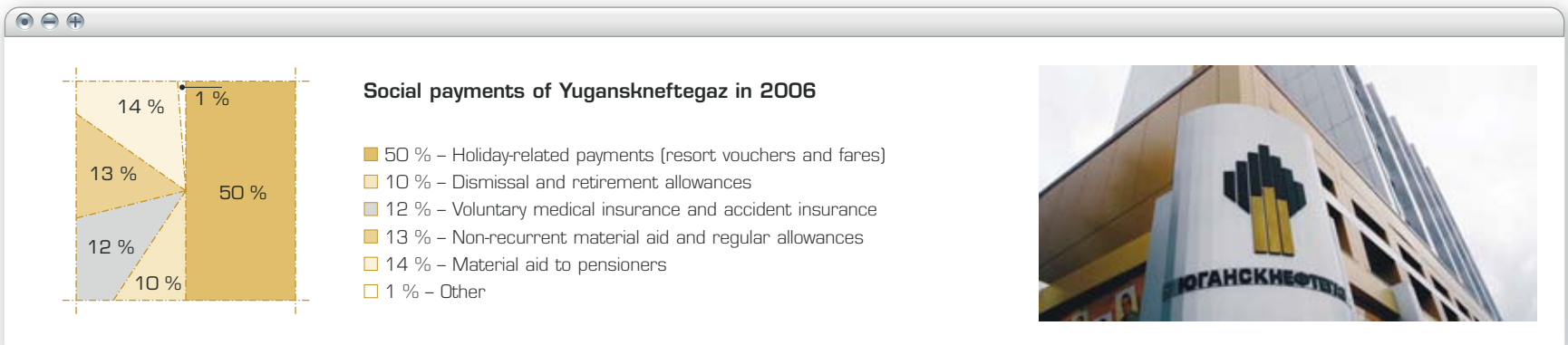
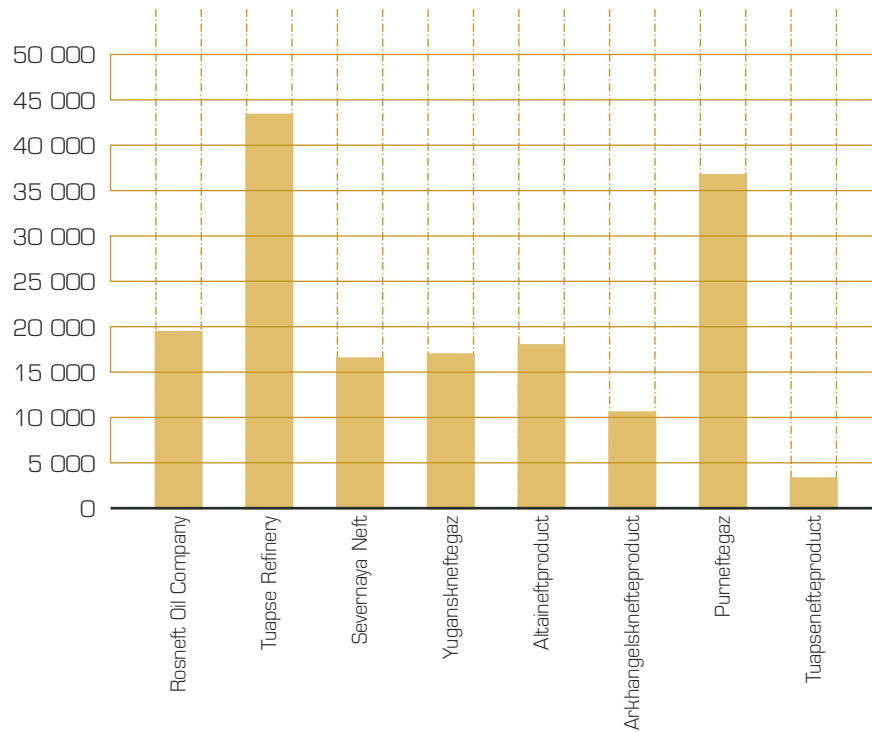
In some subsidiaries employees are provided with free meals, additional payments to allowances for temporary disability up to an average salary, additional payments for women being in leaves to care for minor children, compensation for employees' expenses incurred in connection with living in residential hotels, payment for children of dead employees for their professional education and trip tickets to leisure and medical treatment at the expense of subsidiaries.



Based on results of the representative survey conducted in 2006 among employees of the Company, respondent employees highly appreciated the importance of social benefits and payments in the structure of a compensation package, especially voluntary health insurance, payment of health resort-resort treatment, non-recurrent material payments and programs on support of housing provision.



**Average amount of social payments and benefits of one employee in 2006 (rubles) (excluding corporate pension charges and mortgage)**



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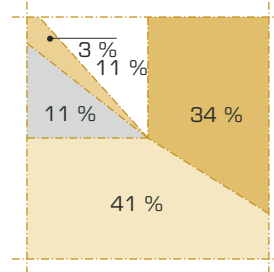
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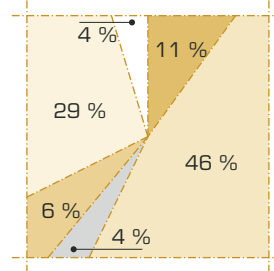
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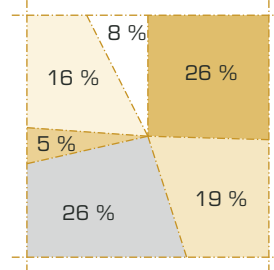
#### Proportion of social payments in Purneftegaz in 2006

- 34 % – Holiday-related payments (resort vouchers and fares)
- 41 % – Dismissal and retirement allowances
- 11 % – Voluntary medical insurance and accident insurance
- 3 % – Non-recurrent material aid and regular allowances
- 11 % – Other



#### Social payments of Tuapse Refinery in 2006

- 11 % – Holiday-related payments (resort vouchers and fares)
- 46 % – Dismissal and retirement allowances
- 4 % – Voluntary medical insurance and accident insurance
- 6 % – Non-recurrent material aid and regular allowances
- 29 % – Material aid to pensioners
- 4 % – Other



#### Social payments of Tuapsenefteproduct in 2006

- 26 % – Holiday-related payments (resort vouchers and fares)
- 19 % – Dismissal and retirement allowances
- 26 % – Voluntary medical insurance and accident insurance
- 5 % – Non-recurrent material aid and regular allowances
- 16 % – Material aid to pensioners
- 8 % – Other



Two social programs of the Company, which have been actively developed in recent years, play the important role in enhancement of attractiveness of the Company work and retention of the most competent personnel. They are the program on assistance in acquisition of housing (privileged real estate mortgage) and the program on corporate pension insurance.

## Housing program for employees

For provision of its employees with housing the Company implements the program including the following aspects:

- long-term mortgage housing crediting;
- housing construction;
- provision with service housing;
- participation in implementation of the Federal Targeted Program Housing on Sakhalin.



### In 2006

- 645 employees used a privileged mortgage program of the Company;
- employees were provided with 47,5 thousand square meters of housing floor space – twice as much than in 2005;
- 3,2 thousand square meters of service housing floor space were acquired for highly qualified employees;
- expenses of the Company for provision of employees with housing exceeded 1 bn rubles. Besides, preferential credit of OAO All-Russian Bank for Regional Development within the framework of the mortgage program – about 400 million rubles

### Plan for 2007

- commissioning - 13,8 thousand square meters of housing floor space;
- provision of 1254 employees' families with housing (expenses will exceed 1,9 bn rubles);
- 65% employees will be provided with housing within the framework of the mortgage program of the Company;
- expenses for acquisition of official housing 372 million rubles.

The primary concern of the program on provision of employees with housing is explained by the fact that due to the explosion of prices for housing its acquisition (even by means of mortgage upon standard conditions) for majority of employees is not an easily soluble problem. In some remote regions with severe climatic conditions, where the Company produces oil, possibilities for housing renting are also highly limited. In this situation offering employees especially young ones an opportunity to acquire housing is important for creation of normal living conditions for employees and members of their families.

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The corporate mortgage program (CMP) for employees of the Company was launched in 2005, and was initially aimed only at young employees (not older than 33), working in the Company not less than two years. An employee receives from the Company for payment of the first installment for his / her flat a targeted interest-free loan at the rate of 35 % of the cost of his / her flat for 5 years. In case of conscientious work the Company may release an employee from repayment of such a credit. With regard to the remaining part of the amount a partner bank (one of subsidiary banks of the Company) issues to an employee a mortgage credit at a concessionary (in comparison with market rates) interest rate for a period of time up to 17 years.

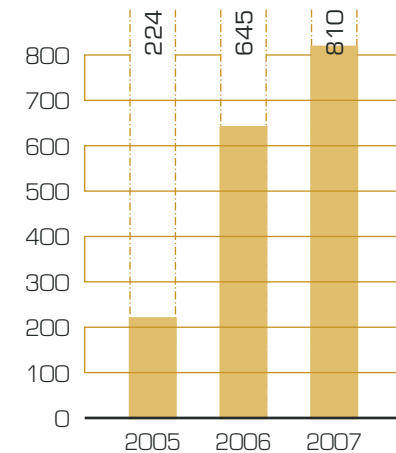
The decision concerning inclusion of an employee in CMP is made by the Commission on Mortgage Housing Crediting under the chairmanship of the First Vice-President of the Company. When deciding the question on granting the credit, the Commission takes into consideration recommendations of a subsidiary, where an employee works, his / her prospects.

In 2005, CMP covered 224 young employees of the Company.

In 2006, CMP became available for all employees, and employees not included in the category of young employees receive an interest free targeted credit at the of 25 % of the cost of a flat, a partner bank grants a credit with regard to the remaining part of the cost at the concessionary, however higher interest rate.

According to plans for 2007, mortgage housing will be acquired by 810 families of the Company employees, total expenses for targeted interest-free loans will amount to 652 million rubles, the amount of mortgage credits granted by banks – partners of the program will approximate to 1,4 bn rubles.

**Number of families who used the corporate mortgage program**



In connection with continuing deficit at the housing market in a number of the regions the Company is carrying out construction at its own expense. In 2006, in the regions of Siberia and Far East the Company commissioned 8,1 thousand square meters of housing floor space, in southern regions – Chechnya, Dagestan and Stavropolje – 6,6 thousand square meters of housing floor space. Plan for 2007 – 22,5 thousand square meters of housing floor space. In 2007, the Company completed construction and commissioned the 72nd apartment house in Usinsk with expenses approximated to 83 million rubles (000 RN–Severnaya Neft).

The Company continues construction, which was commenced in 2006 of:

- two apartment houses in Grozny with financial expenses to the total amount of 480 million rubles (OAO Grozneftegaz);
- a new house for 128 apartments in Gubkinsky allotting monetary funds in the amount of 150 million rubles (OOO RN-Purneftegaz).

Within the period of time from 2008 to 2011, the Company plans to annually construct up to 10 thousand square meters of housing floor space for its employees in various regions of Russia with financial expenses to the total amount approximating to about 1,6 bn rubles.

Within the framework of participation in the Federal Targeted Program Housing the Company participates in financing of construction of housing on Sakhalin in the localities Okha and Nogliki. Construction is performed jointly from funds of the Company and federal and local budgets. Totally, within the framework of the program oriented to 2004 – 2009, the Company plans to construct - 644 apartments, of which 220 apartments have already been constructed, including in 2006 – 42 apartments. These apartments are planned for removal of inhabitants of non-prospective settlements of Okha and Nogliki regions, damaged by earthquakes. A predominant part of moving inhabitants includes families of employees and pensioners of the Company.



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## Mortgage and housing programs in the regions of the Company presence

In OOO RN-Arkhangelsknefteproduct in 2006, within the framework of the program 4 people acquired apartments, in 2007 – 3 people, the target for 2008 – 5 people, of whom 2 – young employees. In 2007, the Company spent for corporate programs on provision of housing: 4,3 million rubles in the form of credits for employees; 8,6 million rubles in the form of mortgage credits of All-Russian Bank for Regional Development.

In 2005, a number of participants of the program in OOO RN-Sakhalinmorneftegaz reached 18 people, in 2006– 16 (of whom 13 were young employees), for 2007, it was planned to involve 10 new participants, of whom 7 are young employees. According to the Company plans, beginning from 2008, within the framework of the program 15 employees, of whom 12 are young employees will be provided with housing.

In 2005, in OOO RN – Komsomolsk Refinery 7 young employees obtained mortgage credits, in 2006 – 18 employees (including 12 young employees), the target for 2007 – totally 19 mortgage credits, including 13 – for young employees. In 2007, a number of employees expressed their wish to participate in the program was 24, in 2008, a number of employees wishing to participate in the program is expected to reach 26. Thus, the program begins to also perform a stimulating function – employees begin compete for an opportunity to take part in the program.

In 2005, a number of participants of the corporate mortgage program in OOO RN-Purneftegaz was 86 young employees, in 2006 – 154 employees (of whom 52 are young employees), the target for 2007 – 88 people (of whom 50 are young employees). Within the period of time from 2008 – 2011, the Company plans to >>



>> grant privileged mortgage credits to 55 – 65 young employees, which will make 70 – 80 % with respect to a number of annually employed graduates of higher education institutions. Taking into consideration historical poor housing conditions of any employees of the Company living in Gubkinsky and a complex situation at the local market of housing (families of many employees live in residential hotels), the Company performs in Gubkinsky housing construction to provide the most needy employees with apartments. In 2006, the Company constructed a 90-apartment house for young specialists. In 2007, the Company continued construction of 128-apartment house for employees allotting monetary funds to the amount of 150 million rubles. In 2005, 168 families of the Company employees improved their housing conditions, in 2006 – 335 families. For 2007, the Company plans to improve housing conditions for 343 families.

In 2005, a number of participants of the corporate mortgage program in OOO RN-Krasnodarneftegaz was 20 employees, in 2006 – 52, the target for 2007 is 35 people. For 2008 – 2011, the Company plans to provide housing for about 100 people. For implementation of the corporate mortgage program OOO RN-Yuganskneftegaz applies a scheme of individual share in construction of housing through the mortgage facility. By the time of introduction of the program in 2005, a number of people, who needed improvement of their housing conditions was 945, the mortgage credit was granted to 42 young employees. In 2006, mortgage credits were granted to 159 employees. For 2007, the Company plans to grant mortgage credits to 160 employees. This will make it possible to reduce a number of people, who need improvement of their housing conditions to 584. In future the Company plans to annually improve housing conditions for 200 employees.



### Corporate pension insurance and care of veterans

For creation of worthy material living conditions for pensioners of the Company upon termination of labor relations and enhancement of attractiveness of work, from 2004 the Company has launched a system of non-state pension insurance (NPI). The Company NPI provides for life-long payments of non-state pension in addition to state pension from funds of the Company. Non-State Pension Fund NEFTEGARANT included in the structure of the Company accumulates pension contributions, places pension reserves and pays pensions to pensioners of the Company. At this stage of development of the program pension payments are financed from contributions paid up in the fund by the Company and its subsidiaries. During its corporate pension reform, which was commenced in 2006 and is planned to be completed in 2010, employees of the Company also will be involved in accumulation of pension resources.



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Thus, **future pension insurance of employees will consist of three components:**

- labor pension;
- corporate accumulative non-state pension formed of the Company contributions;
- individual non-state pension formed of voluntary contributions of an employee in Non-State Pension Fund NEFTEGARANT.

In the long term, this will make it possible to bring the level of the total pension to 45–50 % of the amount of pre-retirement salary, which provides employees worthy living conditions after retirement.

Functioning of NPI system in the Company is regulated by the Standard **On non-state pension insurance of employees of Open Joint Stock Company Rosneft and its subsidiary (dependent) companies**. In accordance with NPI standard subsidiaries of the Company conclude relevant contracts with NPF Neftegarant. As of today NPF NEFTEGARANT concluded contracts with all oil producing, oil-refining, selling and other enterprises of Rosneft Oil Company. Any employee of Rosneft Oil Company is awarded non-state pension in accordance with the decision of NPF Commission of Rosneft Oil Company, and any employee of a subsidiary - in accordance with the decision of NPI Commission of the Company.

**Any employee, who by the time of his/her retirement has been working in the Company for at least five years has the right to corporate non-state pension.**

Currently, the Company applies three NPI schemes:

- for employees, retired before 2000;
- for employees, retired from 2000 till August 2006;
- for employees, retired after September 1, 2006.

According to the first scheme payments are effected to veterans of the Company within the framework of the project for social support of veterans. Initially, this project was planned for three years. However, taking into account great significance of the project for veterans of the Company, it was prolonged for three years more and is planned to be prolonged till 2012.

According to the other two schemes pension payments are life-long and differ in base level of payments. The final amount of non-state pension depends on the length of employee's service and his/her work contribution. Payments under all three schemes are subject to annual indexation subject to inflation rate. The average monthly amount of pensions for employees retired after September 1, 2006, approximates to 3 thousand rubles. The Company plans to bring the level of corporate pension 6 thousand rubles by 2011.

As of the beginning of 2006, a total number of veterans of the Company receiving corporate non-state pensions exceeded 13 thousand people. In 2006, the total amount of pension contributions of the Company subsidiaries in NPF NEFTEGARANT amounted to 1,2 bn rubles, in 2007, it will be increased to 1,7 bn rubles.

For stimulation of rejuvenation of the labor collective and alleviation of adaptation of employees after retirement from subsidiaries the Company pays a non-recurrent cash allowance to an employee provided that he/she retires in a year of attainment by him/her of pensionable age. Depending on the length of work at an enterprise (and a region), the amount of allowance varies from 100 thousand to 300 thousand rubles.

Taking care of veterans is the most important direction of the social work in all subsidiaries of the Company. In addition to payment of corporate non-state pension, pensioners preserve the right to use objects of social infrastructure of the Company on the equal basis with the employees. Veterans participate in corporate holidays. They are provided with regular material aid and free trip tickets for medical treatment and leisure. In 2006, enterprises of the Company allotted 66 million rubles for payment of trip tickets and medical treatment for veterans.

The system of non-state pension insurance of employees is not applied in assets newly acquired in 2007 (about 80 subsidiaries). It will be introduced by stages: in 2007, it will be introduced in 13 subsidiaries, in 2008 it will include over 20 subsidiaries. In 2009, it is planned to include newly acquired assets in the system of NPI of the Company Rosneft.



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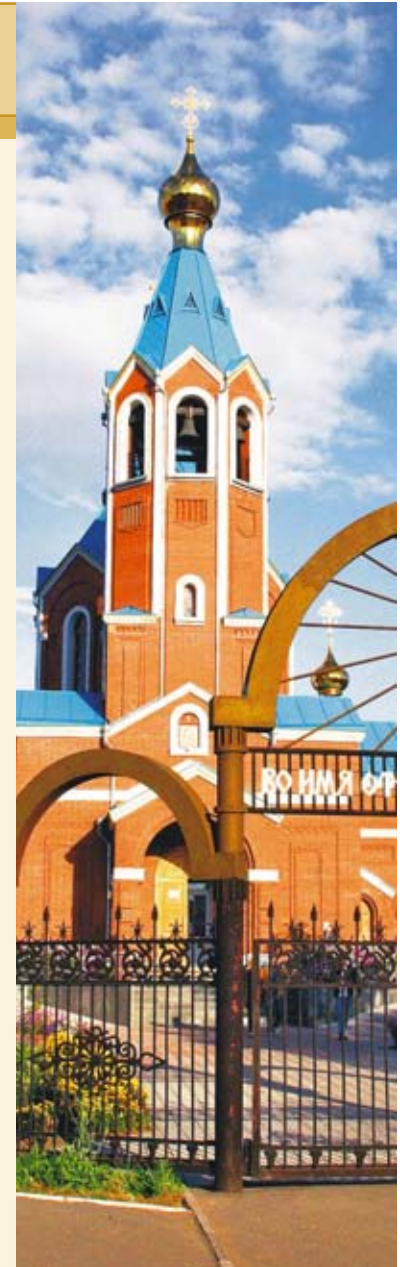
## Charitable Fund of OOO RN – Komsomolsk Refinery

OOO RN – Komsomolsk Refinery established Miloserdie Charity Fund in Komsomolsk-on-Amur. The objective of the charitable fund is to support veterans of the refinery, primarily those who are lonely, sick, disabled, low-income.

The fund is basically financed by the refinery, the contribution of which in 2006 mounted to 1,9 million rubles, charitable contributions of employees in the fund cash amounted to 429 thousand rubles. About 300 veterans are registered in the fund. Primarily the Fund renders assistance to pensioners suffering from oncological and other severe diseases, lying patients, who need care. The refinery provides monthly material aid for pensioners, whose pensions are less than 3 thousand rubles. On holidays the fund organizes charitable dinners, concerts for veterans and give them presents.

A council of the fund from among veterans of the refinery is in charge of distribution of the fund means.

Another important function of the fund in addition to material support of people being in tight situation is active attention to pensioners, organization of mutual aid, creation for them a circle of contacts and maintenance of relations between pensioners and the refinery collective. The fund attracts pensioners to active and healthy way of life. Pensioners visit the gymnasium of the refinery, have the right to use objects of social and household area and health unit of the refinery. Veterans of production participate in the work of the educational center. They actively participate in collection of exhibit for the refinery museum.



## Incentive of employees for their labor

The Company uses the following forms of labor incentives:

- entry of a record in the Honor Book;
- awarding of a certificate of honor;
- awarding of a letter of thanks;
- placement on the Honor Board.

For stimulation of its employees, who made a substantial contribution in development of the enterprise, enhancement of efficiency of production and quality of products, development and introduction of new technologies each subsidiary has the Honor Board. Placements on the Honor Board are made annually by the Day of Oil and Gas Industry in accordance with the decision of the Board of the Company. Employees, whose photos are placed on the Honor Board are paid cash consideration.

To give incentives to employees (workers, specialists, managers) of subsidiaries and the administrative staff the Company established the Honor Book. Names of employees, who worked not less than 15 years in the oil, oil-refining industry and the system of oil products supply, made a substantial contribution in development of these industries, development of labor productivity, improvement of quality and reduction of product cost, introduction of achievements of scientific and technical progress and have government and industry awards are entered in the Honor Book. In accordance with the decision of the Board an order is issued in the Company to enter names of employees in the Honor Book and to pay them in this connection of a gift of cash.



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## Development of personnel



### Personnel development policy

The policy in the area of personnel development is an important factor of the Company competitiveness in the longer term, maintenance of the Company capability to effectively adapt to quickly changing conditions of business conduct. Therefore, the Company pays much attention to all questions connected with selection of personnel, its training and raising its professional level, training of personnel reserve and career development of employees. This work is performed by personnel services of subsidiaries in close cooperation with the Personnel Department of the Company. The work is performed by the following directions:

- pre-institution education and vocational-oriented education of schoolchildren within the framework of the system of Rosneft Classes in the regions, where the Company performs its activity;
- cooperation with specialized high educational institutions and professional colleges aimed at improvement in quality of training of future employees, their attraction to production practice and involvement in solution of production tasks before graduation;
- adaptation and development of young specialists joined the Company through special programs on familiarization with the Company, institution of tutorship, trainings of personal growth, business games, scientific and technical conferences;

- stimulation of qualification growth through competitions of professional skill and learning of secondary skills;
- training of personnel in accordance with requirements of the Company in own training – course complexes and educational centers as well as in Russian and foreign institutions for re-training and raising of qualification;
- regular assessment and attestation of personnel to reveal and to liquidate weak points in training of employees and to form reserve for career development;
- training of personnel reserve.

In addition to meeting requirements of the Company in qualified and efficient employees the Personnel development system is aimed at retaining in the collective of the most talented and professional employees by means of offering them opportunities for career development with relevant raising the level of responsibility and material welfare.

Quality training and vocational-oriented education of schoolchildren through Rosneft Classes, active cooperation with specialized high education institutions and colleges, professional and developing corporate education form a basis for the system of continuous education of the Company personnel.

## Rosneft Classes

The basic form of pre-institution training of the most capable young people is organization of Rosneft Classes in the regions, where the Company performs its activity. The program of Rosneft Classes is primarily aimed at improvement in quality of general education and motivated occupational guidance of schoolchildren, their further education in specialized high education institutions and subsequent employment in the Company.

The work of Rosneft Classes is aimed at the following tasks:

- selection of the best graduates from the 9th grade and their further education under enhanced programs oriented at Physics/Math and Science cycles, facilitating entry in the institutes of high education specialized for the Company;
- vocational-oriented education of schoolchildren, their familiarization with oil production;
- positioning of the Company in the youth environment as an attractive employer making long – term investments in training of young employees.

Alongside with solution of tasks connected with training of future specialists of the Company, activity of Rosneft Classes also has a social component: raising the level of schoolchildren's training and the level

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[Rosneft Classes](#)

[Cooperation with institutions of high education and other professional education institutions](#)

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of school teachers' qualification in the regions, where the Company performs its activity the Company provides the level of their competitive capability at entry in institutions of high education.

Development of Rosneft Classes project began in 2006. Rosneft Classes are established on the basis of the best general education schools in the regions, where the Company enterprises locate. For this purpose a subsidiary, a school and a specialized institution of high education conclude a joint operation agreement. Rosneft Classes cover two last school years (10th – 11th classes). Enrollment in Rosneft Classes is based on a competitive selection among all schoolchildren filed applications. Selection is based on results of general progress of schoolchildren oriented to specialized subjects: physics, chemistry, mathematics and information technology. Training is conducted in classrooms, which are specially equipped and decorated in accordance with corporate requirements. In addition to a standard school course and in-depth study of subjects of naturally - scientific cycle, special courses in economics, management, corporate ethics, specialized competences, planning of career for students of Rosneft Classes are read, game trainings are held. Best teachers are attracted to work in Rosneft Classes: the Company organizes for them courses for raising qualification, including in skills of vocational-oriented education. Studies in specialized subjects are conducted involving teachers of a specialized institution of high education participating in the program.

Training process is supplemented by excursions to enterprises of the Company, meetings with famous oilmen, young specialists of the Company, familiarization with business – processes of the oil production. Training load of students of Rosneft Classes considerably exceeds that of their age mates from ordinary classes, though the quality of knowledge and skills is also considerably high.

Based on results of the survey conducted among graduates from Rosneft Classes in Nefteyugansk, vocational-oriented measures have their results: over 60 % of graduates stated their intention to enter in institutions of high education according to the Company specialization.

In 2006, the Company had 13 Rosneft Classes, including:

8 classes in Nefteyugansk, Pit-Yaha, Pojkovsky (under a contract with OOO RN-Yuganskneftegaz), as well as in Gubkinsky (OOO RN-Purneftegaz), Usinsk (OOO RN – Severnaya Neft), Okha (OOO RN-Sakhalinmorneftegaz), Slavyansk-on-Kuban (OOO RN-Krasnodarneftegaz), Neftekumsk (OOO RN-Stavropolneftegaz). In 2007, it is planned to increase a number of Rosneft Classes to 34.



## Cooperation with institutions of high education and other professional education institutions

The Company or its subsidiaries concluded long – term cooperation agreements with a number of institutions of high education providing good training for students in specialized professions. Partnership has two statuses: basic partner institutions of high education (cooperation agreements with them are concluded by Rosneft Oil Company) and regional partner institutions of high education, cooperation agreements with which are concluded by subsidiaries. The objective of the cooperation for the Company is to raise the level of professional training of students and to have an opportunity to select most capable and hard-working young people for work in the Company.

| Basic partner institutions of high education – partners of the Company | Regional partner institutions of high education                        |
|--|--|
| <b>Gubkin Russian State University of Oil and Gas</b>                  | Sakhalin State University  |
| <b>Lomonosov Moscow State University</b>                               | Ukhta State Technical University                                       |
| <b>Moscow Physics and Technology Institute</b>                         | Tyumen University of Petroleum   |
| <b>Moscow State Institute for International Relations</b>              | Kuban State University of Technology                                   |
| <b>St. Petersburg State Mining University</b>                          | North-Caucasian State University of Technology                         |
| <b>Ufa State Technical Petroleum University</b>                        | Samara State University of Technology                                  |
|  | Tomsk Vocational School  |
|  | Grozny State Institute of Petroleum by Academician M.D. Millionschikov |
|  | Dagestan State Technical University                                    |
|  | Irkutsk Vocational School  |
|  | Angara State Technical Academy   |
|  | Krasnoyarsk Technical University                                       |
|  | Udmurt State University  |



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Within the framework of the cooperation the Company renders sponsor assistance to a partner institution of high education in equipment of laboratories, acquisition of modern training means and materials necessary for organization of quality educational process. The Company organizes for teachers of partner institutions of high education practical trainings and trainee jobs with visits to subsidiary enterprises, familiarizes them with modern realities of work in an oil company, which positively influences on the quality of students education. Teachers and employees of institutions of high education participate on the basis of an economic contract in research and project works in interests of the Company.



Some employees of the Company read special courses in partner institutions of high education, work in examination commissions. Employees of the Company hold in institutions of high education Days of Rosneft – visiting events, during which they tell students about the history of the Company, prospects of its development and the personnel policy. For development of students' skills in management activity and identification of the most capable students the Company organizes business games. In 2006, a business game Vertically Integrated Oil Company was conducted in Ufa University in 2006. During this game students participated in management of an oil company applying special software. Based on results of the game the Company determined fellowship holders. The Company has such fellowship holders in all partner institutions of higher education – they are 5 – 8 students selected by the Company by criteria of progress in studies, active life position, involvement in projects of the Company. Students, who did justice to themselves, are invited in the Company for production and pre-diploma traineeship. The Company offers an opportunity for the most advanced and talented students to par-

ticipate in work through long-term trainee jobs. Students of senior courses of the Moscow State University and Moscow Physics and Technology Institute are attracted to research and design work in the corporate scientific and technical center. The work is organized in such a way that it can be combined with studies, and future employees obtain valuable experience of practical work and knowledge on the Company, learn requirements and adapt to them. Students of partner institutions of higher education actively participate in scientific and technical conferences held by the Company. It's a prime example that in 2006 two of 17 students, who participated in the conference took prize places.



### **Chair of Rosneft Oil Company in Moscow State Institute for International Relations**

In 2006, Rosneft Oil Company concluded with Moscow State Institute for International Relations (MSIIR) and International Institute of Energy Policy and Diplomacy acting within its framework a strategic partnership. The agreement provides for cooperation on a number of directions, including joint study of problems, actual for the Russian oil and gas sector, as well as opening on the basis of the institute chair Global energy policy and energy preparedness. Head of the chair is the President of the Company S.M. Bogdanchikov. He reads lectures and participates in work of the examination commission, manages scientific work of postgraduates. Lecturers of the chair are employees of Rosneft, having academic degrees. Candidates for a master's degree are involved in the Company work. They prepare their course and diploma works participating in projects being of practical interest for the Company. Similar forms of cooperation exist between the Company and Moscow State University and Moscow Physics and Technology Institute. These institutions also have groups of magistracy students involved in work in the Company, and employees of the Company actively participate in teaching.

For best tutorial work teachers of partner institutions of higher education receive from the Company non-recurrent grants: in 2006 each of three best teachers was paid 30 thousand rubles. From 2007, grants will also be paid to teachers, whose scientific work meets interests of the Company.

Annually subsidiaries of the Company admit to production traineeship a considerable number of students of the second, third and first courses. This makes it possible to select on a competitive basis young specialists, who are most eligible for future work in the Company.

In 2006, the Company employed about 800 young specialists.

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## Cooperation of OOO RN – Komsomolsk Refinery with Komsomolsk-on-Amur State Technical University

Specialists in professions required by OOO RN – Komsomolsk Refinery are trained by quite a number of institutions of high education located in large cities of the European part of Russia and Siberia.

However after completion of their study in a large city young people do not tend to move to Komsomolsk-on-Amur considering it to be an insufficiently attractive place.

This situation pushed the Company to development of cooperation with local Komsomolsk-on-Amur State Technical University (KnASTU).

Taking into consideration requirements of the Company in specialists of certain profile from 2003 Komsomolsk-on-Amur State Technical University introduced training in professions required for the enterprise: chemical technology of reprocessing of fuels and carbonaceous materials and oil and gas processing equipment.

This makes it possible to provide the enterprise with local highly-qualified personnel. Annually, over 80 students of Komsomolsk-on-Amur State Technical University pass production practice at the refinery.

The Company stimulates employees, who get high and extended education. Employees getting in-service education and postgraduate study by the refinery profile are paid remuneration and granted educational leaves.



## Cooperation of OOO RN – Severnaya Neft with educational institutions

For provision of fast developing business of the Company with personnel OOO RN – Severnaya Neft pays substantial attention to vocational-oriented work at schools and cooperation with professional colleges and institutions of high education. The Company is aimed at building the system of continuous education - school – institution of high education – enterprise. Basic directions of this work include the following:

- pre-institution training (Rosneft Classes, school preparatory faculties);
- cooperation with professional colleges and institutions of high education: Ukhta State Technical University (USTU) and Usinsk Polytechnical Training College.

Based on Usinsk school № 3, OOO RN – Severnaya Neft established Rosneft-class, in which 23 people entered following the results of competitive selection. In addition to learning of major subjects schoolchildren are getting vocational-oriented education: they are familiarized with oil production (both in classes and at the enterprise). In October 2006, students of Rosneft-class went on an excursion to workshops of crude oil pretreatment, processing and sales and to a laboratory of physical and chemical studies. Specialists of Ukhta State Technical University are attracted to teaching profile subjects. Young specialists of the Company also participate in vocational-oriented education of schoolchildren. The Company forms a database of school leavers continued their education in basic institutions of high education.

Within the framework of cooperation with Usinsk Polytechnical Training College, OOO RN – Severnaya Neft renders assistance in repair and modern equipment of college premises, establishment and development of training and production facilities, including and acquisition of special simulators to train specialists in the oil and gas sector. Within the framework of cooperation the college trains specialists required by the Company and the latter admits college students to practical training. The Company also uses capabilities of the college for additional training of workers in the following directions: re-training, training of workers in secondary (combined) professions, raising of workers' qualification, designated purpose courses, etc.

In accordance with the cooperation agreement, Ukhta State Technical University and the Company are jointly involved in development and implementation of education programs on special disciplines. Representatives of OOO RN – Severnaya Neft participate in work of the Guardianship Board of the University. Specialists of the Company carry out various events with students, >>



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>> participate in their practical training and attestation. OOO RN – Severnaya Neft invites the most capable students to practice. After that the best of them are offered an opportunity to work in the Company.

**Attraction of students from Ukhta State Technical University and other institutions of high education to work in OOO RN – Severnaya Neft**

|                                | 2004 | 2005 | 2006 | 2007 (target) |
|--------------------------------|------|------|------|---------------|
| <b>Admitted to practice</b>    | 20   | 41   | 20   | 25            |
| <b>Employed in the Company</b> | 3    | 5    | 5    | 10            |

**Adaptation and training of young specialists**

The work with young specialists is performed within three years after graduation of the University. Basic objectives of this work are – provision of optimal terms for adaptation of young specialists to efficient implementation of production tasks and creation of conditions for professional development and growth of young specialists.

**The work with young specialists provides for:**

- traineeship;
- institution of tutorship;
- individual development plan;
- scientific and technical conference;
- training program;
- social assistance;
- identification of employees with high potential.



**The Company also provides for social support of young specialists, including:**

- non-recurrent cash allowances for nonresident specialists;
- establishment of an increment for young specialists passing traineeship as workers;
- provision of places in residential hotels or compensation equal to 50% of the cost of rental in the lack of housing;
- payment of places in preschool institutions for children of young specialists at the expense of the Company;
- participation of young specialists included in personnel reserve within the framework of mortgage crediting.

## Institution of tutorship

Institution of tutorship provides quality and efficient adaptation of employed young specialists, assists in formation of an individual development plan for professional development and career development in the Company.

Trainers are selected from among highly qualified employees with high education and the length of service in trade for at least five years. Each trainer may have no more than two young specialists - trainees, a trainer must work with on an individual basis.

According to recommendations of the personnel service a trainer and a young specialist draw up an individual development plan for an year.

An individual development plan includes group and individual measures.

In particular it includes:

- passing traineeship in various structures in organization departments of the subsidiary;
- participation in programs of professional - technical and management education;
- trainings, seminars and other types of qualification raising;
- unrestricted work with professional literature;
- preparation of and participation in scientific and technical conference (the second and third years);
- preparation for defense of annual traineeship (the first year).

At the end of the year upon termination of the traineeship program a young specialist and a trainer defends its results at a session of a special commission. Based on results of the defense and recommendations of the commission a trainer and a young specialist jointly draw up an individual plan for the next year.



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A trainer controls qualification, career and professional growth of a young specialist, lends support, helps to make timely corrections in the development plan. Due to this fact a young specialist obtains experience and skills necessary for proper work within a shorter period of time.

In some subsidiaries, for example, in OOO RN-Yuganskneftegaz, within the framework of the adaptation program each young specialist shall work within a specified period of time in the capacity of a worker; see basic production processes in practice, and work within this period of time in various organizational departments.

### Boards of young specialists

For more successful integration of young specialists and identification of requirements enterprises of the Company organize boards of young specialists. Such a board is organized in a subsidiary if a number of young specialists exceed 12. The scope of the board tasks includes strengthening of professional and friendly relations among young specialists, assistance in adaptation and retaining young specialists in the Company, provision of efficient communication between the management of the subsidiary and a young specialist both on professional and social questions, preparation for holding of scientific and technical conferences.

### Scientific and technical conferences

Annually subsidiaries of the Company hold scientific and technical conferences of young specialists, winners of which take part in the Interregional scientific and technical conference of the Company. Preparation and defense of the project at the conference is an important component element of the individual development plan of a young employee. Young specialists of the second and third years of work in the Company must obligatory participate in the conference. The conference is held by the following sections:

- Geology and exploitation;
- Drilling, technology of oil and gas production, power engineering, service maintenance;
- Technology of oil production and oil products supply;
- Economy, jurisprudence, labor; personnel, finances;
- Information technologies, communication, metrology and environment.

Projects are estimated by a special commission consisting of representatives of the Company management and experienced specialists. Based on results of the conference winners as well as their research managers obtain cash prizes: for the first place – 90 thousand rubles, for the second place – 60 thousand rubles, for the third place – 30 thousand rubles.



### Work with young specialists in OAO Kubanefteproduct

To reduce fluctuation of personnel among young people OAO Kubanefteproduct found its approaches to motivation of young specialists. The stress was laid on active involvement of young employees in raising their qualification level and scientific and technical work. Traditional conferences of young specialists and regular seminars, at which they present their reports turned to become an important stimulus for raising educational and professional level of the youth. Each year, a scientific council consisting of competent specialists of the enterprise draws up a list of themes for research in one or another branch (economics, marketing, etc.). A seminar participant shall choose one of the themes for his/her report. The second theme shall be chosen by a participant at his/her own discretion in accordance

with professional interests. This system raises the general level of training of young specialists and affords an opportunity for all employees to familiarize themselves with key technology processes at the enterprise. Participants of the conference, whose reports are recognized to be the best are encouraged (cash bonuses, merit certificates, publications). Results of serious scientific work with young personnel in OAO Kubanefteproduct were the first and the third places won at the Interregional conference of young specialists of Rosneft Oil Company in 2007. Young specialists are actively attracted to participation in the conference and seminars - managers of the enterprise participate in them: the age of the chief engineer is 27 years old, the age of the General Director for Personnel is 33 years old.

Active involvement of the youth in corporate sporting events contributes to good moral - psychological atmosphere in OAO Kubanefteproduct. In addition to the general corporate Olympics, OAO Kubanefteproduct developed its own forms of tournaments. The Company cooperates with the strongest faculties of Kuban Technological University – application mathematics and economics. The management of OAO Kubanefteproduct participates in examination commissions of Kuban Technological University, which makes it possible to see students in work and to invite the most talented of them to work in OAO Kubanefteproduct.

### Corporate training

The Company considers the corporate training of personnel as long – term investments in human capital resulting in steady growth of efficiency. Due to the corporate training employees acquire not only necessary professional knowledge. Their adherence to the Company and capability to perceive changes is also growing. In 2006, The Company elaborated development programs, including individual trainings and strategic management programs and are currently implementing them. The Company continued implementation of the corporate business – administration program elaborated in 2005 (MBA)





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International Business in Oil and Gas Industry on the basis of the School of International Business of International Institute for Energy Policy and Diplomacy (IIEPD) of Moscow State Institute for International Relations of the Russian Federation and Norwegian Business School (Bodo Graduate School of Business). Within the framework of this program 19 employees raised their qualification. 4 managers completed their training under MBA program in Stockholm School of Economics (SSE).

Programs on raising qualification, including jointly with leading Russian and foreign centers of professional re-training and business – schools are elaborated to train managers and specialists of the Company. Annually the Personnel Department of the Company brings an expanding list of programs to notice of subsidiaries and collects their applications for participation in these programs. As the need arises in training, which cannot be provided by a subsidiary the Central Company selects a relevant program or organizes its elaboration.

A number of people taught at training courses of the Company in 2006 amounted to 20,9 thousand people, having increased by over than 20 % in comparison with the previous year. Expenses for training of personnel in 2006 reached 163,8 million rubles, which three times exceed the level of 2004. Within the year, 45 % of managers, almost two thirds of specialists and about one fourth of the total number of the Company employees received their training. A predominant part (81%) of employees completed their training falls to a share of compulsory technical training. However, a share of this type of training tends to reduction due to growth in shares of management and corporate scientific and technical training.

Scales of personnel training are so that many subsidiaries have their own training – course canters providing a substantial part of training. Very often these training centers (such for example as in Nefteyugansk) render payable educational services to other regional enterprises and organizations.

**Number of persons completed their training at training courses**

| Type of training  | 2004   | 2005   | 2006   |
|---|--------|--------|--------|
| <b>Management training, number of persons</b>                         | 178    | 361    | 580    |
| <b>Corporate professional – technical training, number of persons</b> | 336    | 2367   | 3379   |
| <b>Compulsory technical training, number of persons</b>               | 10 471 | 14 584 | 17 004 |
| <b>Total, number of persons</b>                                       | 10 985 | 17 312 | 20 963 |

The table represents allocation of costs on each category of employees for 2005 and 2006

| Training of personnel in 2006  | Managers | Specialists | Workers | Total of personnel |
|--|----------|-------------|---------|--------------------|
| All types of training, number of persons                                   | 2803     | 7985        | 10 175  | 20 963             |
| Training expenses of the Company for one trained employee, thousand rubles | 12,1     | 8,3         | 3,2     | 7,8                |

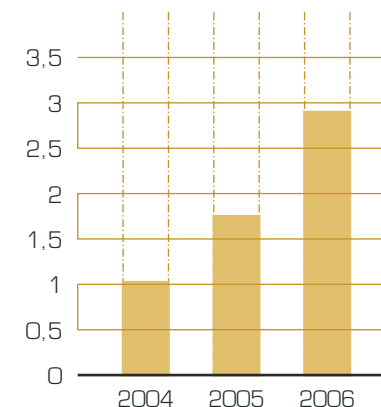
| Training of personnel in 2005  | Managers | Specialists | Workers | Total of personnel |
|--|----------|-------------|---------|--------------------|
| All types of training, number of persons                                   | 1877     | 5906        | 9529    | 17 312             |
| Training expenses of the Company for one trained employee, thousand rubles | 9,9      | 8,5         | 2,8     | 5,5                |



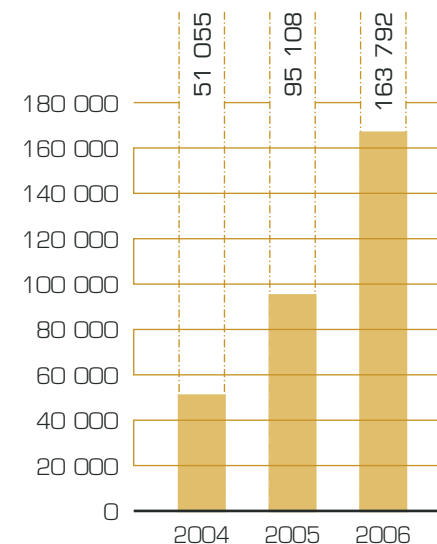
#### Training – production center of OOO RN-Krasnodarneftegaz

OOO RN-Krasnodarneftegaz faced a problem connected with lack of qualified personnel on Krasnodar Territory. Closure of a number of training colleges negatively affected the level of training of new employees of the Company. The second reason for establishment of its own training center is the necessity to train employees of OOO RN-Krasnodarneftegaz in allied professions, which makes it possible to optimize a number of employees in conditions of necessity to operate a large stock of low-debit wells, intensive development of personnel through raising qualification and additional training in allied professions. The training center is located on the basis of OOO RN-Krasnodarneftegaz and involved in raising qualification of employees up to 5 – 6th grade.

Training expenses for each employee, thousand rubles



Total expenses for training of Rosneft Oil Company personnel, thousand rubles



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## Training of personnel for prospective shelf projects in ZAO Sakhalin Projects

Development of shelf projects on Sakhalin island is one of strategic directions of the Company. Fields on Sakhalin are developed by Rosneft Oil Company jointly with international companies by means of establishment of operating companies (operators). Shelf operations require modern technologies and qualified personnel. Interests of the Company in shelf projects are represented by ZAO Sakhalin Projects, which performs all preparatory works connected with launching of new projects, attracting foreign companies having experience in similar works. Training of personnel is a key element in implementation of the project. The Company developed a technology for training specialists at the level of international standards and requirements. Thus, the Company creates its own reserve of professional highly qualified employees acting as an incubator of specialists for operating companies. The Company may subsequently use experience of these specialists in its activity.

Currently, Sakhalin Projects have 2 790 specialists, of whom 47 % have secondary education, doctors and candidates of Science. This collective includes top executives (general directors, deputies general directors of production companies, chief engineers of oil-producing enterprises, managers of drilling structures) together with young specialists at the age up to 30 years old.

In 2006, each second employee of Sakhalin Projects completed their training. The Company at its own discretion selects centers for training specialists. Some specialists take training in companies of its foreign partners since the latter are interested in highly qualified young specialists. Thus, a unique collective of highly qualified specialists processing foreign technologies of shelf operations is formed.

Sakhalin Projects have unique experience in the area of personnel management.

- Social package and labor remuneration system competitive with foreign companies in attraction of employees approved by the parent company.
- Individual personnel training system – an individual training plan is designed with each employee.
- Special tutorship system.
- A unique scheme of personnel rotation in operating companies.
- A system for training of specialists is built in such a way that each specialist undergoes trainings at least once in two years. This is especially important for geologists, drillers, managers.

## Assessment and attestation of personnel

The Company and its subsidiaries introduce modern methods for assessment of technical and managerial competences and personality traits of employees. Assessment is made at selection of candidates to vacant positions at job appointment, assignment in personnel reserve, attestation of personnel, regularly conducted by all subsidiaries of the Company for managers and specialists. Programmed assessment is widely applied at elaboration of individual development plans for young specialists and employees assigned in personnel reserve. The Personnel Department of the Company prepares methodic materials on assessment technologies, pools and spreads experience accumulated in subsidiaries.

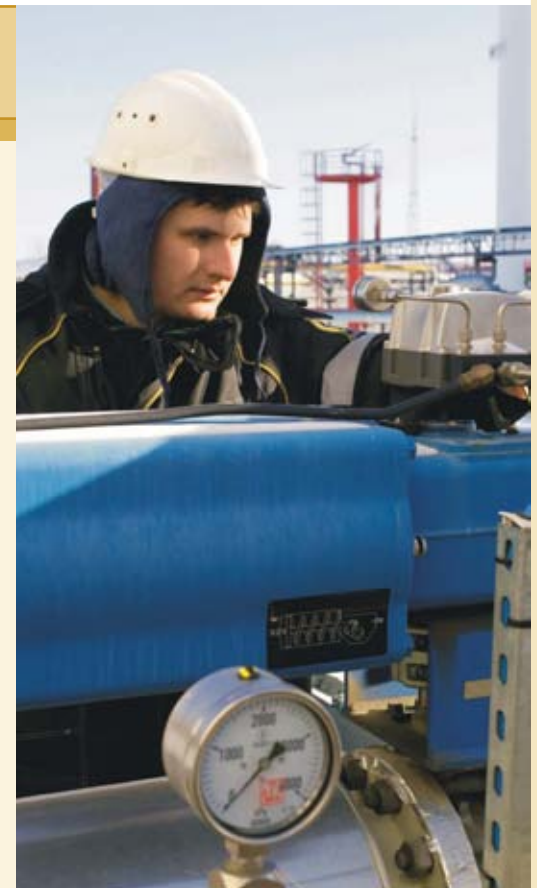
### Experience of personnel attestation in OOO RN – Komsomolsk Refinery

In 2004 – 2005, OOO RN – Komsomolsk Refinery conducted attestation of managers, specialists and executives. As a result:

- 71 % of employees were attested for adequacy for positions occupied by them;
- 25 % employees were attested for adequacy for positions occupied by them and recommended by the attestation commission for assignment in personnel reserve;
- 4 % employees were attested for adequacy for positions occupied conventionally – on condition of improvement of work and repeated attestation in six months.

Based on practice of preparation and conducting of attestation, results of employees' assessment based on tight programmed methods considerably differ from assessments of employees, data of managers of organizational departments. Programmed assessment of personnel provides more complete and objective information on a specialist. Therefore, it was decided to introduce from 2006 programmed assessment of personnel for systems thinking and personal business qualities at selection in personnel reserve and appointment to a new position.

In 2007, OOO RN – Komsomolsk Refinery planned attestation of 28 % of managers, specialists and executives of the refinery.



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## Professional skill competitions

### Competition Best professional

The Company holds a competition for professional skill of employees in basic areas of activity. Annually at competitions subsidiaries identify winners, who represent subsidiaries first at the regional and then at the general corporate competition. At each selective stage winners receive valuable gifts and incentive prizes. Basic objectives of the Company in holding of competitions are as follows:

- identification and stimulation of productive labor of employees;
- heightening of employees' interest in improvement of their professional skills;
- education of creative attitude to labor;
- study and spread of advanced experience and production standards.

Basic producing subsidiaries of the Company participate in the competition. The competition is held in 12 nominations, including the nomination Best team.

In addition to general corporate competitions many subsidiaries also hold their own internal competitions at the level of production facilities, workshops and teams in the following directions:

- Labor protection and industrial safety;
- High production standards;
- Best production section.

Winners and awardees of competitions are awarded valuable gifts and cash prizes.

## Development of corporate culture

Corporate culture plays an important role in creation in the Company labor collectives of atmosphere of respect and confidence, sense of involvement in affairs of the Company, pride for the Company. In three recent years the Company has been considerably expanded. Large labor collectives with their traditions were admitted in the Company structure. Therefore, at the current stage of development it is important to develop and to introduce a system of corporate standards and valuables, which would serve as a uniting factor for the Company, maintain its strategy of development and establish certain rules of game both at formation of relations inside the Company and in interaction with outside counteragents.

The first steps in this directions have already been made: in 2006, the Company conducted a representative social study of the Company employees, their assessment of the atmosphere in labor collectives, the level of internal corporate communications, strong and weak points of the Company management style. A number of problem points have already been revealed, and measures are taken for introduction of norms, which will improve the situation. The Company has developed and is currently implementing the standard of internal communications in the Company to provide information awareness of employees concerning important events in their subsidiaries and the Company on the whole, as well as feed-back communication from employees on various processes in the Company. On October 1, 2007, the Company opened a corporate museum exhibiting its past, present and future.

The nearest plans for development of the corporate structure include:

- completion of development and adoption of the corporate ethics code establishing the system of corporate valuables and norms;
- implementation of the standard of internal communications in all subsidiaries;
- development of the corporate logo standard;
- annual preparation of a report on sustainable development of the Company according to international standards, containing systematized information on socially important aspects of the Company activity;
- establishment of affiliates of the corporate museum in subsidiaries acting in basic regions of the Company presence.

The Company plans to conduct annual complex social study of the level of personnel satisfaction, corporate structure and internal communications beginning from 2008. This study is an important element of feed-back communication in the system of internal communications.



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## Improvement of working conditions and improvement of personnel health



The majority of producing enterprises of the Company locate in the regions with severe climatic conditions. Difficult conditions, in which oilmen work require serious attention to problems concerning working conditions. Taking into account the fact that a considerable part of employees from the largest producing enterprises work on a rotational basis, condition of residential hotels in field camps and sanitary - living conditions in them have a profound impact on the state of health and, as a consequence, on working capacity of employees.

For improvement of health of its employees the Company purposefully pursues a policy for development of a package of therapeutic measures including:

- holding of annual medical inspections;
- analysis of seeds of employees' diseases and implementation of specific prevention measures;
- annual quality vaccine treatment;
- organization of health resort-resort treatment;
- voluntary health insurance;
- healthy lifestyle promotion, arrangement of conditions for going in for sports;
- arrangement of comfortable sanitary - living conditions at working places.

In 2006, general expenses of the Company for social programs, a considerable share in which falls on expenses for arrangement of field camps, increased by 10% reaching 1,3 bn. rubles in comparison with 2005, and based on performance of 2007 this amount has practically doubled.

The Company developed a program on protection of health primarily aimed at decreasing the sickness rate in the Company (on a per 100 people basis) by 2012 at least by 30% of the rate of 2006 due to active development of preventive treatment, stimulation of healthy life-style, development of sport. The general expenses of the Company (including new assets) for the period from 2008 to 2012 for implementation of the health improvement program will exceed 6 bn. rubles.

Voluntary health insurance

Privileged trip tickets to health resorts and rest homes

Improvement of living conditions in field camps

Support of corporate sporting events

|  | 2005 | 2006 | 2007 (target) |
|--|------|------|---------------|
| <b>Expenses of the Company for social programs, bn. rubles</b> | 4,3  | 7,6  | 16,9          |
| <b>Payments and benefits of employees, million rubles</b>      | 676  | 744  | >1000         |

### Reference: Social/living conditions in OOO RN-Tuapsenefteproduct

The annual volume of operations on transshipment of oil products in OOO RN-Tuapsenefteproduct amounts to 10 million tons. Currently, OOO RN-Tuapsenefteproduct operates in accordance with the Complex Targeted Program on Enterprise Development elaborated till 2014 and providing for complete reconstruction and increase in volumes of transshipment of oil products to 17 million tons per annum. In formation of positive moral- psychological climate at the enterprise a positive role is played by Social/living conditions of work, the management of the enterprise pays increased attention to. In recent years OOO RN-Tuapsenefteproduct performed all-inclusive reconstruction of the whole Social/living complex. Three times OOO RN-Tuapsenefteproduct became a prize winner of the All-Russian Competition Enterprise of high social responsibility. The subsidiary established a comfortable health unit equipped with modern medical - diagnostic equipment. All employees of the enterprise are daily provided with qualified medical aid. The enterprise has physiotherapeutic, procedural, massage, functional diagnostics rooms and dental laboratory, a renewed gym equipped with a cinder track, exercise and modern facilities.





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## Voluntary health insurance

On the whole in the Company about 50% of employees, including all employees of OOO RN-Yuganskneftegaz and OOO RN-Purneftegaz have policies of voluntary health insurance (VHI). Subsidiaries conclude VHI contracts with local medical institutions. Various degree of provision of employees with this benefit is conditioned by the fact that it may not be provided on all territories, where enterprises of the Company locate.

In comparison with 2005, in 2006, expenses of the Company for VHI increased by 18%. According to plans, by 2012, average expenses for VHI per one employee will increase by 30%.

### Expenses for health improvement and leisure, million rubles

|   | 2004 | 2005 | 2006 |
|---|------|------|------|
| <b>Expenses for VHI</b>                               | 86   | 97,3 | 93,8 |
| <b>Compensation of expenses for medical treatment</b> | 5    | 7    | 1    |
| <b>Privileged trip tickets</b>                        | 100  | 148  | 127  |
| <b>TOTAL</b>  | 191  | 266  | 259  |
| <b>TOTAL per one employee, thousand rubles</b>        | 3,2  | 4,9  | 4,2  |

## Privileged trip tickets to health resorts and rest homes

In accordance with conditions of collective contracts the Company provide employees with free and privileged trip tickets to health resorts and rest homes. In 2006, relevant expenses slightly reduced in comparison with the previous year and amounted to 4,2 thousand rubles per one employee.

This benefit is used more widely by employees of RN-Yuganskneftegaz, where in 2006, each fourth employee received either free or privileged trip ticket. In 2007, this benefit is expected to be used by about 30 000 people. In 2008, it is planned to increase a number of privileged trip tickets not less than by 1 500 ones.

In addition to privileged trip tickets once in 2 years the Company pays employees and non-working members of their families leisure return fare.

## Improvement of living conditions in field camps

Currently, about 8 thousand employees of the Company work on a rotational basis, primarily in the largest producing subsidiaries – OOO RN-Yuganskneftegaz, RN-Purneftegaz and RN-Severnaya Neft. Field camps of the Company are located in a cold climatic region, which differs in its sharp continental climate with severe and long winter and short summer. In future the Company plans to apply rotating scheme on new fields, where natural conditions, inaccessibility and remoteness from existing cities dictate inexpediency to develop social area and to construct camps for permanent residence, in particular, on Vankor field.

The Company worked out a standard for equipment of field camps considering advanced experience of Russian and foreign companies. In accordance with the standard all buildings are designed based on standard 6 square meters per man. A premise shall have a locker-room, an eating room, a rest-room, a shower, a newspaper file, a bulletin board. Construction is based on a module scheme, modules are designed for 50 and 150 people. For reduction of construction terms and decrease of a module assortment it is proposed to use unified construction modules. For reduction of energy losses and improvement of housing and living conditions the Company plans blocking of housing – living and administrative - household modules, makes allowance for application of a flow-line conveyer method at construction of field camps, for repeated assembly and disassembly of individual modular units in case of relocation of buildings.



In 2005, the Company commenced intensive work to bring existing field camps to the corporate standard. In 2005 – 2006, the Company performed works on construction of rotational hostels on fields of OAO Oil Company Rosneft-Purneftegaz, OAO Severnaya Neft, construction of new field camps in Purneftegaz and equipment of existing field camps in OAO Yuganskneftegaz and OAO Severnaya Neft. The Company improved housing and living conditions on objects of OOO RN-Krasnodarneftegaz.

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When locating and reconstructing field camps the Company pays much attention to environment protection measures:

- location of sewage disposal plants from the downwind side towards housing development
- windrowing around diesel storage tanks
- sewerage of contaminated production and household effluents subject to subsequent purification through treatment system
- strengthening of embankment slopes by means of sowing of permanent grasses subject to preliminary cladding by peat-sand mixture or fertile subsoil
- enclosure of the housing area to prevent penetration of animals in the territory of a field camp
- removal of construction waste, arrangement of grass-plats, planting of trees and bushes upon completion of construction
- regeneration of plots of felled forest.

## Upgrade of field camps in OOO RN-Purneftegaz.

OOO RN-Purneftegaz is implementing a long – term program on Upgrade of field camps on the Company fields. Totally on its balance the enterprise has 117 residential hotels and 26 field camps. Constructors require at least 4 - 5 years for implementation of programs on Upgrade of field camps. The program provides for removal from 15 fields of the Company of 114 small residential hotels and to construct instead 14 large capital buildings. Implementation of the program will result in removal of the entire slum housing stock, optimization of location and number of field camps (their number will reach 11), change in the quality of life in field camps. Old residential hotels had a corridor system. In new residential hotels all rooms have an individual toilet. Each room is designed for two persons. A residential hotel has a rest-room and a set of satellite television with an eating house located nearby. The enterprise has already liquidated 6 residential hotels and has built two new ones on Barsukov and Tarasov fields. In 2007, OOO RN-Purneftegaz will construct a new residential hotel on Kharampur field.

For Tarasov group of fields OOO RN-Purneftegaz elaborated a program on reduction of time for eating due to exclusion of a transport component to the eating house and back. Currently the eating house will provide thermos bottles – 2 thermos bottles for each employee. This will extend working time – previously employees needed 1 hour to get to the eating house and 1 to get hour back.

Due to enlargement of field camps the enterprise will be also capable to cut down expenses for rotational transportation and payment of the land tax since a part of the territory will be vacated.



## Support of corporate sporting events

The Company maintains adherence of employees to healthy life-style, physical culture and sport – this lays firm foundation for splendid health and productive labor. In all regions the Company pays attention to creation of conditions for going for sports – leases for employees sports halls, sports grounds, swimming pools. Conditions for athletics are also created in majority of field camps. The Company makes active investments in construction and repair of sporting facilities in the regions of presence, involving in healthy life-style not only its employees and members of their families, but also local population.

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All subsidiaries hold corporate championships in sport games. For attraction of more employees to sports the Company holds annual Olympics. Active popularization and support for development of sports, including childish – youthful sports in the regions of presence are facilitated by sponsor support of the Company provided for athletic clubs and schools, as well as financing of local sporting events.

### Corporate Olympics of Rosneft Oil Company

Within the framework of Olympics the Company holds sporting events both in individual and group types of sport. The program includes:

- mini - football;
- volleyball;
- basketball;
- table tennis;
- chess;
- tug-of-war;
- weightlifting sport;
- field-and-track relay race.



The corporate Olympics are held in two rounds. The first round includes regional competitions, the second tour team – winners of the regional round compete for the title of a winner of the corporate Olympics of Rosneft Oil Company. The Olympics are held annually on the basis of one of subsidiaries of the Company. Personal participation of the Company President in competitions makes the Olympics more popular.





The Olympics are widely covered by local mass media, the corporate newspaper. Winners receive cups and diplomas.

About 11 thousand employees of the Company (in 2006, the total number of employees amounted to 6 thousand people) took part at all stages in the 3rd Olympics of Rosneft Oil Company held in the first half of 2007. In 2008, it is planned to involve about 20 thousand employees of subsidiaries in sport competitions.

In addition to sporting general corporate competitions many subsidiaries hold their own sporting events.

### **Sporting traditions of OOO RN-Severnaya Neft**

OOO RN-Severnaya Neft pays much attention to popularization of healthy life-style. Within several years the collective of RN – Severnaya Neft won a prize Success of the Head of Usinsk urban district in the area of physical culture and sports.

OOO RN-Severnaya Neft made a substantial contribution in reconstruction of sporting facilities in the city – a club-sporting complex Neftyannik and a big bath of the city swimming pool were capially repaired at his financial support. The Company widely propagandizes sporting way of life. In Usinsk and other cities of Komi Republic mass sporting events involving Russia's famous sportsmen are held at support of the Company.

The management also maintains sporting spirit inside its collective. The team of RN – Severnaya Neft participates in Olympics of Rosneft Oil Company, winning prizes. In Usinsk, on the basis of the Company regional competitions of the first round of the Second Olympics were held in July 2006, having turned into a real municipal holiday.







## Cooperation with local communities and contribution in social/economic development of the regions of presence

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## Types of the Company effect on social/economic infrastructure of the regions of presence



Production and commercial operations of the Company, especially those performed by its producing divisions contribute to development of economics and social area of the regions of presence.

For economic and social development the Company takes the following measures:

- creation of highly paid working places;
- growth of consumer activity of the population;
- tax payments in regional and local budgets;
- supply of oil and gas to regions, in some cases – at prices lower than market prices;
- supply of electrical power and heat to energy enterprises of the Company, local governments and population;

- investments in power facilities, traffic infrastructure of the regions, improvement of populated localities, social area objects used not only by employees but also all regional population at large;
- support of educational institutions;
- multiplicative social/economic effects conditioned by development of contractors of the Company in the regions, where the Company performs its activity.

### Supply of energy resources to local governments and investments in vital infrastructure

In many cases subsidiaries of Rosneft are major or sole suppliers of energy resources for local governments. Power facilities of the Company supply a part of generated heat and power as well as available surplus of gas to municipal objects and population.

Being conscious of its responsibility to population of cities, where activity of the Company is concentrated the Company strives to pursue a policy on supply of energy resources to municipal enterprises at tariffs lower than market ones and recommended by regional energy committees.

In some cases reconstruction of production facilities enables the Company to reduce prices for energy resources for people living on territories of the Company presence.



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## Role of RN – Tuapse Refinery in supply of energy resources to Tuapse and reduction of tariffs for municipal services.

RN – Tuapse Refinery is a large supplier of electric power, heat and gas for Tuapse. Power and Heating Plant of the Refinery generates power and heat, and gas is generated during technology process of oil refining. Heat is supplied in to districts of the city – Zvezdny and Grozneft, where one third of the city population lives. In addition to the population a concrete products plant, a double-glazed window plant and a winery are consumers of heat generated by the Refinery. Due to high power of a boiler-house and low cost of heat the city receives heat at the price, which is reasonably low for the region.

Utility rates in Tuapse, especially for heating are among largest rates in Krasnodar Territory, which fact contributes to the social tension. At the present time, Tuapse Refinery supplies to the city gas generated during technology cycle. However this resource is not sufficient for the city.

In the long term, the role of the refinery as a key supplier of gas to the city will become more important. Secondary oil refining planned during reconstruction of the refinery is energy intensive and requires tenfold expansion of the Power and Heating Plant – up to 180 mW per annum. A new Power and Heating Plant will be run on natural gas. For supply of natural gas RN – Tuapse Refinery will construct a tee of Blue Flow gas pipe-line managed by Gazprom. At the same time this gas will be supplied to meet Tuapse demands. This will enable local authorities to considerably reduce the cost of municipal services for the population. Gazification of the city would not be possible without reconstruction of the refinery since the volume of gas consumption only in Tuapse is not sufficient to make the project on construction of a tee of Blue Flow gas pipe-line cost effective.





**Communication services  
and development of road network  
on Sakhalin.**



Production of oil in the northern part of Sakhalin island in the region of Okha and Nogliki populated localities is performed by subsidiary of the Company - OOO RN-Sakhalinmorneftegaz, on the shelf – by the operator of Sakhalin-1 project – company Ecson Neftegaz Limited, in which Rosneft has a participatory share. In camps, Sakhalinmorneftegaz business unit provides almost one third of stationary telephone communication as well as Internet services. These services are used by the population and administration of camps.

In 2002, administration of Sakhalin region and the company Ecson Neftegaz Limited concluded an agreement on the project Reconstruction of motor road Yuzhno-Sakhalinsk – Okha – Moskalvo on the section Oha – Nogliki. The project is aimed at organization of safe and regular transportation of goods and passengers by motor transport within the framework of the project Sakhalin-1. The total amount of financing is 40,3 million US dollars. Due to implementation of the project the road network will connect Okha and Nogliki with the southern part of Sakhalin.



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## Development of small and medium business in the regions of presence of the Company



Enterprises of small and medium business developing on the basis of orders from subsidiaries of the Company make a substantial contribution in social and economic development of the regions of presence of the Company.

Simultaneously with creation of additional working places small business enterprises working under a simplified taxation system pay a better part of taxes in regional budgets, while the major part of taxes connected with production of oil is paid in the federal budget.

Small business and medium business connected with activities of the Company subsidiaries in the regions is represented by enterprises of the services sector and suppliers of equipment and material resources, major clients of which are subsidiaries of the Company in the regions.

They are primarily transportation firms, laundries, cleaners, enterprises providing meals for employees, maintenance and cleaning of production and personnel facilities of the Company. It is important to note, that during development these small business enterprises are serving not only the Company but also other enterprises and the population.

- In 2005, OOO RN-Purneftegaz decided to liquidate a park of 50 light vehicles of the subsidiary departments and to transfer relevant transportation services to the small enterprise Transport-plus. In 2005, a contract of transport services was concluded for three years with prolongation. Within the framework of this contract Transport-plus took lease of 10 Volga and 8 Chevy –Niva 4WD vehicles. Currently, the firm renders services to the subsidiary connected with carriages around Gubkinsky and transportation of employees to the field. Outsourcing of transportation services is profitable also for the subsidiary: it pays for received transportation services considerably less if to compare with expenses for maintenance of its own car park.
- For execution of the order of RN-Purneftegaza for chemical cleaning of special clothing of employees the local enterprise Mercury from Gubkinsky purchased at its own expense new equipment. Currently, Mercury renders services on quality chemical cleaning not only to RN-Purneftegaza, which share in the total volume of Mercury orders approximates to 80 %, but also to the city population.
- A number of people working in RN-Sakhalinmorneftegaz is about 5 700, of whom about 4 000 people are involved in auxiliary production. The plan for reorganization of RN-Sakhalinmorneftegaz provides for separation of power, transport, and communication sub-divisions, other auxiliary productions and establishment on their basis of profile service enterprises. It is planned to establish an enterprise for maintenance of field camps and their provision with meals. These enterprises are supposed to serve not only Sakhalinmorneftegaz, but also shelf projects of the Company actively developing on Sakhalin as well as any other enterprises. Housing and municipal services will be rendered also to other population centers located on the island. Thus, new service enterprises will work in interests of the entire territory. Due to the reorganization working places will be preserved and newly established enterprises will be provided with worthy salaries and social benefits.
- The program on crediting of small business and medium business within the framework of the project Sakhalin-1. Additional opportunities for expansion of their business were offered to entrepreneurs in the north of Sakhalin, where North-Sakhalin Credit Program (NSCP) for enterprises of small business was launched in 2004. Participants of the consortium of the project Sakhalin-1 implemented this program jointly with the US Agency for International Development. In 2005, Nogliki affiliate of the program office granted on a competitive basis loans to the amount of 300 thousand US dollars to 24 enterprises of small and medium business. As a result, about 120 new working places were created in the region.



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## Agreements on cooperation with the regional and local authorities



In a number of the regions, where the Company performs a city-forming function, for coordinated actions on development of infrastructure and social area the Company concluded long – term agreements on cooperation with the regional authorities. Agreements determine scopes of mutual obligations of the Company, regional and municipal authorities. Specific obligations are stipulated for each year in a separate protocol.

Within the framework of these agreements the Company assumes obligations with regard to the level of hydrocarbon production in the region, the volume of geological exploration and investments in new production facilities. Obligations of social character are connected with participation in construction of social objects and shared financing of regional and municipal events (holidays, improvement of territory, etc.) specifying amounts of planned investments.

On its part the regional administration undertakes to assist in production and social activity of the Company in the presence region: acceleration of reconciliation procedures connected with production development of the Company and capital Construction, granting of tax benefits, financing of its share of expenses for erection of social objects constructed on a parity basis.



Investments in construction of a hospital in Gubkinsky were distributed as follows: 50 % – Purneftegaz, 50 % – regional budget. In Nefteyugansk construction of a number of large sporting objects for employees of the Company and the population of the city is financed on the following principal: 40 % – the Company, 30 % – the district, 30 % – the city.

[Granting to authorities of tax benefits based on the example of Yuganskneftegaz](#)

[Social effects from the Company activity in the regions of presence based on the example of Sakhalin, Nefteyugansk and Gubkinsky](#)

Tax benefits granted by regional authorities are beneficial both for the Company and the region: speeding up development of subsidiaries of the Company in the regions they ultimately contribute to increase of tax receipts in regional budgets.

Within the framework of cooperation agreements municipal authorities also lend support to the Company and its subsidiaries by means of acceleration of reconciliation procedures falling within the scope of their competence, assistance in assignment of lands for construction, creation of favorable conditions for implementation of investment projects.

### **Granting to authorities of tax benefits based on the example of Yuganskneftegaz**

Within the period of time from 2004 to 2006, RN-Yuganskneftegaz had benefits with regard to property and profit taxes: the profit tax rate was reduced from 24 % to 20 % due to reduction of a share paid in the regional budget, and the property tax was reduced by 40 %. The benefit was in effect subject to obligatory implementation of a plan on capital investments and exploration provided for under agreements concluded with authorities. Funds actually saved by the Company were spent for expansion of production activity of the Company in the region. RN-Yuganskneftegaz submitted to the regional administration a report on intended use of funds according to directed investments, for which tax benefits were granted.





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## Social effects from the Company activity in the regions of presence based on the example of Sakhalin, Nefteyugansk and Gubkinsky.

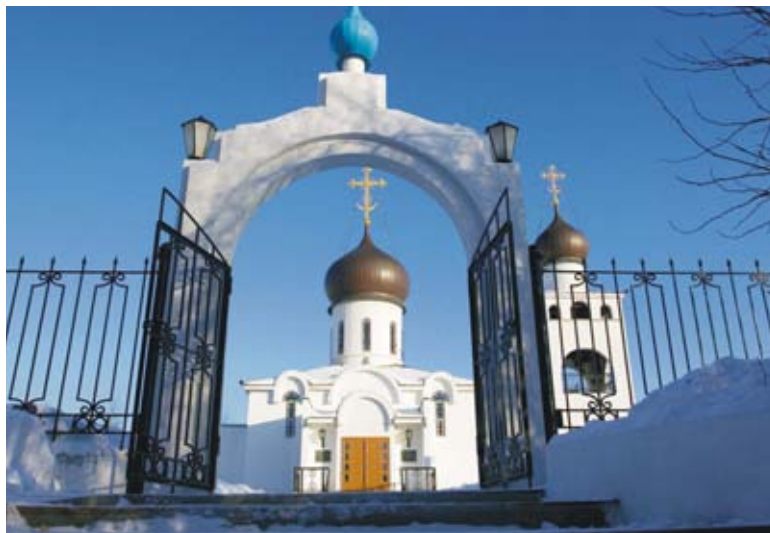
Due to increase in production of OOO RN-Yuganskneftegaz and earnings of employees, prosperity of the population in the city is growing, trading sector, business on organization of leisure in Russia and abroad are actively developing. The turnover of retail trade exceeds the total income of citizens – people from nearby municipal formations come to the city for shopping. This forms an economic foundation for construction in the city of supermarkets. First for the period of time after commencement of market reforms, new housing construction was commenced mostly due to the program on privileged real estate mortgage for employees of the Company. Demand for housing resulted in formation in the city of a building complex, commencement of construction of a house building factory for 120 thousand square meters per annum to serve the city and nearby municipal formations. The look of the city is improving due to the program on cosmetic repairs and painting of houses, removal of slum dwelling, construction of children's grounds, kindergartens and schools financed by the Company. The rate of unemployment decreased to 0,2 %. The tendency for return of the youth in the city after completion of studies in other regions is increasing.

The similar picture is also observed in Gubkinsky, development of the social/economic infrastructure of which depends almost completely on Purneftegaz activities. The population of the city is growing, employment reached almost 100 %. The level of commission of housing in the city per capita is one of the highest in Yamalo-Nenets Autonomous District and Russia. Construction of two new shopping centers gives evidence to growth of purchasing power of the population. This is an important event for a relatively small city.

Investments in shelf projects on Sakhalin, in which the Company actively participates have first multiplicative effects. Working places are established in companies – project operators, local contracting organizations and opening affiliates of foreign companies. Growth in earnings of the population recovered production of consumer goods. Difficult working conditions on the shelf facilitate development of regional geological and geophysical institutions, project organizations, elaboration of new educational programs by local universities and technical colleges for satisfaction of demand for qualified personnel.



## Investments in construction of social objects and social events



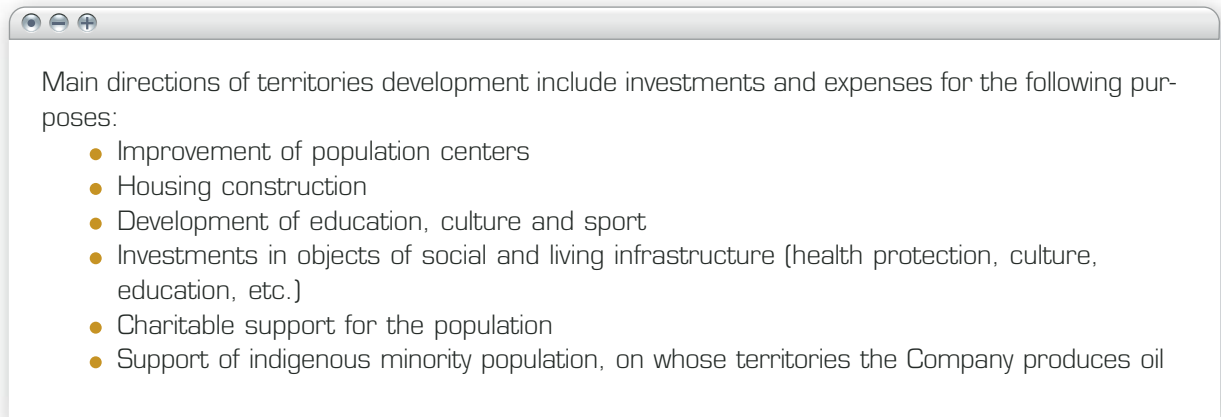
Aimed at creation of favorable living conditions for its employees and members of their families as well favorable conditions for its activity the Company actively participates in financing of construction of social objects in the regions of its presence.

This includes construction of residential buildings, hospitals, schools and hostels, libraries, sports facilities, cultural centers, churches. The majority of these objects are subsequently transferred to the balance of local governments. Besides, each subsidiary of Rosneft is involved in extensive charitable and sponsor activities. Financed social arrangements include improvement of territories, support of municipal authorities in organization of holidays, such as Victory Day, City Day, Oilman Day, New Year, etc.

Social objects constructed by the Company provide new working places for municipal authorities. Some of them, for example sporting centers, bring municipal authorities additional income.

The Company draws up a program of social events and construction of social objects for several years in advance. On the whole the Company performs its social activity within the framework of national projects: housing, health, education, sport. When drawing up the program significance of Rosneft business

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for regional development plays an important role, the general tendency is as follows: the more important this role is, more finances will be invested in the regional social area since it is important for the Company that funds invested in regional development also have a beneficial effect on employees and life of their families.

The program is formed centrally on the basis of proposals of subsidiaries and regional authorities.

Main lines of activity and particular arrangements for implementation of the program in the regions of presence are stipulated in triangular agreements between Rosneft, regional authorities and subsidiaries carrying out production activity in a relevant region. The agreement is based on the principal of mutually-beneficial partnership.

Authorities support the Company in solution of questions connected with perspective development of production, create conditions facilitating increase in rates of production of hydrocarbon materials.

On its part the Company assumes a number of obligations on development of social –economic infrastructure of a presence region.

During implementation of the program the Company finances program arrangements and strictly controls intended use of funds.

At the present time, a basic scope of work is performed in Khanty-Mansi and Yamalo-Nenets Autonomous National Areas, Krasnoyarsk Territory, Sakhalin Region and Chechen Republic. A busi-

ness plans of each Company subsidiary provides for definite amount of funds for charitable and sponsor assistance in the regions, where the Company performs its activity. Funds are allocated for development of infrastructure of population centers, education, culture, sport, medical institutions, public organizations, boarding schools, support of disabled, veterans, development of spiritual inheritance and other good purposes.

In 2006, the Company financed construction, reconstruction and capital repair of tens of social objects, including - 7 schools, 5 sports complexes and swimming-pools, 5 therapeutic institutions, 4 cultural centers, 4 preschool institutions, 2 libraries, 3 confessional objects.



In 2006, the Company spent 2,9 bn. rubles for development of the social area of the regions including expenses for charitable activity. In 2007 – 2011, for these purposes the Company plans to allocate 9,4 bn rubles.

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## Construction of social objects and development of population centers



Construction and support of such social objects as kindergartens, schools, therapeutic institutions, cultural centers, confessional objects are overwhelmingly important for the Company since they have a profound effect on the quality of life of people living in the regions, where the Company performs its activity.

Practically in all regions of Russia Rosneft is constructing and reconstructing social objects.

In the south of Russia, in Stavropol Territory the Company planned repair and reconstruction works in preschool institutions, schools, reconstruction of social infrastructure of territorial villages. Similar works are performed in another southern region – Krasnodar Territory.



## Development of social area in Krasnodar Territory



OOO Krasnodarneftegaz actively cooperates with administrations of the regions, where the Company performs production operations. The Company actively participates in development of social projects of Apsheron region. In recent years with participation of the Company a gymnasium, a cultural center, a stadium were constructed in the region, and children health-improvement center for 80 places was reconstructed. The Company renders regular assistance to a sponsored boarding school.

For Chechen Republic severely suffered from ethnic conflicts this activity is of great importance.



## Rehabilitation of social infrastructure of Chechen Republic



Rosneft pays special attention to rehabilitation of the social infrastructure of Chechen Republic. Rosneft and its subsidiary Grozneftegaz make considerable investments in various social programs on reconstruction and construction of various objects, including roads and communication networks. 245 million rubles were allocated only in 2006 for implementation of these programs. In 2006, the following works were performed: reconstruction of Samashki water-catchment plant, new construction of a water pipeline for 40 km connecting Samashki district of Grozny with a water-pumping station in Staropromislovsky district of the city, repair of a water-supply system in four population centers of Gudermess region of the republic. At the end of 2006, Rosneft financed reconstruction of a building of the Dramatic Theatre with a concert hall for 150 places. Schools in settlements Centoroy and Aleroy as well as Neftyanik cultural center and a city square in Grozny were capitally repaired. In Staropromislovsky district of Grozny the Company is constructing two residential nine-storey houses and continuing gasification of population centres.



## Improvement of cities Okha and Nogliki on Sakhalin



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In recent years, Rosneft and its subsidiary OOO RN-Sakhalinmorneftegaz Oil Company has been actively involved in social assistance in northern regions of Sakhalin island. In particular, much attention is paid to redevelopment of cities Nogliki and Okha. In Nogliki, sidewalks are reconstructed and park areas are created. A road-sweeping lorry has been purchased for maintenance services. Rosneft also finances construction of new sports complexes.

In 2002, the Company developed a project on construction of the central regional hospital in Nogliki for 150 places. Rosneft and regional administration concluded a joint agreement for financing of construction. The Company allotted 5 million US dollars for construction of the first turn of the hospital. OAO Sakhalinmorneftemontazh acted as a builder and contractor. All construction and installation works are carried out by its organization department located in Nogliki. Ceremonial openings of the first building of the hospital and new surgical building were held in 2005 and 2006, accordingly. All conditions for patients and medical workers were created in a new two-storey building. They include wide corridors, spacious light wards, operating rooms equipped with up-to-date facilities, reanimation rooms, bandaging rooms. The building has a freight-passenger elevator for inter-floor transportation of sick people, and each ward is equipped with oxygen containers. Construction of the third building for maternity and children's departments are next in turn. Another Sakhalin enterprises also took part in the project. Companies Sakhalin Energy and Exxon purchased for the hospital new modern equipment.

By the 80th anniversary of OAO RN-Sakhalinmorneftegaz, which will be celebrated in 2008, Rosneft allotted several hundreds million rubles more for development of these strategically important regions.

In other regions Rosneft is also involved in construction of numerous social objects. Here are only several examples.

- In Yamalo-Nenets Autonomous Area, the Company built an educational building of a boarding school in the city Tarko - Sal and a hospital in Gubkinsky.
- In Khanty-Mansi Autonomous Area, where Yuganskneftegaz, the largest oil producing enterprise of Rosneft locates, the Company plans construction of a hospital center in the city Pit – Yakha.

Almost each subsidiary of the Company is involved in improvement of inhabited localities in the regions, where it performs its activity.

At the present time, Rosneft performs more extensive activities connected with development of Nefteyugansk preparing for the 40th anniversary of field development



### Development of Nefteyugansk



Rosneft and Administration of Khanty-Mansi Autonomous Area jointly elaborated a comprehensive program on development of the city. Sergey Burov, Nefteyugansk mayor, has defined the objective of this program in the following words: Spirits must be boosted every time people leave their houses. Rosneft allotted 600 million rubles for the program on Nefteyugansk development. The scope of works is large enough and includes: repair of roads, communications, laying of sidewalks, re-arrangement of yards. A pedestrian street similar to Moscow Arbat is being constructed. On the alley leading from the city mains, from the building of the municipal administration and the headquarters of Yuganskneftegaz, almost to the very bank of the river Yugansk Ob new lights are installed, paving slabs are laid. Residential buildings are being repaired: panel joints are made off anew, entrance halls, roofs are repaired, facades are painted. Architects have chosen attention-getting colours for painting of facades - orange, green, bright-blue. As a result, bearing-wall houses of soviet construction look differently. On the background of the greyness of the northern nature the contract is especially devastating and boosting spirits.



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Rosneft enterprises operating in large cities choose one direction of activity in the area of improvement and development. For example, OOO RN-Arkhangelsknefteproduct elaborated a program on construction of playgrounds for children.



### Arrangement of play grounds for children in Arkhangelsk



In 2005, deputies of the municipal council of Arkhangelsk city adopted a special targeted program Construction and reconstruction of play grounds for children on arrangement of play grounds for children in yards. In spite of the fact that its tax deductions are among other things applied for arrangement of yards, OOO RN-Arkhangelsknefteproduct decided to launch the initiative of authorities and in 2006 adopted a program on installation of children play facilities.

OOO RN-Arkhangelsknefteproduct formed a working team, which considered tens variants of children play grounds, their complete sets and capabilities for installation. A special emphasis was laid on environment, safety requirements and obligatory availability of all necessary certificates. The working group controlled the entire process of construction of playgrounds: from selection of a constructor and manufacturer to agreement of a place and subsequent erection of play facilities.

Due to such an approach Arkhangelsknefteproduct managed not only to effectively spend its own funds, but also to provide excellent leisure facilities for children of the city. In addition to two children play grounds constructed in Arkhangelsk, in the first half of 2007 OOO RN-Arkhangelsknefteproduct constructed similar play facilities in Solombal and Talagi settlement, where the majority of families of its employees live.

In future Arkhangelsknefteproduct plans to install such play facilities in Arkhangelsk and Arkhangelsk region, where it performs its activity (Kotlas, Velsk).

## Housing program



Sakhalin – Federal Targeted Program  
Housing

Housing construction  
in Nefteyugansk

Rosneft realizes that today in the country housing is the most severe problem. Own suitable dwelling is not only a guarantee of united family and security, but also the foremost condition for people to work steadily and with full commitment. Therefore, assisting employees in acquisition of housing is one of main directions of the social policy of Rosneft. The social service of the Company is implementing a relevant joint project with the Agency of Mortgage Housing Crediting controlled by the state. This joint project provides for granting of privileged mortgage loans and a package of services for support of transactions connected with acquisition of housing against a credit. The Company plans to use experience in all regions, where it performs its production activity. Implementing the housing program for its employees Rosneft thereby makes a considerable contribution in development of the social/economic infrastructure of territories, where it carries out its activity. The thing is that the internal mortgage program of the Company and orientation towards construction of new housing in the regions became a starting point in development of municipal housing projects in such regions as Sakhalin, Nefteyugansk, etc. Rosneft takes part in construction of housing within the framework of share participation with the state. This makes it possible to provide housing not only for employees of the Company, but also for the local inhabitants.

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## Sakhalin – Federal Targeted Program Housing



From 2004, Rosneft has been taking an active part implementation on the territory of Sakhalin region of the Federal Targeted Program Housing, which provides for removal of citizens from slum and emergency dwellings to new apartments. The program has been in effect from 2004, when 42 apartments were built in Okha and 24 in Nogliki. For 2005 – 2006, floor areas of constructed housing were increased twice. Thus, in Okha over 84 apartments were built, and in Nogliki - over 30.

Under this program, till 2009, in the city Okha and settlement Nogliki, 644 apartments for 36,1 thousand square meters of the total floor area and valued at over than 1,4 bn rubles will be constructed. Construction of new housing is financed on the parity basis jointly with the Administration of Sakhalin region. In this regard 65% of built apartments will be given to employees of Sakhalinmorneftegaz - a subsidiary of Rosneft. This effect is most vivid in Nefteyugansk.





## Housing construction in Nefteyugansk



Prices for housing in Nefteyugansk reach the Moscow level, while the demand for housing is growing. Apart from growth in the population prosperity, the demand does not fall by another reason.

Nefteyugansk attracts young specialists, and they come to the city in the search of career development, promotion prospects, large salaries (according to all-Russia's standards). Sooner or later, each of them faces a housing problem.

Rosneft launched the targeted program on privileged mortgage crediting put this problem into motion. Previously, in Nefteyugansk, construction of commercial housing has practically been not performed. The city constructed only municipal houses mainly instead of slum ones.

The local budget could not satisfy the city needs. Since the mortgage has been launched, the situation changed drastically. In 2005, 25 thousand square meters of housing were constructed, in 2006 - 44 thousand square meters, and this new houses differ in class. Due to the mortgage, 485 young families could acquire apartments at the initial and secondary markets. It is quite difficult to trace the relation between a number of house-warmings and weddings documentarily, but a number of marriages and a birth rate are growing in Nefteyugansk.

The mortgage program of Rosneft is aimed at young specialists of the Company. However, the whole city benefited from it. By far not in each family both a husband and a wife work in the oil industry.

One of them may be an oilman and another may be a doctor or a teacher. It turns out that the housing problem is simultaneously being solved also for representatives of other professions required by the city. Here is a demonstrative example: until recently the city was in short of doctors, and now there are almost no free vacancies.

## Construction of sports facilities and support for sport

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Sport is one of the key lines of Rosneft social activity.

Construction of sports facilities is performed almost in any region, where the Company business is of significant importance.

On Sakhalin, in the cities Okha and Nogliki Rosneft is involved in construction of sports complexes.

In Arkhangelsk, the Company renders assistance in equipment of a ski stadium.

Sometimes, these objects may be of federal significance, as for example, Synchronous Swimming Center constructed in Krasnodar Territory.



### Construction of Synchronous Swimming Center in Krasnodar Territory



OOO RN-Krasnodarneftegaz owns Kuban Oilman health resort located in Anapa. Based on this health resort, it is planned to construct a new modern center for training of the Russian national team in synchronous swimming, whose official sponsor Rosneft is. Within the framework of the project it is planned to construct two swimming pools – for holding international competitions of the highest level and for training of sportsmen. Nereby, Rosbeft plans to erect a 9-storey building of a four-star hotel for 260 places. Rosneft qualifies construction of the sports complex as a responsible task set by the government of the state. The Company will spend for construction of Synchronous Swimming Center 80 million US dollars. The largest sports complex under construction in Nefteyugansk is a sports park – leisure center.



### Construction of sports complex in Nefteyugansk



A new sports park-leisure center is being constructed in Nefteyugansk. Until not, the city had no place, where families could rest and spend a weekend with profit to health. This is the largest modern project of the city administration and Rosneft. The center represents a huge sports complex for the total active area equal to 27 thousand square meters, including several swimming pools, a water park, halls with tribunes for 300 places each. Investments amount to 1,2 bn rubles. 40 percent of the sports complex construction will be financed by Rosneft. Another 60 percent will be financed from the local budget. Construction will be performed by CECHO INVEST ENGINEERING, famous Austrian firm. At the regional level subsidiaries of the Company render assistance to sports schools and organize sports events.

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### Sport support by Komsomolsk Refinery



Within twenty years Komsomolsk Refinery has been supporting a boxing school for children Ring 85 in Komsomolsk-on-Amur for 311 boys. On the free-of charge basis the refinery purchases competition forms, pays coaches' services. As of today the school is considered to be one of the best and strongest in Russia. It has 13 coaches, two of whom are merited coaches of Russia. For the time of its existence the school trained seven master of sports of the international class. Annually, boys trained at the school take part in Russia's and international tournaments. In 2006, the school team got the victory over Australian and China teams.

In addition to support of the children's sports, the refinery is one of the sponsors of the city football team of the first division Smena, which is practically a "face" of the city. The municipal budget could not maintain the football team without support of large city enterprises.



### Organization of sporting events by OOO RN-Sakhalinmorneftegaz



Subsidiary of Rosneft – OOO RN-Sakhalinmorneftegaz is a general sponsor of the traditional event Ski Day - a main event in the sporting life of Okha region. Over three hundred sportsmen from Sakhalin, Khabarovsk, Moscow are gathered together on this day. Competitions are held within two days and include races for 10, 20, 30 km, 50-km marathon is the "shot" of the program. All age groups are admitted to participation. The event includes competitions among managers of Sakhalin enterprises. Winners take prizes. Gifts are given to another participants of the competitions, including those, who made substantial contributions in development of sports in Okha. For example – people performed much work within the framework of the governor's project Sports against gateway.

## Sponsorship and charitable activity



[Organization of charitable activity in Polar Lights](#)

[Charitable assistance to children by OOO RN-Tuapsenfteproduct](#)

In addition to capital investments, Rosneft renders charitable and sponsor assistance to practically all social institutions. The Company has elaborated a regulation, under which charitable and sponsor assistance is rendered in the area of acquisition of equipment, facilities, repair of fixed assets.

The Company supports all areas of social life: culture, sports, children, veterans, social risk population groups, public events. Target aid is widely rendered.

The majority of Rosneft subsidiaries are traditionally involved in sponsorship and charitable activities. However two of them – Udmurtneft and joint venture Polar Lights use services of specialized charitable funds.





## Organization of charitable activity in Polar Lights



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Previous charitable activity of Polar Lights on the presence territory was performed on the address basis. However, in 2000, fund Guarantor offered the company its services in administration of the charitable assistance. Founded in 1998, Arkhangelsk Center for support of non-commercial organizations Guarantor (charitable fund Guarantor) is specialized in development of social projects financed by means of tender distribution of corporate donations.

At the present time Polar Lights is carrying out all charitable activities through this fund. The Company coordinates with the fund amounts of allotted funds and directions of charitable activities. In its turn, the fund organizes the entire process of receipt of funds by recipients: prepares tender themes, accepts applications, organizes tendering process and work of the expert council, transfers cash funds to winners, etc.

Polar Lights is a part of the guardianship board of Guarantor together with other commercial organizations. In 2006, supported by the Company the fund held a tender of social projects Free time aimed at creation of conditions for establishment of new teen and youth clubs, development of the social service system for organization of leisure of teen-agers and young people. From among 73 applications submitted for the tender, the fund council selected 16 best projects, which obtained financing. The grant pool amounted to 300 thousand rubles. Projects included volleyball grounds in Kargopol; teen club in Severodvinsk; literary club in Velsk; rock-club in Shenkursk; Association of intellectual clubs in Lensk district and many others. For many years the Company has been actively participating in support of children from Arkhangelsk. For disabled children the Company organizes new Year parties with traditional presents. Through Guarantor the Company finances the program Arkhangelsk Children. Funds are allocated for assistance of severely disabled children and school support. For example, funds of the Company were spent to purchase of household appliances for school №39, new school equipment.

Activities of the Company performed through the specialized charitable fund have a number of advantages. First, the Company itself gets rid of the necessity of routing works with recipients of funds. Second, due to their accumulation in the charitable fund, donations are allocated for the most important areas of the charitable activity.

Support for children is an important line of the charitable activity performed by Rosneft. The Company pays much attention to support of children and children's education. In addition to Rosneft Classes in the region, subsidiaries carry out extensive charitable activity to support schools, kindergartens and boarding schools. For servicing of a health improvement camp Arkhangelsknefteproduct purchased a school bus. The subsidiary renders assistance to a regional boarding house, where disabled children live. The subsidiary actively participates in activities of schools attending by many children of its employees. Thus in Talaga settlement, where an oil-loading terminal locates the subsidiary constructed a new hall for a local school. Komsomolsk Refinery renders assistance to kindergartens and boarding schools. At its own expense the refinery performs simple repair, allocates fuel, finances busses for transportation of children of sponsored organizations to summer camps and for medical examination. For New Year parties the refinery organizes delivery of gifts.



### **Charitable assistance to children by OOO RN-Tuapsenefteproduct**



OOO RN-Tuapsenefteproduct performs active charitable activity in Tuapse and Tuapse region. The company participates in organization of all municipal events and holidays, renders corporate assistance to a local training school of sailors, dockers, gas welders, supports a choreographic studio named after Grigorovich, sponsors construction of confessional objects, renders particular target assistance to needy families and social institutions.

Charitable assistance to children is an important line of activity. At the initiative of Alexander Yarovenko, General Director of the subsidiary assistance is rendered to the federal programs Children of Russia and Talents of Russia. The subsidiary repairs city and regional kindergartens and schools as well as renders to them a material aid. Schools in village Goitkh, settlement Aguj-Shapsug, schools № 5, № 9 and №10 and kindergarten on Tuapse may be given as examples. In Chechnya OOO RN-Tuapsenefteproduct rendered assistance in repair of a child health center.

Health resort Smena owned by the subsidiary is used as a health resort for children. Every autumn, under the supervision of medical specialists and psychologists children from Krasnodar Inva studio specialized in support of disabled children pass rehabilitation treatment. Health resort Smena is opened for children from republics of Northern Caucasia, where the political situation is often tense. Thus, in 2004, 44 children, who suffered from terrorist acts in Beslan were on rest and rehabilitation in the health resort together with their close relatives.

Tuapsenefteproduct renders to children targeted non-reccurent assistance. For example, ten children with hypoacusis were provided with hearing devices made by Siemens. In this connection, the regional department of Russia's Children's Fund awarded the enterprise with Honorary Certificate — a peculiar sign of gratitude for concern for lives of those children, who need help.

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## Support of local population in the regions of the Company production activities



Rosneft traditionally establishes good neighborly and partnership relations with all native people in the regions where it performs its activity. Relations of the Company and local population are governed by relevant documents.

Thus, conditions set forth in license agreements of Rosneft Oil Company for production of oil and gas on the territory of Khanty-Mansi Autonomous Area – Yugra provide for obligations on conclusion of social/economic agreements with owners of territories of traditional nature management.

Such agreements usually stipulate conditions for use of land plots on similar territories for oil production, compensation for damage caused to nature during production activity in the form of cash and in-kind compensatory payments.

Here is the example of such relations established by two largest enterprises of the Company: Purneftegaz and Yuganskneftegaz.



## Support of Northern indigenous minority population by OOO RN-Yuganskneftegaz



Traditionally, OOO RN-Yuganskneftegaz, Rosneft subsidiary, actively works with local population of Khanty-Mansi Autonomous Area (KhMAA). KhMAA local population is represented by three small nationalities - Hunt, Muncie and forest Nenets. Their total population approximates to 1,5 % of the total population of the Area. Yuganskneftegaz builds its relations with them on the Principles of mutual confidence, respect and maintenance of identity of these nations. For the last ten years OOO RN-Yuganskneftegaz had no conflicts with indigenous people.

Yuganskneftegaz renders substantial assistance to owners of communal family lands, whose territories locate within bounds of licensed areas of Rosneft Oil Company. Annually, Yuganskneftegaz concludes with these owners an agreement specifying the scope of assistance in cash equivalent. In this connection, indigenous people decide at their own discretion what they need to purchase within this amount. As a rule, Yuganskneftegaz purchases for them lubricants, equipment, motors, motor boats, pays medical services and, when required, renders direct cash support. Since the majority of the local population live in taiga regions far from inhabited localities, then Yuganskneftegaz also delivers goods specified under agreements. Besides, oilmen also assist indigenous people in acquisition of construction materials for construction of houses and buildings. Yuganskneftegaz supplies blockhouses completed with bolt timber, millwork, asbestos sheeting, chamotte brick and other building materials. Indigenous people construct houses by themselves applying national construction experience, which preserves national culture.

Yuganskneftegaz sponsors events connected with support of the national culture of the local population. In 2006, Yuganskneftegaz financed preparation and holding of the following events:

- jubilee Xth Festival of TV Programs and TV Films Golden Tambourine in Khanty-Mansiysk;
- VIth International Festival of Cinematic Debutes Fir Spirit;
- Xth International Environmental TV Festival Save and Preserve;
- IVth International Ecological Campaign Save and Preserve.



## Support of local population by OOO RN-Purneftegaz



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OOO RN-Purneftegaz performs production activities on territories Purvsk, Hrasnoselkupsk, Tazov and Nadim regions of Yamalo-Nenets Autonomous Area (YNAA). On these territories live the local people including forest Nenets, Selkup and Hunt, with whom OOO RN-Purneftegaz establishes good neighborly and partnership relations.

The work with them is performed in several directions. First, OOO RN-Purneftegaz, renders direct assistance to various associations and organizations of the local population, including Yamal-to descendants!, Icha community, Community Dyanki-Koj, Community Kharampurovsk. Since 1996, OOO RN-Purneftegaz has been signing an agreement with the regional organization Yamal-to descendants! - Program on cooperation with PurovAssociation Yamal-to descendants. From May 2006, expenses for the item Assistance to local population are specified in protocols to the agreement concluded between the administration of Yamalo-Nenets Autonomous Area and Rosneft Oil Company. In this connection, within the framework of the budget agreed upon within Rosneft, Purneftegaz renders individual target support. This support is rendered during receipt of letters from the population and public organizations. This may include target assistance or sponsor contribution in holding various events. Main charitable assistance is rendered in the form of food stuff and tool sets (including Buran snow vehicles and boats), travel tickets, organization of education for children, and when required in the form of cash.

Purneftegaz pays much attention to support of the national culture of the local population. For example, Purneftegaz financed scientific works performed by members of the museum in Gubkinsky and representatives of the local population. These works resulted in publication of the book Forest Nenets People describing living conditions of the local population. Annually, OOO RN-Purneftegaz finances various events and national holidays devoted to Reindeer-Breeder Day, Fisherman Day, Day of World Indigenous minority population, etc. In addition to annual holidays, Purneftegaz renders assistance in holding of one - time events - seminars, actions and conferences. For example, in 2006, the enterprise rendered charitable assistance to "Yamal - to Descendants!" Association for holding the session of the Coordination Council of the Association of Indigenous of North, Siberia and Far East of the Russian Federation.

Rosneft is reconstructing almost from the zero level such significant settlements of indigenous people located in areas of oil production as village Kharampur in Yamalo-Nenets Autonomous Area and village Seliyarovo in Khanty-Mansi Autonomous Area.



### Re-development of Kharampur national village



Since 2002, OOO RN-Purneftegaz has commenced in Purov region of Yamalo-Nenets Autonomous District (YNAA) redevelopment of the decayed Nenets village Kharampur – a symbol of centuries-old tenor of Nenets life. Annually, OOO RN-Purneftegaz and administration of Purov region sign an agreement specifying the amount of funds to be allotted for reconstruction and support of the village.

In 2005, the village was completely reconstructed. In 2006, OOO RN-Purneftegaz completed construction of a village club and a library. The following works have been performed with the participation of Purneftegaz: reconstruction of a boiler-hose, construction of a school, a cultural center and a road with hard coatings, purchase of materials and equipment for summer fishing season. At the request of resident local village people Purneftegaz erected sexangular brick cottages in the tent form, a number of wooden houses for local wanderers, laid all communications: water, electricity, sewerage.

Purneftegaz organized in the village club events for revival of traditional crafts. The village turned to be a municipal formation with its administration. At the present time, the support is rendered only to the following infrastructure: sewerage network, removal of solid wastes, etc. Purneftegaz constructed a workshop for fish processing, where local people work. Currently, in Kharampur, a number of residents approximates to 400 - 500 people.

The remaining part of the local population is represented by wanderers, who use the village as a base and have own houses. In summer, only permanent residents stay in Kharampur, other people move to the Arctic Ocean. The thing is that the village is located on the way to reindeers' paths. Therefore, the village is convenient for use as a stay base. However, the Reindeer-Breeder Day is a holiday and all local people gather together in the village.

Kharampu has become a visiting card of Purneftegaz in relations with the local population.

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## Development by Yuganskneftegaz of Seliyarovo village



Village Seliyarovo is located in Khanty-Mansi Autonomous Area in the very center of Priobsk field, developed by OOO RN-Yuganskneftegaz. The population of this old village reaches 450 people, mainly including local inhabitants involved in oil production, housing construction, cattle-breeding and servicing sectors. Therefore, Yuganskneftegaz initiated the program on development of the population for provision of worthy living conditions. The program on development of Seliyarovo village is implemented by governmental, municipal authorities and Rosneft on the parity basis. In accordance with this program Yuganskneftegaz participates in construction of houses, objects of social importance.

The village infrastructure was created practically from the zero level. Yuganskneftegaz laid electrical power transmission lines, constructed a road network with light fixtures. The example of development of the old village Seliyarovo shows quality changes in lives of the local Yugra population. The village infrastructure was created practically from the zero level. Yuganskneftegaz laid electrical power transmission lines, constructed a road network with light fixtures, a school - kindergarden.

The school has modern equipment, Internet connection, an excellent sports hall. Yuganskneftegaz jointly with the administration of the autonomous national area took part in reconstruction of the local place of interest – a museum complex Ryazantsev Merchant Seat, assisted in reconstruction of Theotocos Dormition Church. Currently, Yuganskneftegaz is involved in completion of construction of three-storey Culture Center, construction of a micro district of individual houses for young families.

## Integrated development of social infrastructure of new areas of presence



Social-economic development of presence region of OOO RN-Severnaya Neft

Development of social/economic infrastructure around port DeCastri

Program on social/economic development of Turukhan region of Krasnoyarsk Territory

By virtue of the specific character of their production activities producing enterprises of Rosneft brought the strongest impact on the social development of areas of presence. Activities of the largest producing enterprises of the Company were described above. Here is an example of how third largest oil enterprise OOO RN-Severnaya Neft contributes to development of the presence region.







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**Social-economic development of presence region of OOO RN-Severnaya Neft**



OOO RN – Severnaya Neft builds its social policy in accordance with the general principal of Rosneft as a socially – oriented business-structure implementing programs on social and production development individually and jointly with the regional administrations.

Developing oil-and-gas-bearing Timano – Pechora region, Severnaya Neft cooperates with Komi Republic and Nenets Autonomous Area, municipal formations of Usinsk and Inta city districts. During its activity, OOO RN – Severnaya Neft provides the population with a stable number of working places offering worthy salaries, pays taxes, renders much charitable assistance.

Assistance to veterans of the Great Patriotic War and Labor, educational institutions, medical institutions, sports organizations, villages, development of Usinsk city, material support of low-income citizens are main lines of sponsor and charitable activity. OOO RN – Severnaya Neft renders permanent assistance to Usinsk district organization of Komi veterans and republican public organization of veterans (pensioners) of war, labor, military forces and law-enforcement authorities.



OOO RN – Severnaya Neft renders regular support to Usinsk Polytechnical College, Ukhta State Technical University and its Usinsk affiliate. The following works have been performed at the support of the enterprise: arrangement of streets, construction of children’s city, repair of kindergartens and schools, assistance to Usinsk District Hospital.

The enterprise renders assistance to villages. It finances repair of educational institutions. At the request of local administrations the enterprise started construction of a new school in Novikbozhe. All light vehicles were repaired in four villages. Employees of the electric shop repaired electrical wiring in Ust-Lizhinsj school. Expecting a school year all regional schools were granted stationary sets, and libraries – necessary books, textbooks and imaginative literature. For village Cultural Centers the enterprise purchased musical instruments. During summer holidays, Severnaya Neft takes measures for improvement of children’s health. These measures cover children of employees working at the enterprise, village children of Usinsk region, children from low income families of Intin region and two state unitary enterprises operating in Nenets Autonomous Area.

Remote settlements are supplied with diesel fuel and food products. From time to time, OOO RN – Severnaya Neft delivers equipment and fuel for needs of village people, and presents gifts to war and labor veterans on holidays. OOO RN – Severnaya Neft renders regular financial support for deer farms as organizations maintaining a traditional type of occupation and a way of life of the local population. For economic support the enterprise purchases their products. For example, all agricultural products of Municipal Unitary Enterprise Severny are purchased for field eating houses and mess halls. Regular financial and other material support is rendered to villages of Usinsk region - Ust-Usa, Mutny Materik, Kharuta, Novikbozh. For example, the enterprise reconstructed unsurfaced roads inside the village Ust-Usa, repaired roads in village Novikbozh.

In winter of 2007 – 2008, at the initiative of the enterprise all reindeer-breeders, who work on the territory, where RN – Severnaya Neft performs its activity will be subject to complete standard medical examination. This examination will also cover the following deer farms of Nenets Autonomous Area: Rassvet Severa, Put Ilijicha and Usinsk Municipal Unitary Enterprise Severny. The examination will be performed on Khasirey field, having an ambulance station with modern equipment.

Effective implementation of new production projects of the Company inevitably results in social/economic development of low developed regions. Revival of the social and economic infrastructure around recently commissioned oil-loading port De-Kastri is a good example.





## Development of social/economic infrastructure around port DeCastri



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Sea port DeCastri, an export oil-loading terminal of the international project Sakhalin-1 supported by Rosneft, locates on the territory of Ulchsky region of Khabarovsk Territory on Hlikov half-island six km away from DeCastri settlement. Oil is supplied through a pipeline from Sakhalin island. Basic directions of export deliveries include nearby countries of the Asia-Pacific Region, primarily Japan and South Korea. The Indian participant of the project – ONGK company plans to supply its share of oil to India. In September 2006, the first tanker was loaded on the terminal. Construction of the port and commencement of its activities are of great importance for development of the social/economic infrastructure of Ulchsky region. Local people were offered new job places and an opportunity for improvement of their living conditions.

At the initial stage of the terminal in DeCastri in 2003, the Consortium concluded an agreement on cooperation with the Association of Northern indigenous minority population in Ulchsky region. In accordance with the agreement the following activities are performed: rendering of financial support for organization of summer rest for children, health resort therapy, acquisition of computer equipment, holding of national holidays and festivals.

In 2005, Sakhalin-1 made investments in Upgrade of the local hospital, supplied modern therapeutic and diagnostic equipment, allocated funds for increase of a number of medical personnel and training of medical personnel, purchase of a new emergency ambulance. Due to these actions, medical treatment of the terminal workers and local people was considerably improved.

In 2006, the Consortium made investments in repair of roads and bridges in Ulchsky region. Considerable amounts were transferred to the cultural center in the settlement DeCastri, educational, cultural and general social programs were financed. Transit oil brought to DeCastri and the whole Ulchsky region more comfortable and prosperous living conditions.

Construction of the social/economic infrastructure maintaining production activities of the Company on new undeveloped fields requires transition from planning of social activity to development of social/economic programs on territorial development. Rosneft has been applying this approach since development of Vankor field located in Turukhan region of Krasnoyarsk Territory.



## Program on social/economic development of Turukhan region of Krasnoyarsk Territory



Vankor field located in Turukhan region of Krasnoyarsk Territory is being developed at considerable social support of Rosneft. In 2006, Alexander Khloponin, Governor of Krasnoyarsk Territory and Sergey Bogdanchikov, President of Rosneft coordinated a program on development of the social area of Turukhan region for 2006 – 2007, and made decision on elaboration of a program on social and economic development of the Territory for 2008 - 2010.

In 2006, the Company allocated 86 million rubles for development of the social area of Turukhan region. 100 million rubles will be transferred to the region in 2007. In future, Rosneft will considerably increase its support.

The program provides for reconstruction of the municipal hospital, vocational school and sports - health-improvement complex in Igarka, repair of school in settlement Sovitskaya Rechka, acquisition of school busses and modern equipment for school classes, chow halls, sports halls and cultural centers. Thus, within two years coming Igarka will turn to a compacted modern city with the population of five – six thousand people, oriented to Vankor field.

Joint plans of authorities and Rosneft include reconstruction of a flight strip in Igarka and a hotel for organization of rotational air transportation. Rosneft accepted the proposal of the administration of Turukhan region to train regular labor force for developing fields on the basis of Igarka vocational school.

At the present time the following works has been performed: repair of the sports complex, commencement of construction of the national boarding school in settlement Farkovo, repair of the boarding school in settlement Sovrechka, acquisition of sports equipment and computer facilities for day-care centers, organization of health – improvement rest for children of the region.

Based on its complex approach to development of the social and economic infrastructure, the Company will be capable of providing rapid and sustainable growth.

## Attachment

Table of compliance of report with GRI (version 3.0) and guidelines for preparation of reports on sustainable development of IPIECA/API, 2005

| Definition of index   | GRI Index, version 3.0 | IPIECA/API Index   | Pages of report                               |
|---|------------------------|--|---|
| <b>STRATEGY AND ANALYSIS</b>  |                        |  |   |
| Application of the highest executive making decisions in the company publishing a report on significance of sustainable development for the organization and its strategy   | 1.1                    | Brief version of report material and application of the Chairman of the Board of Directors | 002 – 007                                     |
| Characteristics of key impacts, risks and capabilities  | 1.2                    |  | 016 – 017;<br>037 – 038;<br>043 – 051;<br>134 |
| <b>CHARACTERISTICS OF THE ORGANIZATION</b>  |                        |  |   |
| Name of the organization  | 2.1                    |  | 240   |
| Main brands, types of products / services   | 2.2                    | Main types of products and services  | 014; 089                                      |
| Functional structure of the company including main sub-divisions, subsidiary, dependant companies and joint ventures  | 2.3                    | Operation structure, divisions, subsidiary companies and joint ventures                    | 020 – 034                                     |
| Location of the head-quarter of the organization  | 2.4                    |  | 240   |
| A number of countries, in which the organization carries out its activity. Names of countries, where primary activity is carried out or which are mostly important from the viewpoint of questions of sustainable development covered by the report | 2.5                    | Countries, where the company carries out its activity                                      | 020 – 021                                     |
| Nature of property, form of incorporation   | 2.6                    |  | 240   |
| Markets of the company operation (including geographic breakdown, serviced sectors and categories of consumers and beneficiaries)   | 2.7                    |  | 090 – 094                                     |
| Size of the organization  | 2.8                    | Size of the reporting organization   | 015; 036;<br>090 – 093                        |

| Definition of index  | GRI Index,<br>version 3.0 | IPECA/API Index   | Pages<br>of report                            |
|--|---------------------------|---|---|
|  |                           | Standard financial indices  | 082 – 084                                     |
| <b>Substantial changes in activity of the enterprise for the reporting period</b>  | 2.9                       | Significant changes in the size, structure, property of the company over the reporting period | 018 – 019;<br>031 ; 035;<br>061 – 062;<br>133 |
| <b>Awards received for the reporting period</b>  | 2.10                      |   | 038   |
| <b>PARAMETERS OF THE REPORT</b>  |                           |   |   |
| <b>Reporting period presented information relates to</b>   | 3.1                       |   | 011   |
| <b>Reporting cycle</b>   | 3.3                       |   | 007   |
| <b>Contact information for questions concerning the report or its content</b>  | 3.4                       |   | 240   |
| <b>Process for determination of content of the report</b>  | 3.5                       |   | 010 – 011                                     |
| <b>Scope of the report (for example, countries, sub-dividisons, subsidiary companies, leased out capacities, objects, joint ventures, suppliers).</b>  | 3.6                       |   | 010 – 011                                     |
| <b>Any limitations of coverage or scope of the report</b>  | 3.7                       |   | 011   |
| <b>Grounds for inclusion in the report of information on joint ventures, subsidiary companies, lease of productions, etc., which may influence on comparability with the previous report</b> | 3.8                       |   | 011   |
| <b>Methods of measurement of figures and calculations, including proposals and procedures applied for preparation of indices and other information, included in the report</b>               | 3.9                       |   | 010 – 011                                     |

| Definition of index  | GRI Index,<br>version 3.0 | IPECA/API Index             | Pages<br>of report              |
|--|---------------------------|-----------------------------|---------------------------------|
| Table specifying location of standard elements in the report   | 3.12                      |                             | 010;<br>230 – 239               |
| Policy and applied practical approaches with regard to external confirmation of the report   | 3.13                      |                             | 011                             |
| <b>MANAGEMENT, COMMITMENTS AND INTERACTION WITH INTERESTED PARTIES</b>   |                           |                             |                                 |
| Structure for management of the company including basic committees in the structure of the supreme management body responsible for specific targets  | 4.1                       | Management structure        | 054 – 060                       |
| If the Chairman of the highest management body is simultaneously the executive manager of the company. If yes, what role does this manager play in management of the company, what are reasons of state of affairs                                   | 4.2                       |                             | 055                             |
| Specify a number of independent members of the top management body and/or members not relating to the executive management of the company  | 4.3                       |                             | 054 – 057                       |
| Mechanisms used by shareholders or employees of the organization to direct activity of the top management body or to give recommendations to the management  | 4.4                       |                             | 054;<br>063 – 064;<br>135 – 144 |
| Relation between payments to members of the top management body, to representatives of the top executive management and senior managers (including dismissal wages) and performance of the organization (including social and Environmental results) | 4.5                       |                             | 059                             |
| Existing processes in the top management body aimed at avoidance of conflict of interests  | 4.6                       |                             | 062 – 063                       |
| Processes for determination of qualification and competence of members of top management body for determination of the strategy of the organization in economic, Environmental and social directions of sustainable development                      | 4.7                       |                             | 054                             |
| Mission, statements on valuables, corporate behaviour codes developed by the company important from the viewpoint of economic, Environmental and social effectiveness, as well as degree of their practical implementation                           | 4.8                       | Principals, policy, mission | 042; 062                        |

| Definition of index  | GRI Index,<br>version 3.0 | IPIECA/API Index                               | Pages<br>of report                  |
|--|---------------------------|--|-------------------------------------|
| Processes used by the top management body for supervision over assessment by the organization of its economic, Environmental, social effectiveness and management by the organization in compliance with international standards and corporate behaviour codes | 4.9                       | Management systems                             | 064 – 065                           |
| Processes for assessment of own effectiveness by top management body in connection with economic, Environmental and social results of activities of the organization   | 4.10                      |  | 064 – 065                           |
| Explanation of whether and how the precautionary approach or principle is addressed by the organization  | 4.11                      |  | 044                                 |
| Economic, Environmental, social charters, systems of principals and other initiatives developed by third parties, to which the organization affiliated or which the organization supports  | 4.12                      |  | 068 – 069;<br>133                   |
| Membership in associations (for example, in industry associations) and/or national and international organizations for protection of interests   | 4.13                      |  | 068 – 069                           |
| A list of interested parties, the organization cooperates with   | 4.14                      | Key interested parties                         | 066                                 |
| Grounds for identification and selection of interested parties for subsequent cooperation with them  | 4.15                      |  | 066                                 |
| Approaches to cooperation with interested parties, including frequency of cooperation on forms and interested groups   | 4.16                      | Principals, policies                           | 067 – 068;<br>115 – 117;            |
| Key questions and interests raised or identified in the course of cooperation with interested parties and how the company took these questions and interests into consideration  | 4.17                      |  | 069 – 073                           |
| <b>INDICES OF ECONOMIC EFFECTIVENESS</b>   |                           |  |                                     |
| Information on approaches in the sphere of management  |                           | Principals, policies,<br>systems of management | 076 – 077;<br>089; 099;<br>102; 105 |



| Definition of index   | GRI Index,<br>version 3.0 | IPECA/API Index | Pages<br>of report  |
|---|---------------------------|-----------------|---|
| Created and distributed direct economic value, including incomes, operating costs, payments to employees, donations and other investments in associations, undistributed profits, payments to suppliers of capital and to the state | EC1                       | Value           | 078 – 088   |
| Tax expenses  |                           | ECO-1           | 016; 079;<br>088  |
| Paid dividends and redeemed shares  |                           | ECO-2           | 016; 079;<br>088  |
| All payments to personnel including remuneration for the reporting period   |                           | ECO-A2          | 015; 079;<br>087  |
| Capital expenses  |                           | ECO-3           | 079; 084  |
| Security of liabilities of the organization, connected with pension plan with established privileges  | EC3                       |                 | 161 – 163   |
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| Range of ratios of standard salary of the initial level and established minimal salary in significant regions, where the organization carries out its activity  | EC5                       |                 | 150 – 152   |
| Policy, practical approaches to purchases from local suppliers and a share of such purchases in significant regions, where the organization carries out its activity  | EC6                       |                 | 097 – 107;<br>117   |
| Procedure for employment of the local population and a share of top managers employed from the local population in significant regions, where the organization carries out its activity   | EC7                       |                 | 148   |
| Development and impact of investments in infrastructure and services primarily rendered in public interests through commercial, natural or charitable participation   | EC8                       |                 | 039;<br>194 – 197;<br>203 – 229   |
| Understanding and description of significant indirect economic impacts, including affected areas  | EC9                       |                 | 097;<br>099 – 107;<br>194 – 196;<br>198 – 199;<br>202 – 216;<br>225 – 229 |

| Definition of index  | GRI Index,<br>version 3.0 | IPECA/API Index                                | Pages<br>of report      |
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| <b>ENVIRONMENTAL EFFECTIVENESS INDICES</b>   |                           |  |                         |
| <b>Information on approaches in the sphere of management</b>   |                           | Principals, policies,<br>systems of management | 110 – 113;<br>124 – 127 |
| <b>Management system for environment protection</b>  |                           | ENV-6  | 112 – 113;<br>124 – 127 |
| <b>Consumption of water from external source</b>   |                           | ENV-A7   | 121                     |
| <b>Place of location and surface area of lands being in ownership,<br/>on lease or under management of the organization,<br/>and located on protected natural territories<br/>or in their surroundings</b>                       | EN11                      |  | 124                     |
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| <b>Other production emissions in the air</b>   |                           | ENV-A6   | 120                     |
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## Contact details and feedback

### » Open Joint Stock Company – Rosneft Oil Company

**Address:** 117997 Russia, Moscow, 26/1 Sofiyskaya Embankment.

**Telephone:** +7 (495) 777-44-22.

**Fax:** +7 (495) 777-44-44.

**E-mail:** [postman@rosneft.ru](mailto:postman@rosneft.ru).

#### **Corporate site:**

<http://www.rosneft.ru> and <http://www.rosneft.com>

#### **Feedback**

Contacts on any questions related to sustainable development of our Company:

#### **Corporate Culture Department**

**Telephone:** +7 (495) 229-47-36.

**Fax:** +7 (495) 229-47-68.

**E-mail:** [e\\_karpova@rosneft.ru](mailto:e_karpova@rosneft.ru).