

*People, Efficiency, Innovation*

# Looking Ahead



A gas field of Rospan International in the Yamalo-Nenets autonomous region



Our people



The Samotlor oil field in Nizhnevartovsk

# 2010 Highlights

13.1

bn boe of total proved  
PRMS reserves



1,742

mboe/d of own oil  
and gas production

732

mb/d of refining  
throughput

44.6

bn USD in revenues



5.8

bn USD  
of net income

18

regions in Russia,  
Ukraine and Belarus  
where we operate

1.8

bn USD – a milestone  
agreement to acquire BP's  
upstream and pipeline assets  
in Vietnam and Venezuela

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## Cautionary statement

This publication contains forward-looking statements regarding TNK-BP's assets and financial and operational performance and strategy. Actual results may differ depending on a variety of factors.

## Slavneft

TNK-BP shareholders own close to 50% of Slavneft, which is managed independently and reports as a separate entity. TNK-BP's Net Income and EBITDA numbers include its share of Slavneft's results. Any other figures quoted in this publication exclude Slavneft unless stated otherwise.

# People

the driver of our transformation

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# Efficiency

the foundation of our success

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# Innovation

the essence of our leadership

*A Message from the Executive Chairman of the Board of Directors*

## Growing Beyond Frontiers



2010 heralded a new phase in our development: we not only achieved outstanding financial results, but also took important steps on the road to international expansion. At the same time, we continued to make progress towards our strategic goal of transforming TNK-BP into a world-class oil and gas player.

Our team can be justifiably proud of its successes in 2010. Thanks to the increase in development at our new production centres in Eastern and Western Siberia and continued growth in output from the Orenburg region, more than 12% of our total production during 2010 came from new fields.

Signing a long-term agreement granting Rosspan access to the Unified Gas Transmission System and a government decision to build the Zapolyarnoye-Purpe oil pipeline have opened the way to the full-scale development of the oil and gas fields in Yamal – a key region for us in terms of potential growth. As the Yamal fields are brought on stream, TNK-BP position as one of Russia's leading private oil companies.

The importance of acquisitions outside traditional markets cannot be overstated. The acquisition of assets in Vietnam and Venezuela will help to diversify our project portfolio, which will allow us to develop new professional competencies and improve our performance, thereby increasing the company's value and benefitting all of our shareholders.

Our geographical expansion will help us to become more competitive which in turn is aligned with Russia's strategic goal of remaining a leader in the global energy industry.

Environmental stewardship, the development of human capital and social responsibility remain key priorities for TNK-BP. In 2010, we continued to implement a range of measures designed to ensure the safety of our people and protect the environment. This has resulted in a substantial reduction in the number of lost-time accidents and oil spills.

As a socially responsible company, we have continued to support the socio-economic development of Russia's regions through an extensive community investment programs.

We will continue prioritising projects in this sphere, including providing support to vulnerable social groups, healthcare assistance, sports, culture and education and the preservation of Russia's cultural and historical heritage.

Our transformation into an international player, competing on equal terms with global oil and gas industry leaders, would not have been possible without our technological expertise innovative approaches and solutions.

In 2010, we greatly expanded our investment in the development and application of innovative technologies, thanks, in part, to a macroeconomic climate that incentivises Russian businesses to use new technologies. Our objective is to ensure continuous technological advances and producing real positive change, not only within TNK-BP, but across the Russian oil and gas industry.

We are proud of our unique ability to bring together top professionals and to nurture talent within our company, creating a fusion of Russian and foreign expertise that meets the very highest international standards.

I have no doubt that our team can go on to achieve even greater things.



Mikhail Fridman

## *Interview with the Deputy Chairman of the Management Board of TNK-BP*

# The Best Year in the History of TNK-BP

### – How do you assess TNK-BP's performance results for 2010?

2010 was undoubtedly the best year in the history of TNK-BP, in terms of both production and processing volumes, and financial results. Over the past year, the company increased its oil and gas production by 3.1% compared to 2009, taking our daily production up to 1.742 million barrels of oil equivalent. In October 2010, our daily production achieved a record 1.794 million barrels of oil equivalent. Our volume of oil refining also reached a historical record of 732 thousand barrels a day.

We made a breakthrough in our gas business, signing a six-year contract for the transportation of gas produced by Rospan and reaching an agreement to sell this gas through a joint venture with Mezhregiongaz. As a result of this deal, Rospan is now a major project in our portfolio.

I would like to single out TNK-BP's marketing team for their outstanding performance and the considerable effort they put into expanding our market share and increasing sales through our retail network. Today, the company's average share of retail markets in Russia has reached 26%.

In 2010, we made significant progress in transforming TNK-BP into an international player by signing agreements to purchase BP assets in Vietnam and Venezuela. We are now truly becoming an international company.

The company's impressive performance is reflected in its financial results with a record underlying net income of USD 5.8 billion, a strong EBITDA of 10.4 billion. TNK-BP remained an attractive company to invest in. In 2010, Return on Average Capital Employed (ROACE) amounted to 26.3% which is the best rate among Russia's leading oil companies.

### – Replacing production with new reserves is essential for a long-term growth. What were your successes in this important area?

The renewal and replenishment of our resource base have been and remain a top priority for us. In 2010, once again, we booked more reserves than we produced, with a PRMS reserve replacement ratio of 322%. On the SEC Life of Field (LOF) basis this ratio was 134%, adding 854 million barrels of oil equivalent of new reserves, excluding divestments. The average SEC LOF reserves replacement ratio over 7 years equaled 140% which is a world-class achievement.

### – What are your plans for 2011?

Our strategic goal is to become the leader among private Russian oil and gas companies. We can achieve this only by continuously improving the efficiency of our core business of extracting and refining crude oil. There is room for improvement here as TNK-BP is not yet the first among Russian majors. Our task is to ensure the maximum netback for each barrel of crude produced by the company and increase the profitability of our assets. Our main task is to reverse the trend of rising operational costs per barrel of production and per ton of refining despite difficulties facing the industry.

We will focus on projects aimed at reducing operational costs, which is a long-term effort stretching beyond 2011.

Development of captive generation, optimization of infrastructure and maintaining production levels at our brownfields in Western Siberia accompanied by tough cost management will remain our



Our strategic goal is to **transform TNK-BP into the leading Russian oil and gas private oil company**. We will continue improving our performance in the three interrelated areas of people, efficiency and innovation. We will also pursue international diversification which is an integral part of improving the efficiency of our business, developing the skills of our team and implementing the latest technologies and business practices.

overriding priorities. In 2011, we expect to raise our oil and gas output by another 1–2% through, developing greenfield contributions and increasing our gas assets.

International expansion and establishing business beyond our traditional markets are another important task in terms of increasing the profitability of our operations.

– **What, in your opinion, drives the success of the company?**

TNK-BP is, first and foremost, a company with huge potential. Unlocking this potential is a prerequisite of our current and future successes. We continue looking for ways to increase the efficiency of our business and improve in key areas.

Our important competitive advantage is our team which unites professional, motivated, and talented people, each aware of their role in the company and how they can contribute.

We are united by our corporate values – leadership, performance, safety and integrity reflecting the spirit of our team.

A blend of international expertise and Russian experience enables TNK-BP to take advantage of the unique growth opportunities in a highly competitive energy market.

We cultivate innovation, aware of its importance in developing new projects and increasing brownfield efficiency. We continuously strive for optimal solutions and spent USD 110 million on developing and integrating innovations in all of our activities in 2010. We will continue this work in 2011.

International diversification is an integral part of improving the efficiency of our business, high-grading the skills of our team and implementing the latest technologies and business practices. In 2010, TNK-BP signed an agreement with BP, which is due to be completed in 2011, to acquire BP's assets in Vietnam and Venezuela. The deals give us multiple advantages by strengthening our presence in the growing markets of Asia and Latin America. We will also broaden our skill set which will benefit TNK-BP's projects in Russia. We will be looking at more international opportunities in 2011, and I am sure we will succeed in those as in many of our other endeavours.

# Our strategy for the future

Our strategy was defined during the establishment of TNK-BP in 2003. At the time it was conceived as four promises and included (1) the development of reserves from resources into production (2) maximum efficiency of export and domestic oil sales (3) the adoption of select international technologies and (4) adherence to high international standards of corporate governance.

In 2010, seven years after the company started operating, we refreshed our strategy in line with our strategic goal – to become an international oil and gas company with a leading position in the Russian oil and gas industry.

## Leading position in the Russian oil and gas industry

### The development of resources into reserves into production

- organic production growth of 1-2% per annum in the medium term
- 20-25% of greenfield contribution by 2015
- Continuing the development of Yamal fields

### Margin enhancement

- Balanced refining cover
- Retail network expansion
- Increased production of light oil products

### Monetisation of gas assets

- Gas production of > 30 bcm by 2020
- “20/20/20”:  
> 20% gas share in hydrocarbon production and in EBITDA by 2020

### World-class corporate governance

- HSE
- Ethics
- Processes

## Portfolio of international assets with required profitability level

## Technology

## People and capabilities

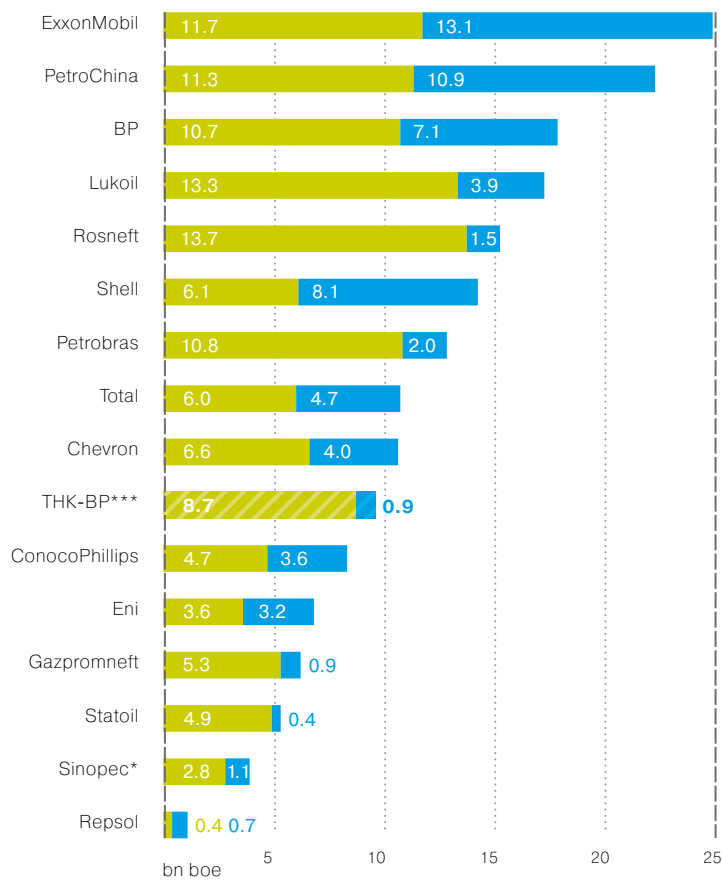
## Industry position

We have built up a strong industry position enabling us to continue implementing our strategic goals. TNK-BP is the 10th largest private oil company in terms of total proved oil and gas reserves (SEC). It is also the 7th largest private oil company globally solely based on oil reserves and holds the 8th highest position (together with Shell) in terms of liquids production.

In comparison with our Russian peers, in 2010, the company's investment performance was one of the best in important areas such as finding and development (F&D) costs and the total capital expenditure per barrel of oil equivalent. We were equally proficient at managing our financial resources with excellent results achieved in the free cash flow per boe of production and return on capital employed (please see pages. 12 and 19).

## TNK-BP production and reserves vs. Russian and global peers

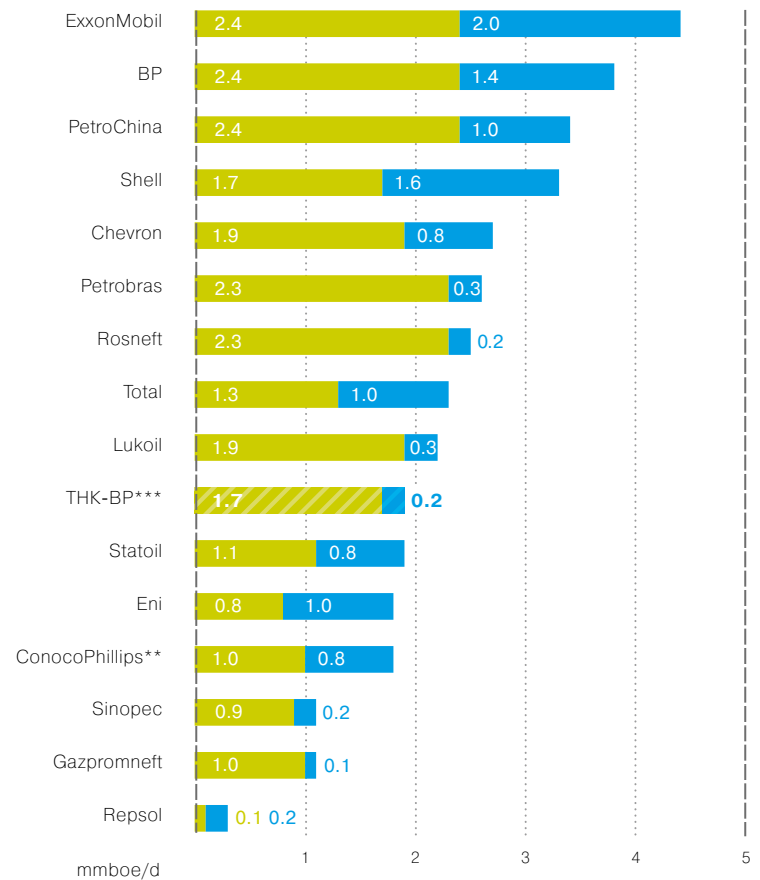
2010 total proved oil and gas reserves (SEC), bn boe



■ Gas ■ Oil

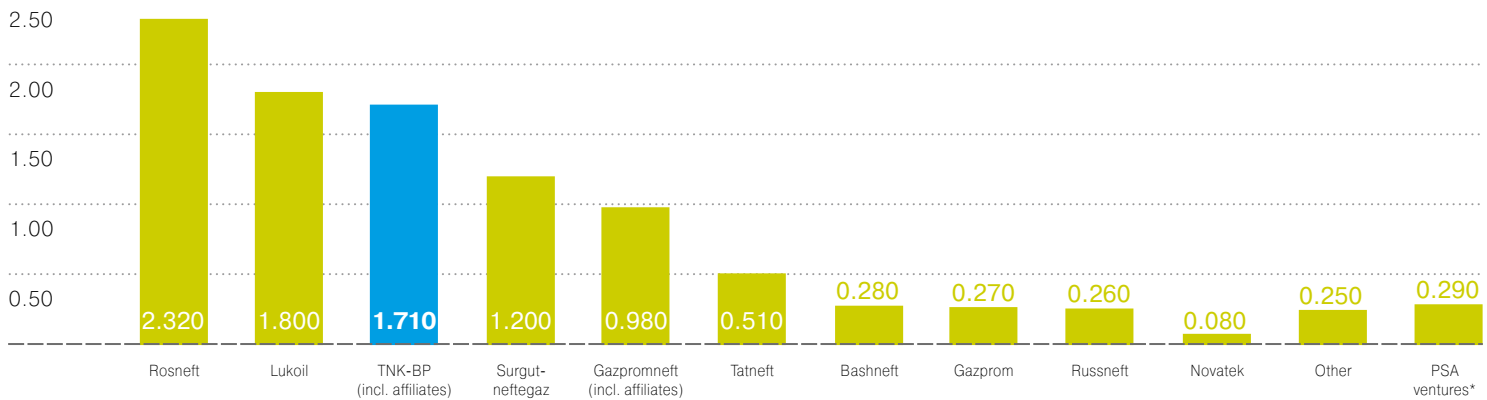
\*Sinopec reserves as of 2009. Source: company data.  
\*\*\* Figures for TNK-BP include the company's share in Slavneft

2010 oil and gas production, mmboe/d



\*\*Figures for ConocoPhillips, reserves exclude Lukoil investment. Source: company data.

## Russian Liquids Production in 2010, mmb/d



\*PSA- production-sharing agreements

Source: company reports, Bloomberg

Our current resource base is estimated at almost 37 bn boe of 3P (proved, probable, possible) reserves under PRMS criteria. Steady advances in the application of technology and exploration success give us grounds to believe that we can secure sustainable production growth and replace output with at least 100% of new reserves (please see page 22).

## Macroeconomic background

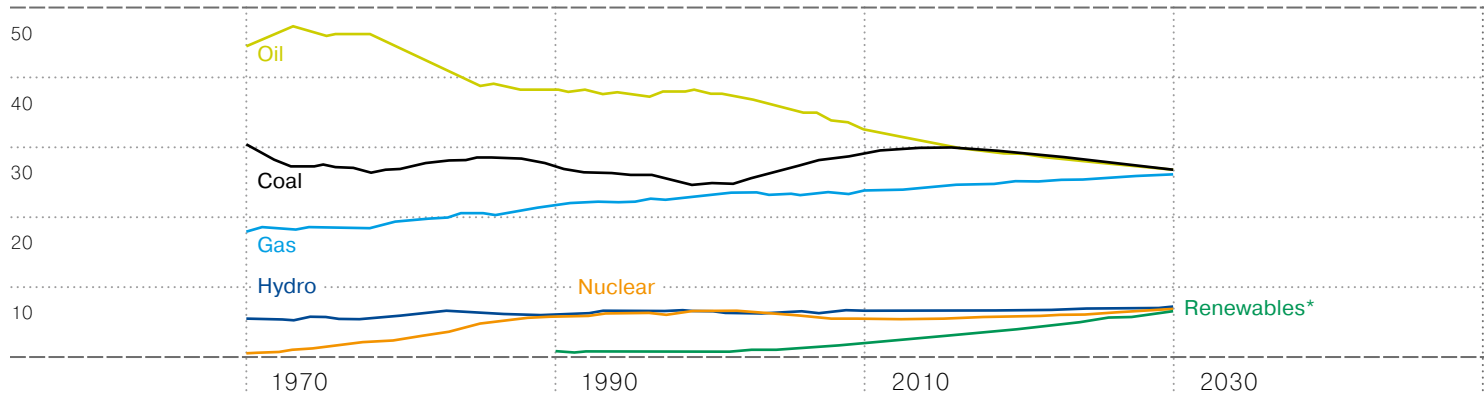
Our focus on developing and expanding our oil and gas portfolio is supported by macroeconomic views which show that fossil fuels will remain a major source of energy in the foreseeable future. According to BP's 2030 Energy Outlook, over the next 20 years, fossil fuels will contribute 64% to the growth in energy demand. By 2030, the share of oil, gas and coal in the world's primary energy sources is predicted to be 26% to 27% for each fuel.

Russia and Saudi Arabia, the two oil market leaders, are expected to sustain their current global oil market share of roughly 12% over the next 20 years. With an ample resource base, a highly skilled professional team and efficient project management, our company is well-positioned to remain an important supplier of the world's energy. Our international expansion will help us to diversify our upstream base and supply customers in the new markets of Latin America and Asia (please see page 10).



East Siberia, in the vicinity of the Verkhnechonskoye oil field

## World primary energy, %



\* Includes biofuels

BP Energy Outlook 2030

Natural gas is expected to be the fastest growing fossil fuel in the global energy market by 2030. We will continue to develop our gas business not only for domestic consumers in Russia, but also internationally with the acquisition of gas and power assets in Vietnam and through consideration of an unconventional gas project in Ukraine. We will also explore other international oil and gas options (please see page 11).



Oil-gathering system at the Samotlor oil field

# Business Internationalization Spreading Our Wings

Our strategy to become a world-class company and the leader among Russian private oil companies rests on the foundations of international diversification, technological advancement and strong organizational capabilities.

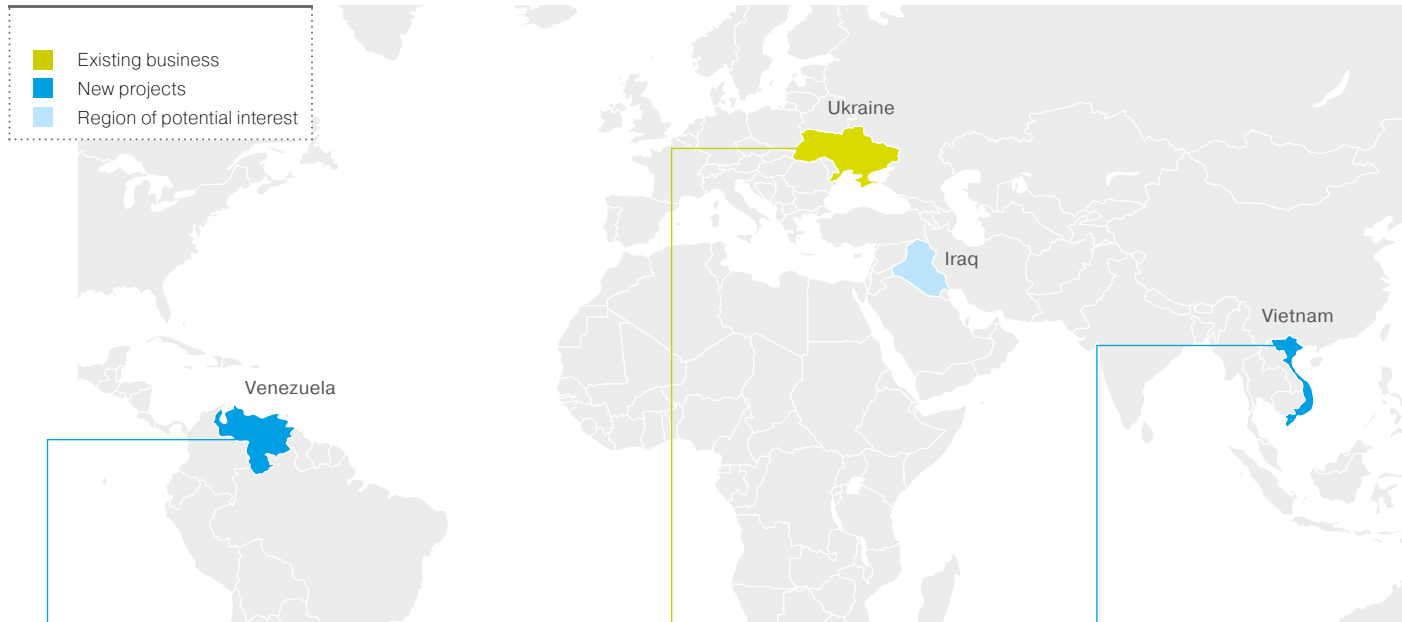
International diversification is a new dimension in our development and it will enable us to improve our performance in the strategic areas of replacing production with new reserves and monetizing our gas potential.

An international asset portfolio will underpin our corporate governance standards and our compliance with best practice. We will broaden our skill set and apply our in depth knowledge to TNK-BP's projects in Russia in order to increase efficiency and enhance our competitive edge.

In 2010, we stepped up our international presence by entering into an agreement with BP to acquire oil and gas assets in Vietnam and Venezuela for an estimated USD 1.8 bn. We then made a deposit of USD 1 bn with the final settlement due upon completion. This agreement will transform TNK-BP into a significant player in the growing markets of Latin America and Asia. We plan to complete the acquisition in 2011 and to proceed with integrating these assets into the company's operational framework (for additional details please see page 144).

In 2011, TNK-BP will continue looking at international opportunities which will strategically fit in our existing portfolio and increase the company's capital value.

## International presence of TNK-BP



### TNK-BP in Venezuela

#### Extra heavy oil brownfield opportunity

Acquisition of stakes in three Empress Mixtas/ joint ventures with PDVSA – PetroMonagas, PetroPerija and Boquerón from BP is underway and expected to be completed in 2011. The other partners in the joint ventures include PDVSA with a 83.3% stake in PetroMonagas and 60% stakes in PetroPerija and Boquerón each, as well as OMV with a 13.3% interest in Boquerón. Upon completion, TNK-BP's net share in the joint ventures will amount to 207 mboe of 2P (proved and probable) reserves and approx. 25 mboe/d of production.

#### Junin-6 integrated heavy oil project

In 2008, TNK-BP and four other major Russian oil and gas companies (Rosneft, Lukoil, Gazprom Neft and Surgutneftegas) formed the National Petroleum Consortium (NPC) with each party receiving a 20% interest. The consortium, set up on the initiative of the Russian government, is a state-private partnership established to promote energy cooperation between Russia and other countries.

In 2010, PetroMiranda, a joint venture (JV) between NPC and PDVSA, the Venezuelan state oil company, was set up in order to develop and operate an integrated heavy oil project at the Junin-6 oil field in the Orinoco oil belt in Venezuela. NPC paid USD 600 mln for a 40% interest in the JV to the government of Venezuela and TNK-BP loaned USD 120 mln to NPC in respect of its 20% of this payment. With the main organizational issues resolved, the operations commenced and significant progress made toward early oil production. The oil in place at Junin-6 is estimated at 52.6 bn bbls of heavy and extra heavy oil reserves. The production plateau should reach 450 mb/d. The joint venture between NPC and PDVSA is in place for 25 years with a possible extension for another 15 years (additional information on NPC can be found at <http://consorcio.ru>).

#### Ayacucho-2 block

In 2008, TNK-BP signed a Joint Study Agreement for Ayacucho-2 block in the Orinoco oil belt in Venezuela with PDVSA. According to the agreement, TNK-BP and PDVSA will prepare technical and commercial proposals for a prospective joint project. The agreement follows a Memorandum on assessment and certification of reserves at the Ayacucho-2 with PDVSA which was concluded by the two parties the previous year.

### TNK-BP in Ukraine

In 2010, TNK-BP signed a memorandum of cooperation with the Russian and Ukrainian governments and the national joint-stock company Ukraine Naftogaz for the exploration and production of gas from tight sandstone deposits in the Donetsk region. In 2011, we plan to take part in an open tender to gain permission to explore gas in tight sandstone deposits and to drill the first exploration well.

TNK-BP's strategic goal is to transform from a predominantly oil company into an oil and gas company with an established gas value chain by seizing international gas opportunities.

In 2010, TNK-BP celebrated a 10-year anniversary of doing business in Ukraine which was started by TNK, one of the three heritage companies. TNK-BP's assets in the country include the 114 mb/d Lisichansk refinery and 416 retail sites operating under the TNK and BP brands (please see page 76). In May 2010, we completed the acquisition of VikOil, a company engaged in the retail and wholesale distribution of oil products in Ukraine. Our business in Ukraine is a strategic investment and we intend keep it growing it efficiently and to the benefit of all our stakeholders (please read more about our operations in Ukraine in the Sustainability report).

### TNK-BP in Vietnam

We are in the process of closing acquisition interests in an integrated gas project, including offshore Block 06.1 (35% stake), the Nam Con Son the gas pipeline (32.7% stake) and the Phu My 3 power plant (33.3% stake).

Block 06.1 includes two gas fields – Lan Tai and Lan Do – located in the Nam Con Son oil and gas basin, some 370 km off the south coast of Vietnam. The fields are being developed under a production-sharing agreement. The other partners in the project include the Oil & Natural Gas Corporation (ONGC) of India (45%) and the Vietnamese state oil and gas company PetroVietnam (20%).

Upon completion of the deal, TNK-BP's net share in Block 06.1 will amount to 83 mboe of 2P reserves and 19 mboe/d of production. We will gain important offshore experience that TNK-BP will potentially be able to apply elsewhere.

The Nam Con Son pipeline connects the Lan Tai field and other offshore fields with the Fu Mai energy complex. The other partners in the pipeline project are PetroVietnam Gas (51%) and ConocoPhillips (16.33%). The pipeline also transports hydrocarbons from the neighboring blocks under long-term transportation contracts. In 2010, the Nam Con Son pipeline pumped over 6 bcm of gas, which includes all gas produced at Block 06.1.

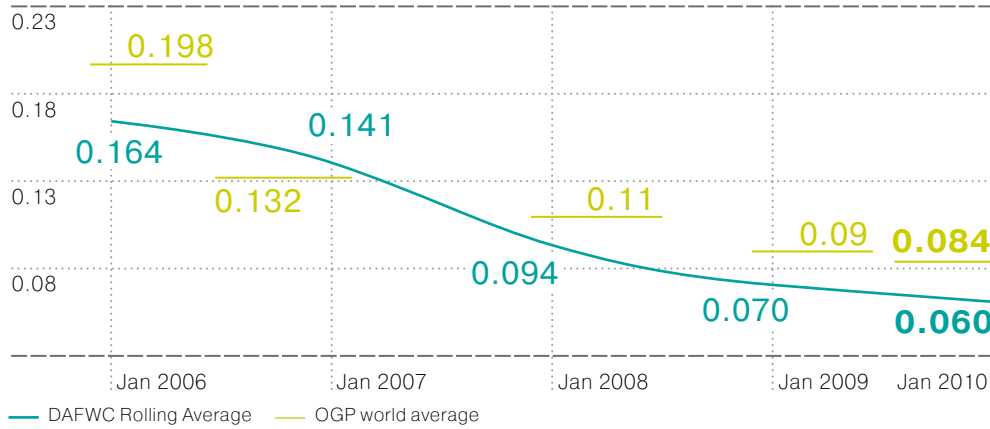
Fu My-3, a 750 MW combined cycle power plant, is located 70 km from Ho Chi Minh, in the south of Vietnam. Fu My-3 meets up to 6% of the country's electricity demand. The power plant purchases all of its gas from Block 06.1 and sells SembCorp electricity under long-term contracts. The other partners in the power plant project are the Kyushu Electric Power and Sojitz consortium (33.33%).

# Key financial and operational highlights of 2010

<b>Operating data</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Total liquids production (thousand barrels per day), incl. Slavneft	1,713	1,680	1,651	1,664	1,752
Total gas sales (thousand barrels per day), incl. Slavneft	221	208	195	155	188
Total liquids production (thousand barrels per day), excl. Slavneft	1,527	1,489	1,454	1,452	1,518
Total gas sales (thousand barrels per day), excl. Slavneft	215	201	188	149	181
Refining throughput (thousand barrels per day)	732	675	698	701	661
<b>Selected financial information</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Total sales (USD million)	44,646	34,753	51,886	38,926	35,725
EBITDA (USD million)	10,391	9,007	10,093	9,565	11,255
EBITDA (USD million per barrel of liquids production)	16.6	14.7	16.7	15.8	17.6
Net income (USD million)	5,815	4,973	5,284	5,342	6,678
Net income (USD million per barrel of liquids production)	9.3	8.1	8.7	8.8	10.4
Cash flow from operating activities (USD million)	9,682	6,581	8,611	7,097	3,071
Net debt/Net debt plus equity ratio (%)	21%	28%	32%	30%	34%
ROACE (%)	26%	24%	27%	31%	48%
<b>Market data</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Brent (USD/bbl)	79.47	61.51	97.11	72.52	65.14
RUR/USD	30.37	31.72	24.86	25.58	27.19

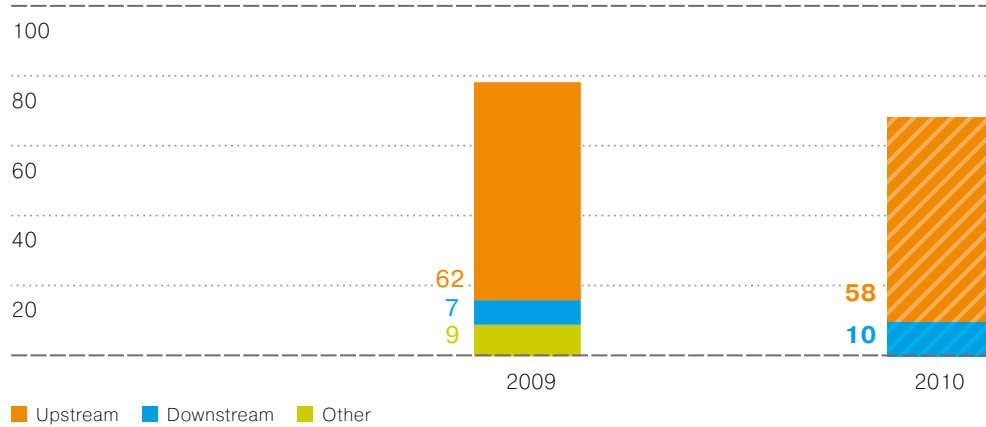
# Health and safety data

## Days away from work cases (DAFWC) rolling average



In 2010, DAFWC reduced by 58% compared with 2008 and is substantially below the world industry average as reported by the Association of Oil and Gas Producers (OGP), an international platform for safety performance benchmarking.

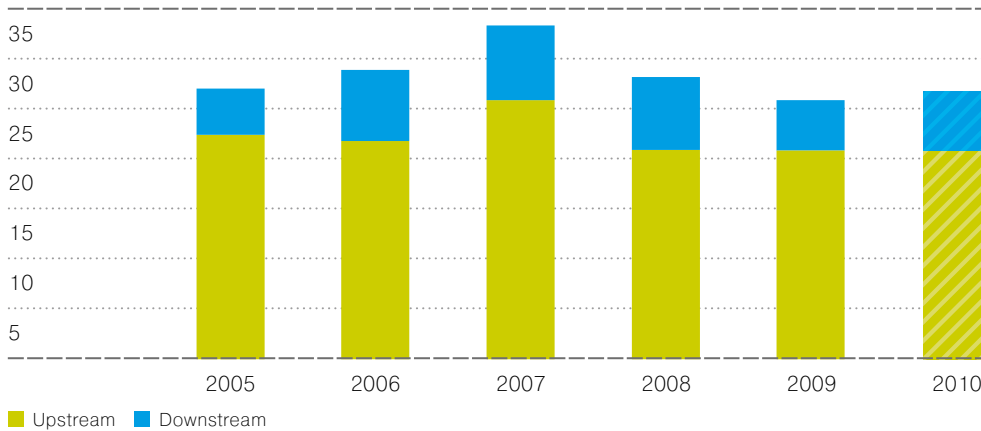
## Days away from work cases (DAFWC)



Implementation of occupational safety programs resulted in a 13% decrease in DAFWC recorded in 2010.

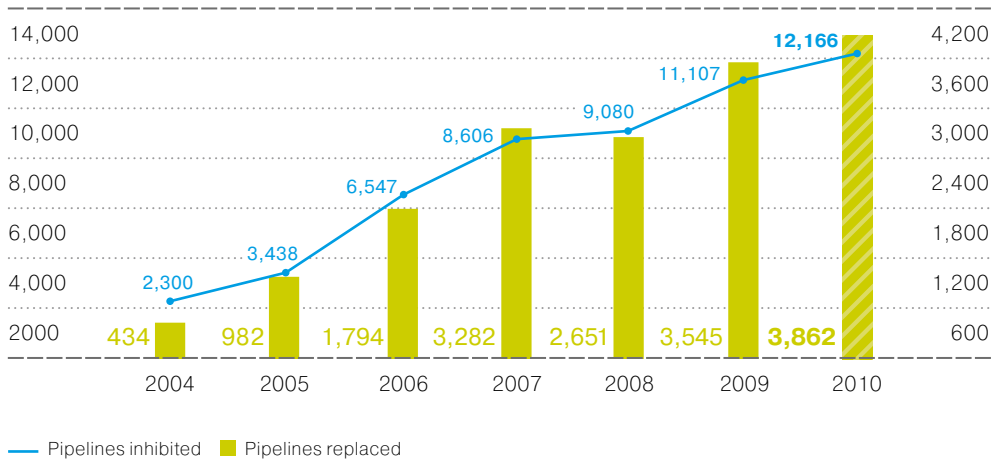
## Environmental data

### Greenhouse gas emissions, CO<sub>2</sub> equivalent, mln tons



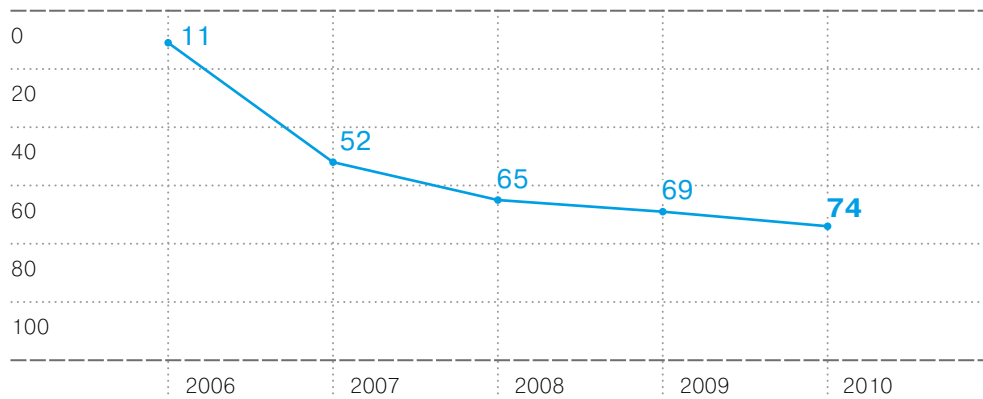
In 2010, the level of greenhouse gas emissions remained stable in spite of record high growth rates of oil production and refining.

### Pipelines integrity program, km



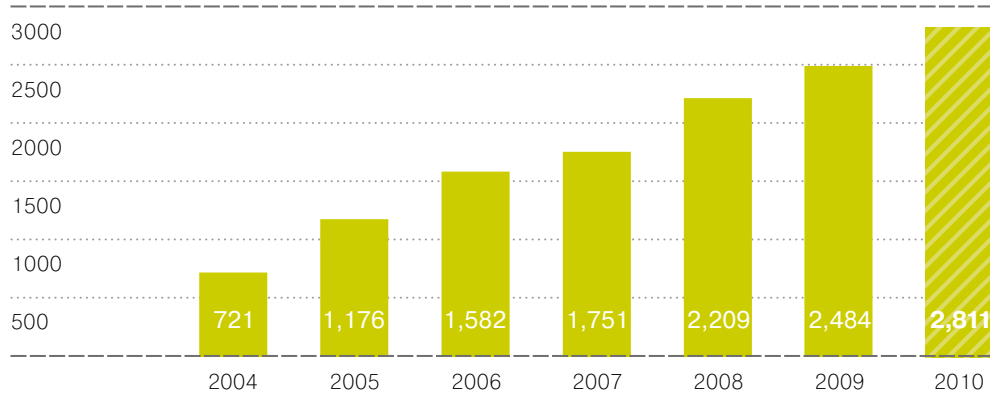
In 2004-2010, we replaced 3,862 km of pipelines. The inhibition program for trunk pipelines was implemented above target, and 12,166 km of pipelines were covered by inhibition protection as of 1 January 2011.

### Oil spills reduction on 2005 baseline, %



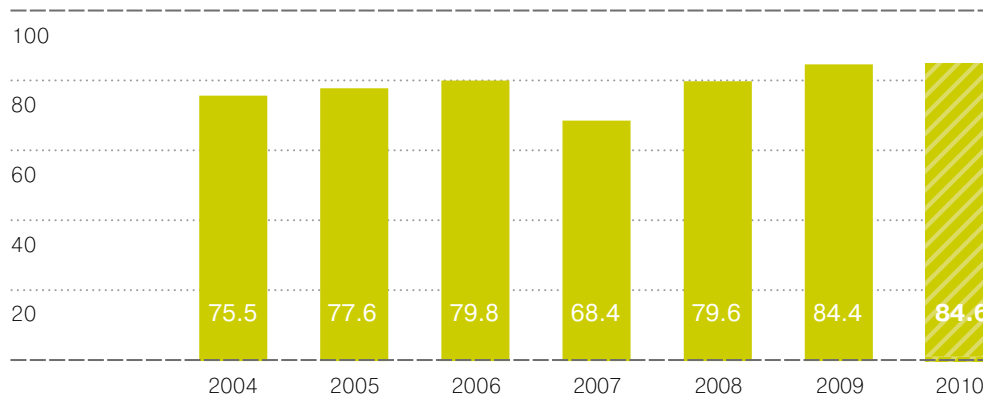
Spills down by 74% in 2010 compared to 2005 as a result of inhibition and replacement of pipelines.

### Legacy remediation, ha



Since 2004, we have remediated and handed over to the state close to 2,800 hectares of inherited polluted land. This is roughly half of the total legacy pollution, and we intend to continue our legacy remediation program.

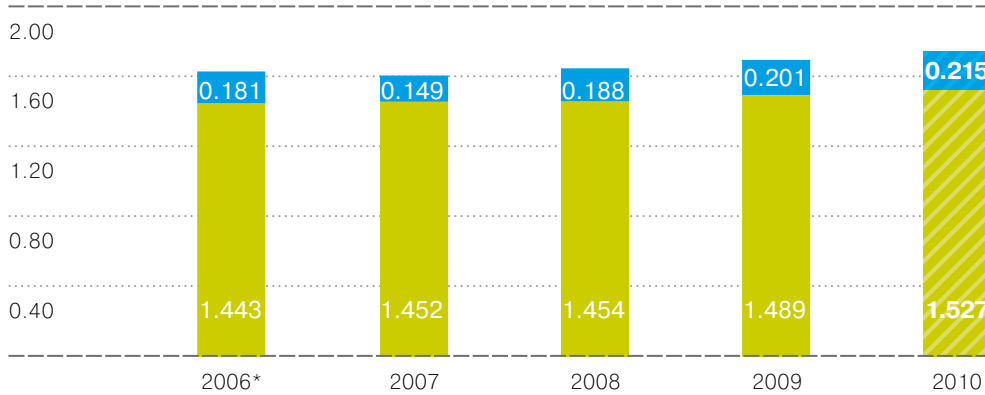
### Associated gas utilization, %



APG utilization reached 84.6% in 2010. Improving the APG utilization rate remains our target in our APG utilization program.

## Operational data

### Oil and gas production, excl. Slavneft, mmboe/d

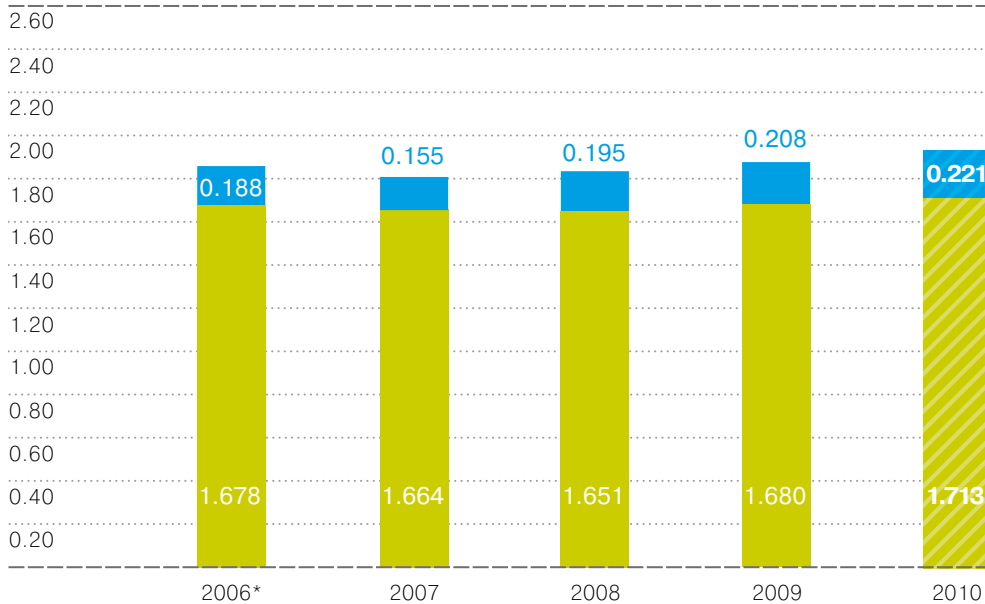


■ Gas ■ Liquids

\* Normalised for divestment of OJSC Udmurtneft

In 2010, TNK-BP achieved record underlying daily production of 1.742 mmboe which is up 3.1% on 2009.

### Oil and gas production, incl. Slavneft, mmboe/d

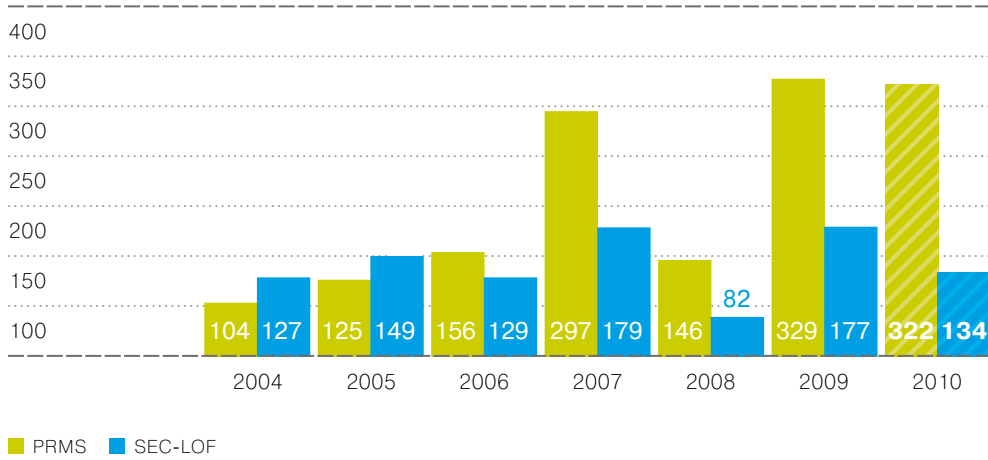


■ Gas ■ Liquids

\* Normalised for divestment of OJSC Udmurtneft

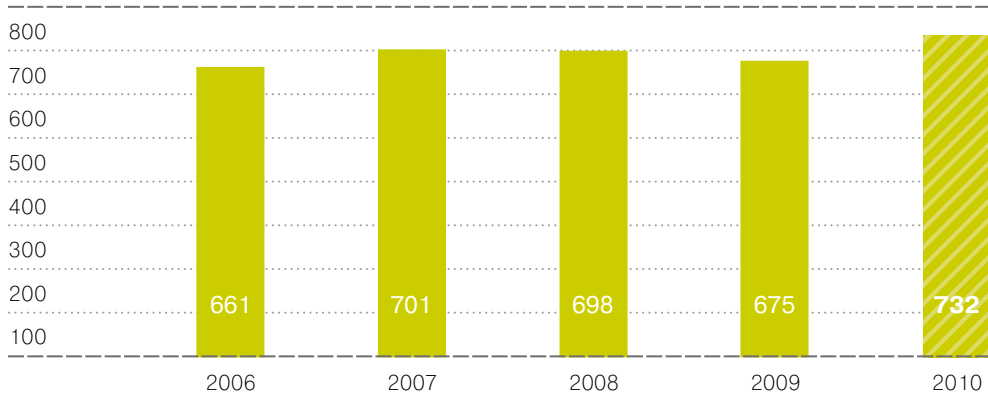
In 2010, oil and gas production growth, including our share in Slavneft, amounted to 2.4%.

### Reserves replacement ratio, %



Our average reserves replacement ratio for 7 years on the SEC LOF basis amounted to 140% which is a world-class achievement.

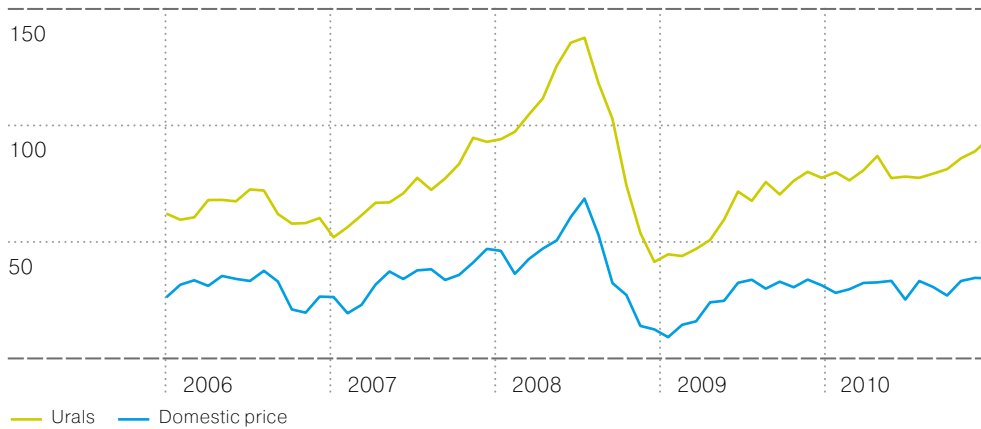
### Refining throughput, mb/d



In 2010, our refining throughput increased by 8% to a historic high of 732 mb/d due to successful debottlenecking, logistical improvements and operational efficiencies.

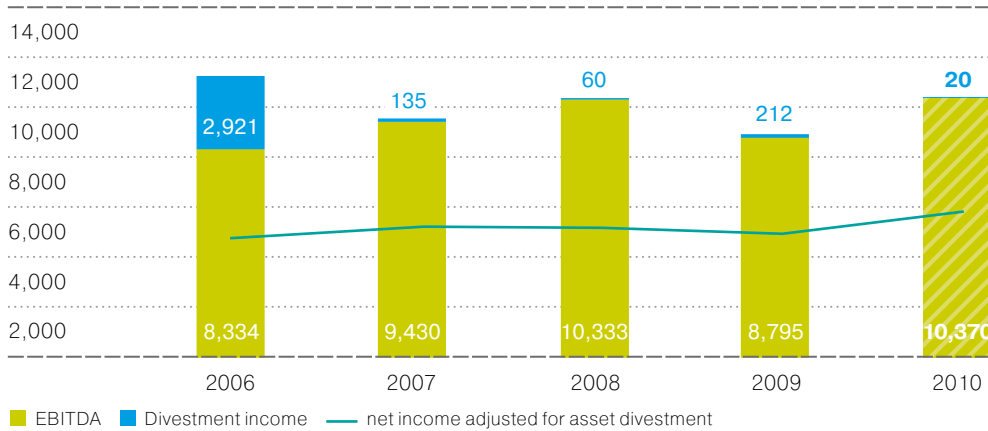
## Financial Data

### Price environment 2006–2010, USD/bbl



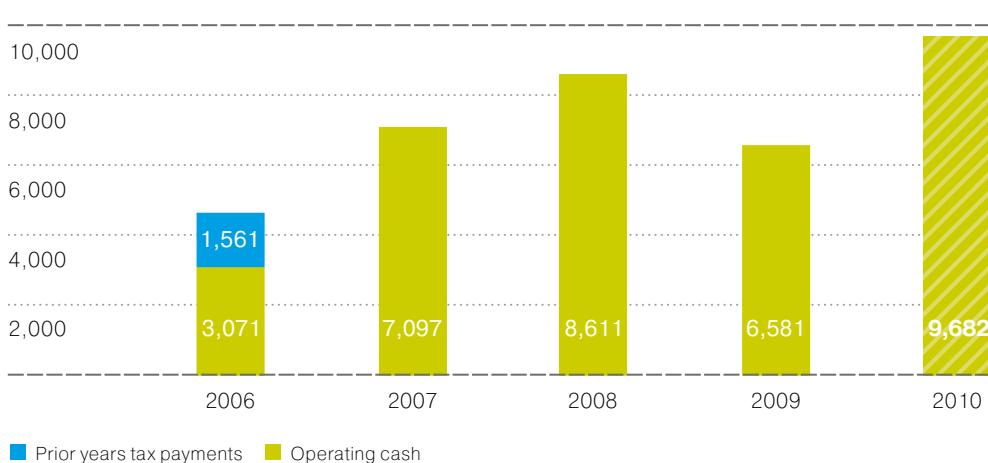
In 2006–2010, international and domestic prices of crude oil were sensitive to OPEC production levels, the global economic environment and other market moves. This volatility affected TNK-BP's operations by impacting revenues and taxes which are linked to the Urals crude's operations oil price.

### EBITDA and net income, mln USD



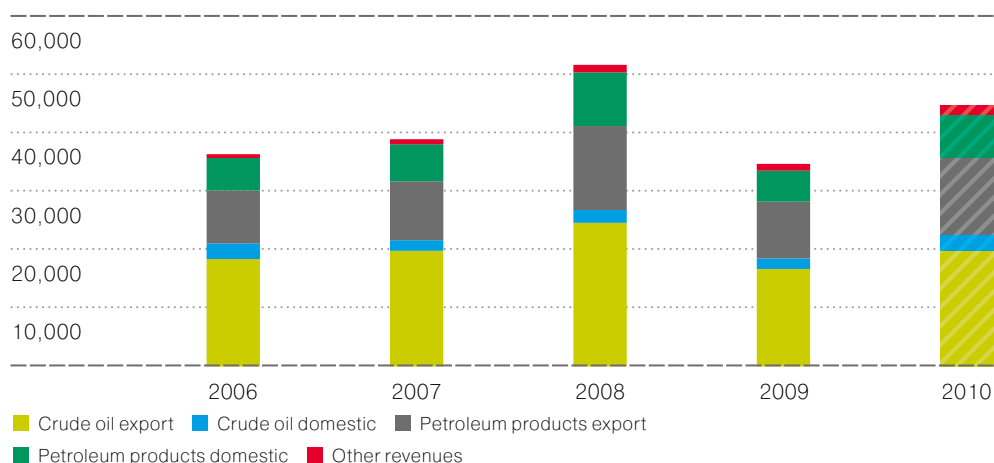
EBITDA and Net Income are driven primarily by the Urals price fluctuations, as well as underlying production growth.

### Operating Cash Inflow, bn USD



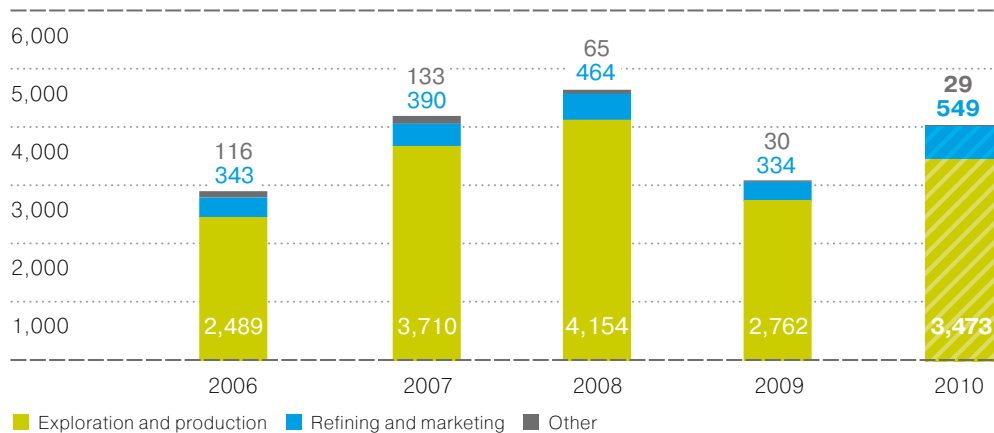
Operating cashflow largely follows the EBITDA trend, after adjusting for divestment income and working capital movements.

## Revenues, bn USD



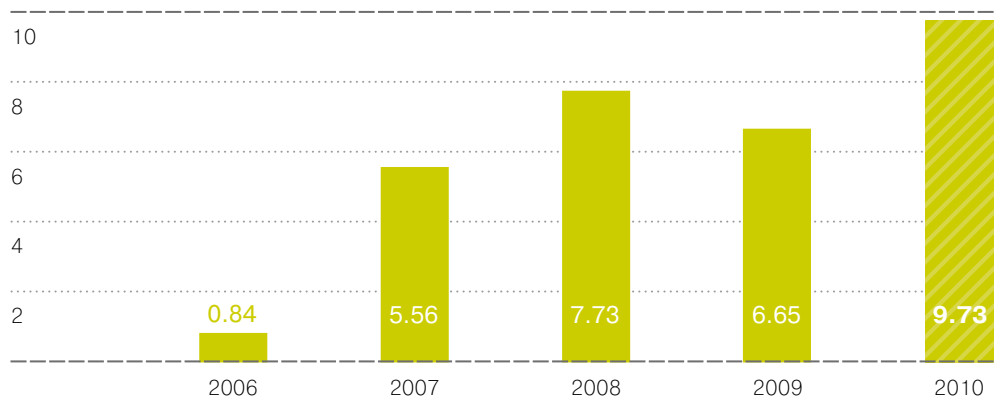
In 2010, revenue was impacted by the prices and growth in underlying production, with the overall trend of growing petroleum product's the share in sales mix underpinned by the modernization and the debottlenecking of TNK-BP refineries.

## Organic CAPEX, mln USD



We direct most of our capex to upstream together with targeted retail and refining spend.

## Free cash flow per barrel of liquids production, USD/bbl



In 2010, we remained industry leaders in capital efficiency.

# Upstream



Drilling rig at the Verkhnechonskoye oil field

# Salt of the Earth

Exploration and production form the backbone of TNK-BP, providing stability today and ensuring our sustainability in the future. The strategic goals of TNK-BP's Upstream and Technology streams are to ensure efficient renewal and expansion of the company's resource base, maintain production levels and maximise the potential of existing fields, while growing production through cost-effective, safe and efficient new projects.

19,127	579	8	217	1.742	3.1%
Upstream employees	Technology employees	Russian regions presence	licences	mmb/d oil and gas production	production growth
84.6%	72%	13.069	3.1	6.676	
associated petroleum gas utilisation	exploration success rate	bn boe PRMS 1P reserves	bn USD upstream investment	bn USD upstream EBITDA	

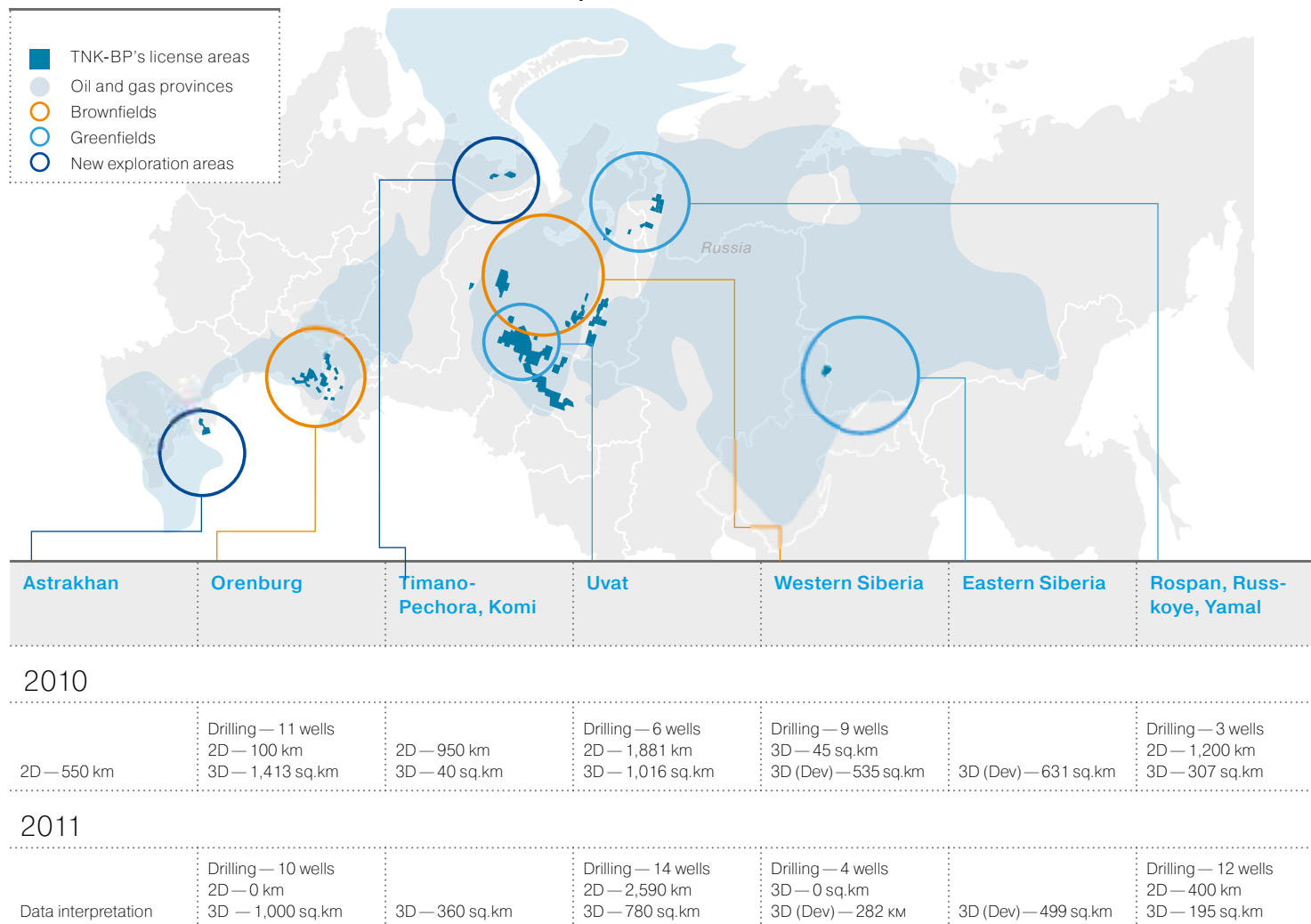
# Exploration and reserves replacement

Finding new hydrocarbon reserves and successfully replacing production with new reserves is a strategic priority for TNK-BP.



Finding new hydrocarbon reserves

### TNK-BP exploration activities in 2010



We have a distinctive approach to exploration for new hydrocarbons which includes [three areas of activities](#):

#### 1) [Unlocking the potential of existing fields in the Orenburg region and Western Siberia](#)

TNK-BP is exploring and carrying out development work on highly promising new deposits where oil production has been previously not possible due to a lack of technology and organisational capacity. Examples include the development of the northern part of the incised valley at the Kamennoye field and development studies on the Ryabchik formation at the Samotlor field and the Okskiy formations at the Sorochinsko-Nikolskoye field (see pages 36, 39 and 50).

#### 2) [New projects in the Yamalo-Nenets Autonomous District, north of the Krasnoyarsk region, Uvat and Eastern Siberia](#)

TNK-BP is continuing its exploration activities in Uvat and at the Verkhnechonskoye field, where commercial production has now begun, to evaluate the resource base more accurately. The company is also carrying out appraisal work on new licence blocks in Yamal and the north of the Krasnoyarsk region to prepare them for commercial development by 2015 (see the article on Yamal projects on page 52).

#### 3) [The participation in tenders to acquire new licences](#)

TNK-BP is open to any opportunity to increase the company's resource base through non-organic growth. Acquiring new licences in regions where TNK-BP already operates allows it to bring fields on stream quickly and at a minimal cost, thanks to existing infrastructure and synergies with fields that are already at production.

TNK-BP is also continuously studying and implementing the best options to gain access to new regions, in order to diversify its asset portfolio and reinforce competitive strengths. Examples of this in 2010 included agreements to expand the company's presence in Venezuela (please see page 10) and exploration work in Timan-Pechora, the Komi Republic and the Astrakhan region in Russia.

In 2010, TNK-BP had major successes in terms of replacing exploited deposits with new reserves. According to the findings of an independent audit, the company had aggregate proved reserves, according to SEC LOF criteria, of 8.794 bn boe at 31 December 2010. Its reserve replacement ratio was 134%.

According to PRMS (formerly SPE) criteria, TNK-BP had aggregate proved reserves of 13.069 bn boe at 31 December 2010. Its aggregate proven reserves replacement ratio according to PRMS criteria was 322% in 2010. In 2010, the growth in TNK-BP's organic reserves was 572 mln boe.

This excellent performance was the result of aligned teamwork, particularly by the Technology business stream, combined with fruitful collaboration with leading Russian and international service companies and precise selection of technologies for each individual field.

In the period of 2009-2010, growth in oil and condensate reserves was achieved by drilling at the company's new Verkhnechonskoye and Uvat projects, as well as through active exploration work and development drilling in the Orenburg region.

The company also continued the process of acquiring licences that could bring considerable economic benefits for the company, including 9 licences in the Orenburg region, which added over 350 mln boe to the resource base.

An agreement on the transportation of gas from Rospan International's fields has laid the foundations for a substantial increase in natural gas production over the next 10 years (please see the chapter on Rospan International on page 57). This has enabled the company to increase its aggregate proved gas reserves ten-fold to 1.57 bn boe (257.4 bcm) according to PRMS criteria.

Most importantly, the company has replaced its reserves in commercially attractive terms. Average finding and development costs are USD 3.8 per barrel of aggregate proved reserves (SEC LOF) – one of the best results in the industry. Efficient management of exploration costs has been achieved through the optimisation of seismic work, a high success rate in exploratory drilling, and the competitive selection of contractors and suppliers of services.

# 140%

average reserve  
replacement ratio on SEC  
LOF basis over 7 years

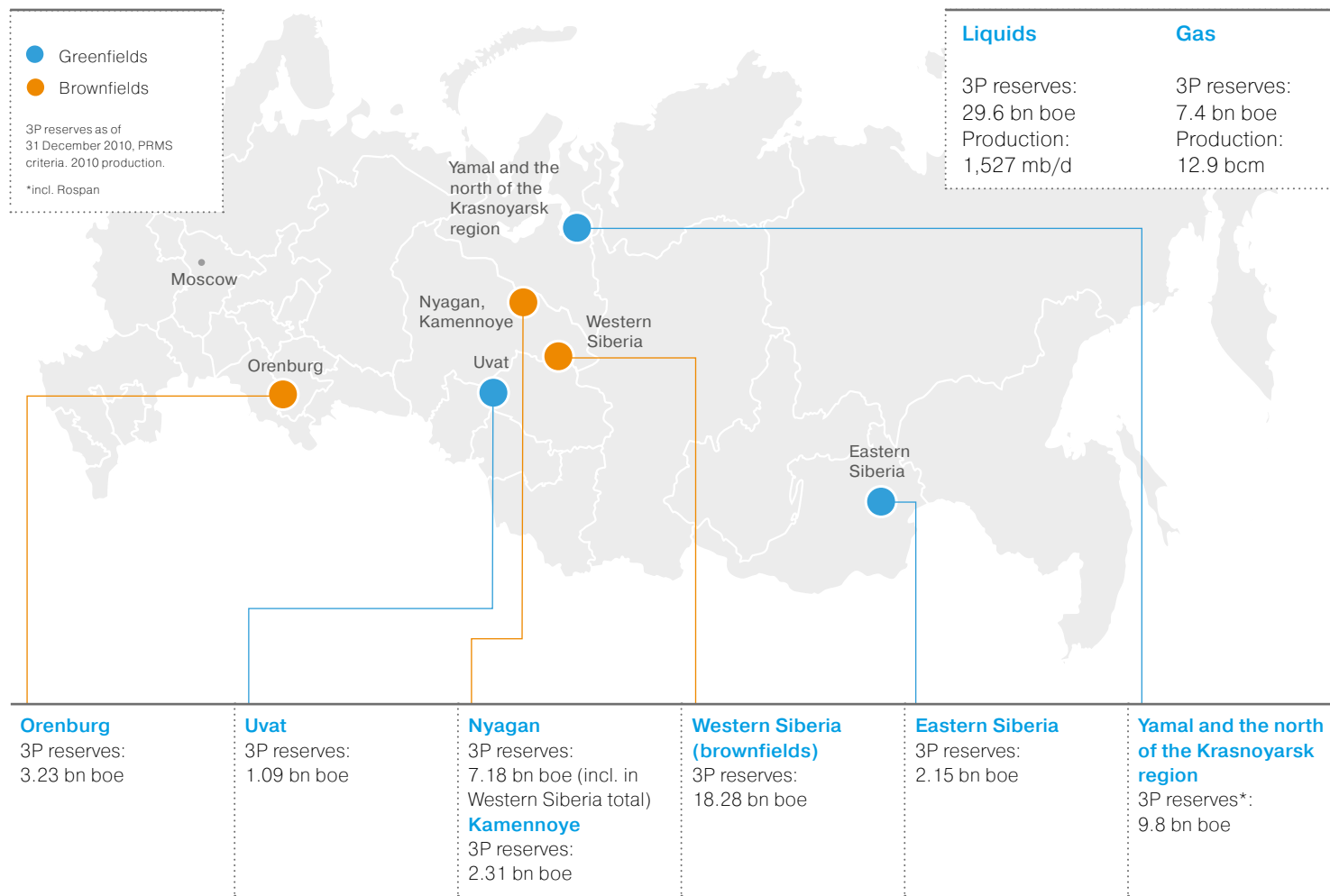
## Exploratory drilling and seismic survey

	Total 2005-2010	2008	2009	2010	2011 (plan)
<b>Exploration</b>					
Wells drilled	205	46	27	29	40
Success rate, %	65%	74%	74%	72%	70%
<b>Seismic</b>					
2D (km)	23,257	5,536	468	4,681	2,990
3D (sq. km)	16,657	2,555	997	2,821	2,335
3D Development (sq. km)	5,543.3	1,866	280	1,166	781

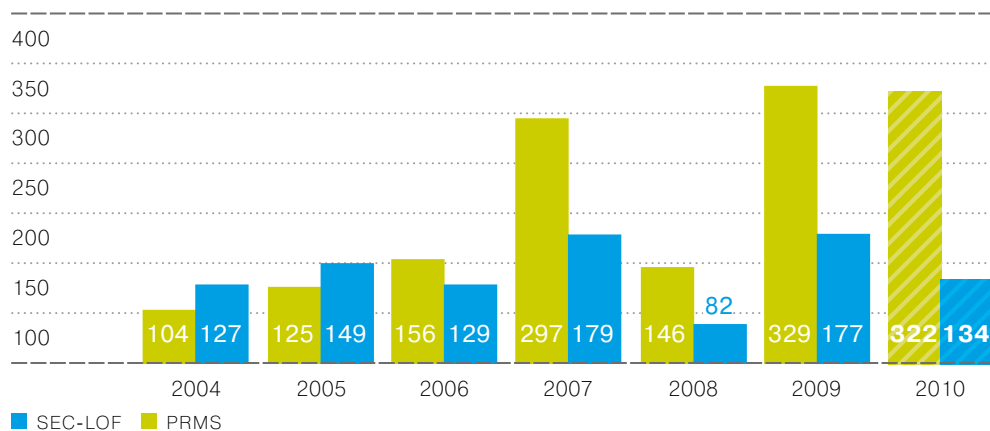
# 73%

average success rate for  
exploratory drilling over  
3 years

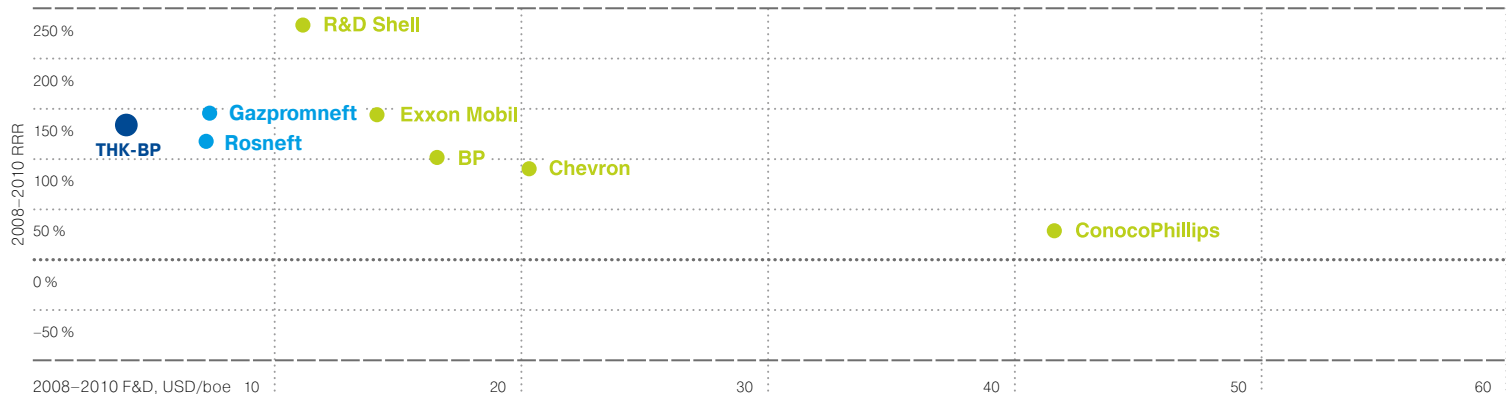
### TNK-BP's resource base by region



### Reserves replacement ratio, %



## Finding and development (F&D) costs and reserve replacement ratio (RRR), 2008–2010



RRR – reserve replacement ratio

Source: company reports, TNK-BP data, RRR ratio based on SEC-LOF data

## Technologies behind our exploration success

TNK-BP leads the field in Russia in the application of seismic technology. Between 2005 and 2010, it acquired 2D and 3D seismic data covering 23,257 linear km and 22,220 square km, respectively. 3D seismic survey data helps create three-dimensional models of fields which, in turn, help define more accurately the optimum locations for new wells and enhance their efficiency. In 2010, 3D seismic surveys were carried out in 8 regions of Russia, including the Verkhnechonskoye field in Eastern Siberia, the Samotlor field in Western Siberia and Central Uvat in the south of the Tyumen region. The results from the Verkhnechonskoye field were particularly successful, helping to substantially update the geological model of the field and increase the average flow-rate by 30%. The effectiveness of the company's seismic survey work was due not only to the number of acquisition sites, but also to the quality of processing and interpretation of the data acquired. Seismic data is processed in a dedicated centre operated by Western Geco, which provides these services exclusively to TNK-BP. 80% of all interpretation work is carried out at the Tyumen Petroleum Research Centre (TNNTs).

The information obtained from the processing and interpretation of seismic data forms part of a database containing visual information on complex geological structures and hydrocarbon accumulations to aid analysis and project decisions at the company's fields.

TNK-BP has entered into strategic alliances with leaders in the drilling industry, including the Swaco division of Dresser Industries, Halliburton and Baker Hughes, among others, in order to guarantee the quality of drill muds and cementing work required to drill efficient exploration and appraisal wells.

TNK-BP is proud of a number of important achievements in 2010:

- An increase by 4.5 times in 3D seismic density, resulting in a major improvement in the accuracy of geological modelling
- Application of high-productivity vibro-seismic techniques (HPVA) for dense high-resolution surveys based on GPS systems, enabling high-quality, high-resolution imaging throughout the target depth range
- Application of digital wave field modelling when designing 3D surveys for highly complex structures (Russkoye), helping the company

optimise 3D seismic operations and cut exploration costs

- Introduction of mechanised tree-felling (reducing HSE risks and improving the productivity and quality of seismic data through better seismic profiling preparation)
- Application of advanced 3D seismic interpretation (inversion) techniques, helping to obtain data on the geology and reservoir properties of oil and gas fields



Rock study at the Tyumen Petroleum Research Centre

“Russia is famous for its petroleum research schools and the Tyumen Petroleum Research Centre is one of the domestic oil industry’s best research institutions. The Centre has developed an outstanding three-dimensional model of the Verkhnechonskoe field, the second largest field in Eastern Siberia.”

Sergey Ostapenko, First Deputy Head of Exploration, TNK-BP

## Tyumen Petroleum Research Centre – TNK-BP's research hub

In 2010, the Tyumen Petroleum Research Centre (TNNTs), which is part of TNK-BP, celebrated its 10<sup>th</sup> anniversary. Since its inception, the TNNTs has grown into a leading research centre and is a particular source of pride for the company. The main vault at the centre contains over 80,000 sq. m of rock samples with information on a great number of fields in Eastern and Western Siberia.

Strategic lines of activity at TNNTs include:

- Performance of over 90% of the company’s hydraulic fracturing work and the creation of development plans for TNK-BP’s 25 largest fields
- Monitoring and mitigating risks related to oil production, reserve replacement, hydraulic fracturing, associated petroleum gas utilisation and environmental protection
- Planning of reserve progression over the coming 5 years
- Assistance and support for production enterprises in all field development processes and procedures

### TNNTs personnel comprise:

- 596 highly proficient and experienced specialists, initially drawn from 16 cities and 15 organisations throughout Russia, including

18 internationally recognised experts in field development, seismic exploration, and modelling, 2 doctors of science, 31 professionals with a Ph.D in science, and 150 members of scientific societies, including the Russian Academy of Natural Sciences, the Society of Petroleum Engineers (SPE), and the European Association of Geoscientists & Engineers (EAGE)

- 25 employees who have won recognition at a national level, including:
  - 8 individuals with acknowledgements from the Russian Ministry of Energy
  - 6 individuals with Certificates of Honor from the Russian Ministry of Energy
  - 7 individuals with acknowledgements from the Governor of the Tyumen region
  - 4 individuals with Certificates of Merit from the Governor of the Tyumen region

### The centre actively engages with universities and colleges offering:

- Internships for up to 50 students
- Contract work for 40 students to obtain practical experience
- Target programs with the participation of Heriot-Watt University (Edinburgh) and Royal

Holloway University (London), resulting in the employment of 73 graduates in 2010, including 12 graduates directly employed with TNNTs

### Achievements in 2010

- Development of:
  - 27 field development and design documents
  - 13 reserves estimates and oil recovery factor justification documents
  - 23 fast-track reserves estimates for 16 fields
- Interpretation of 3D seismic data covering 1,800 sq. km and 2D seismic data covering 2,200 km
- Technical and economic calculations for the Tyamkinskoe, Kosukhinskoe, and Suzunskoe fields

### Future plans:

- Further improvement of the quality of design documents
- Better monitoring of field development
- Creation of a seismic centre for the company and the development and integration of new seismic data interpretation methodologies
- Improvement of field modelling methods
- Creation of a centre for a deep penetration survey of formations

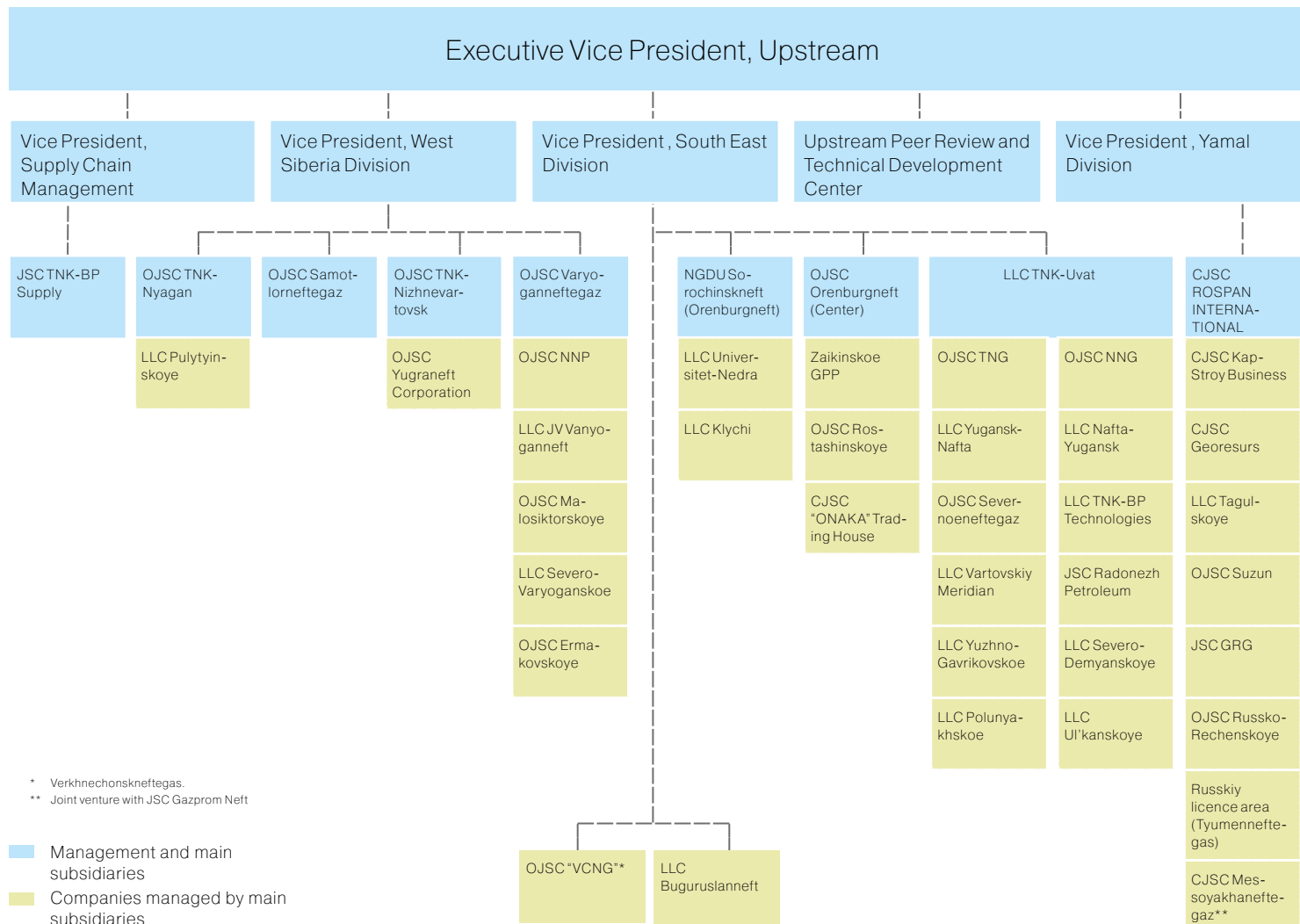
# Upstream

Exploration and production of hydrocarbons is carried out by TNK-BP's Upstream division, by far the largest in our company. TNK-BP's strategic goal in this area is to achieve maximum production efficiency and consistently improve the oil recovery factor.

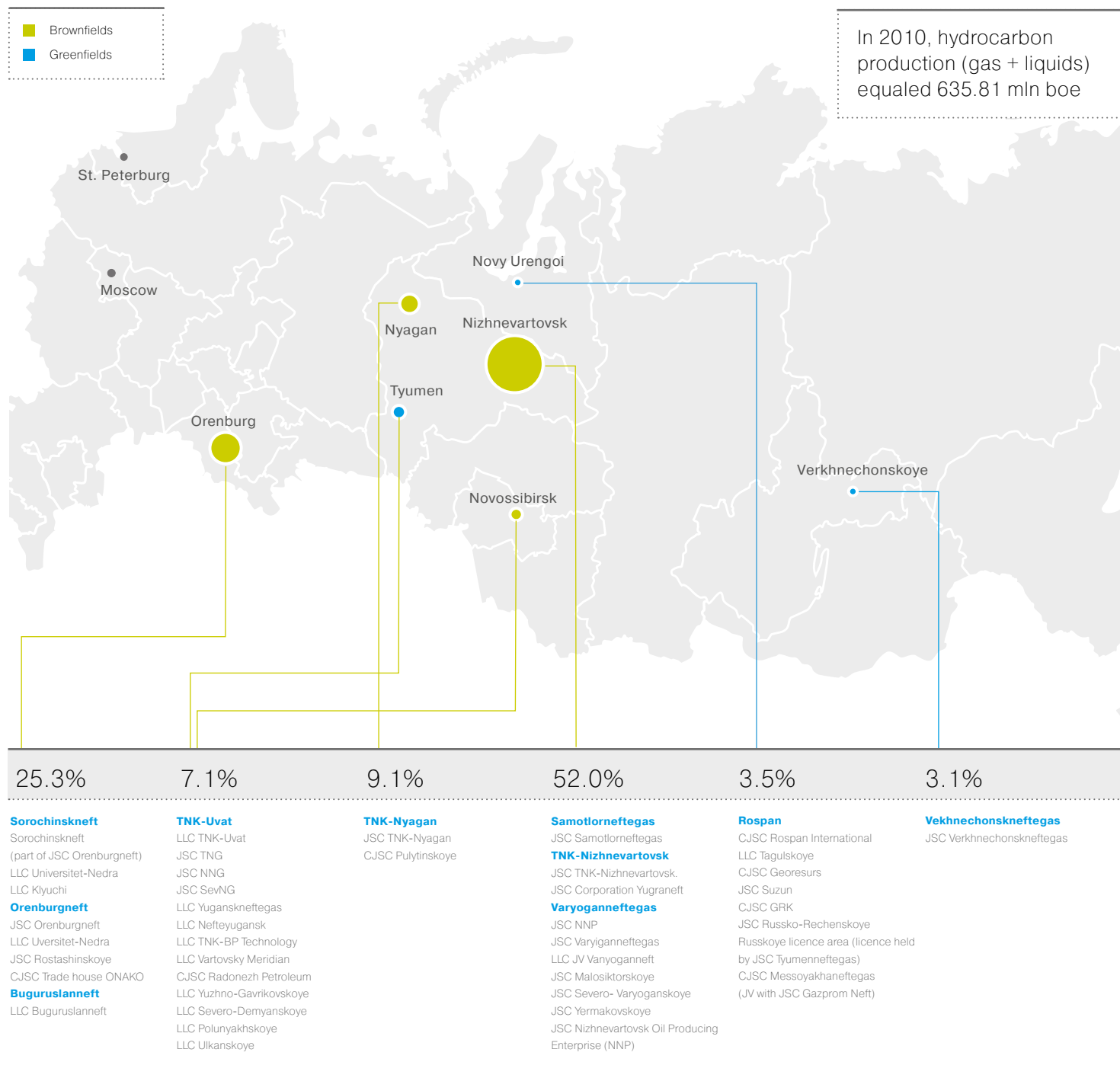
We are also focused on developing our gas business, which includes various associated petroleum gas utilization projects, preparation for the development of Rospan International's gas fields and, in the longer-term, extracting gas from gas caps at our oil fields.

Our team strives for continuous improvement, effective management and development of our organisational capability.

## Upstream Management Structure



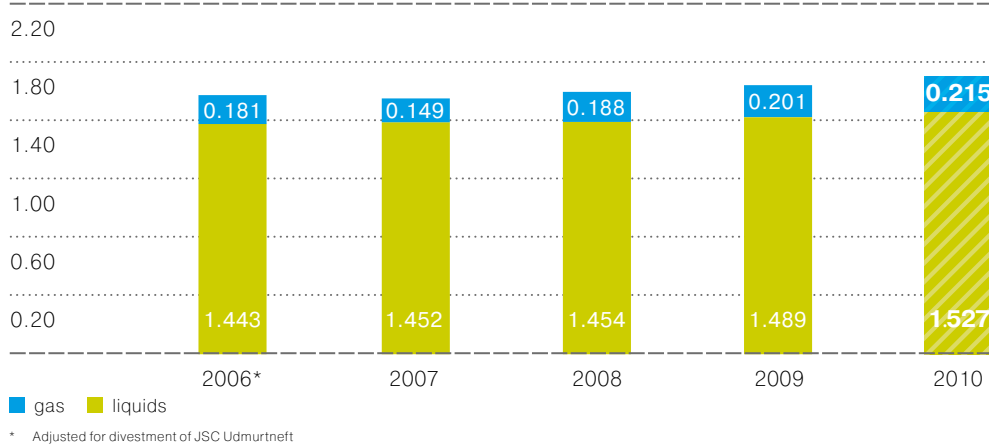
## Upstream production



The company had 217 licences in 2010. We are constantly working to ensure the extension of licenses for areas already under development, which is critical for the sustainability of our business. In 2010, the company extended 37 licenses. Overall, more than 52% of our licences have been extended to cover the period 2031-2077. Meanwhile, we have also continued to acquire new licenses through tenders, as a result of discovering new reserves and inorganic activities. In 2010, we acquired 15 licenses including 11 in the Orenburg region, 2 in the Khanty-Mansi Autonomous District and 2 in the north of the Krasnoyarsk region. 7 of these licenses can be brought on stream by the end of 2013.

**3.1%**  
oil and gas production  
growth in 2010

## Oil and gas production, excl. Slavneft, mmb/d



In 2010, oil and gas production reached 1.742 mmb/d – the highest level since the company was established in 2003. Production grew 3.1% compared to 2009 (excluding the TNK-BP share in Slavneft), thanks to an increase in greenfield production in the Uvat group of Western Siberia and the Verkhnechonskoye field in Eastern Siberia, along with continued production growth in the Orenburg region.

Oil and condensate production amounted to 1.527 mmb/d (73.75 mln tons), while gas production grew by 6.9%, reaching 12.9 bcm, which was primarily due to increased production at Rospan fields (see the article about Rospan on page 57).

At 31 December 2010, the company's operational well stock consisted of 29,510 wells, of which 21,210 were producing wells and 8,300 were injection wells. 557 new wells were brought on stream as a result of drilling activities in 2010 (versus 475 in 2009).

The company's average oil flow rate is 98 b/d (13 tons/d), which is above the industry average, including an average flow rate for greenfields of 815 b/d (109 tons/d) and an average flow rate of Western Siberian and Orenburg brownfields of 69 b/d (9 tons/d) and 212 b/d (28 tons/d), respectively.

TNK-BP seeks to maintain oil flow rates through the use of waterflooding and sidetracking.

## Taxation of the oil industry

TNK-BP's success in brownfield and greenfield development largely depends on the taxation system, which creates the conditions for investment in the development of reserves of varying degrees of complexity.

The main industry taxes are mineral extraction tax (MET) and customs duties, assessed on the basis of global oil prices. The share of MET and customs duties in the overall tax burden on Russian oil companies is 80-90%.

TNK-BP is an active participant in a working group under the auspices of the Russian Ministry of Energy that is developing the basic parameters of a new taxation system. In 2010, the proposals developed by the working group were submitted to the Russian Ministry of Finance for consideration.

Among other things, the proposed new taxation system envisages a reduction in the crude export duty rate, equalizing of the export duty rates for light and heavy oil products, continued MET payments for mature fields and a switch to a profit-based tax for greenfield projects. At the same time, the new system would create economic conditions conducive to active investment by oil companies in the development of capital-intensive new projects and the application of the most advanced and efficient technologies to maintain production at brownfields. The new system should also encourage investment in improving the quality of oil products.

# 1.794

mmb/d - historic  
daily production record  
achieved in October 2010



Studying reservoirs in TNK-BP's Visual Modelling Centre

## Laws and decrees adopted by the Federal Assembly of the Russian Federation and Government in 2010 as amendments to the existing tax system

### Mineral extraction tax (MET)

- Increase in the MET base rate from RUR 419/t (current) to RUR 446/t in 2012, and to RUR 470/t in 2013
- Preferential MET rate for fields in the Irkutsk region, Sakha Republic and Krasnoyarsk region in Eastern Siberia
- Preferential MET rate for highly-viscous oil fields
- Preferential MET rate for depleted (> 80%) fields

### Customs duties on oil

- Preferential oil customs duty rate (zero until 1 July 2010; 0.45 of the current rate from 1 July 2010 to 1 May 2011) for East-Siberian fields

### Customs duties on oil products

- Gradual alignment of customs duties for heavy and light oil products
- Average rate for heavy and light oil products of:
  - 56% of the oil customs duty rate from 1 January 2011;

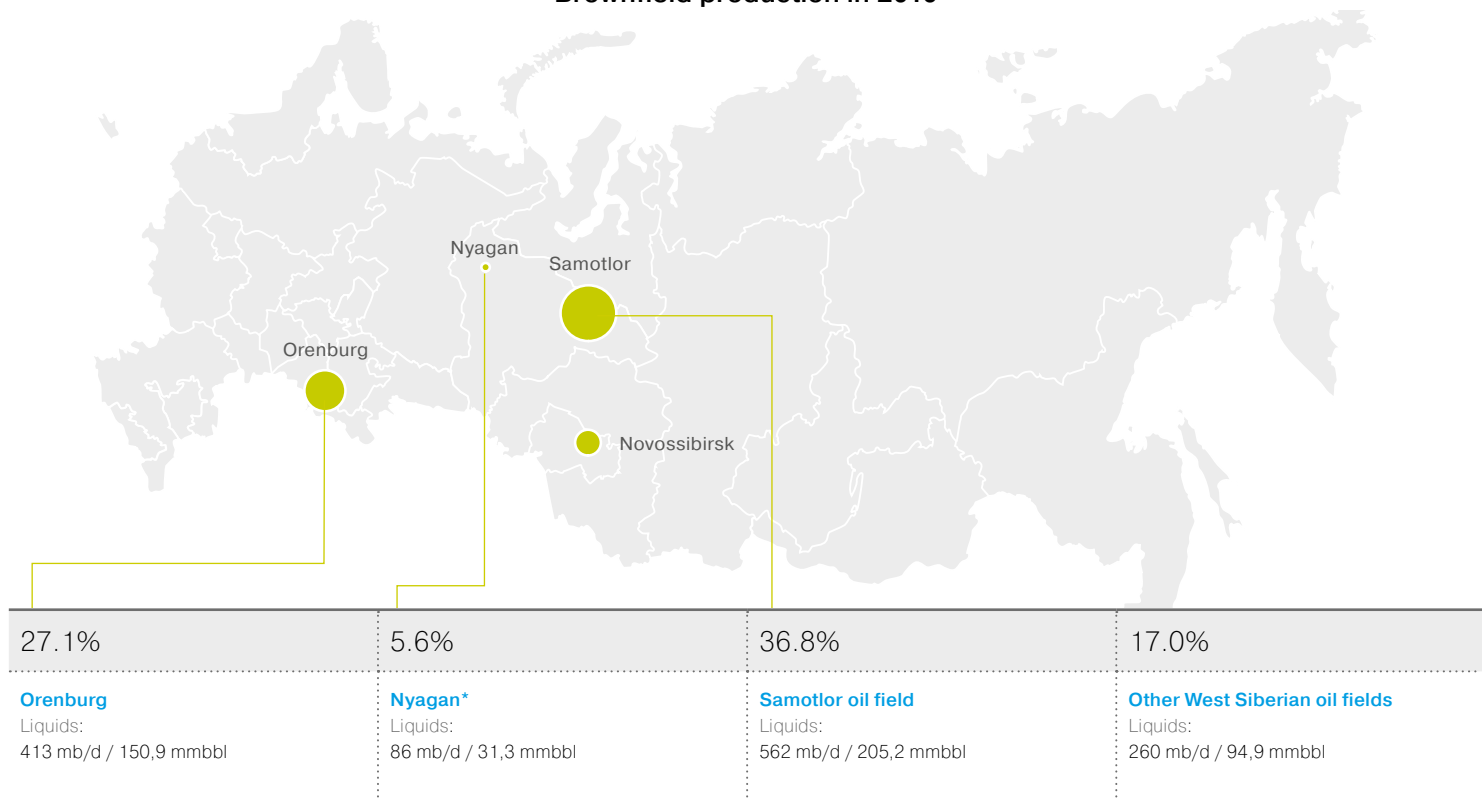
- 58% of the oil customs duty rate from 1 January 2012; and
- 60% of the oil customs duty rate from 1 January 2013 (equal rates for light and heavy products)

## Brownfield production

The company operates brownfields in Western Siberia and the Orenburg region in the Volga-Urals Federal District. This geographical diversification distinguishes TNK-BP from other Russian oil companies that focus exclusively on Western Siberia.

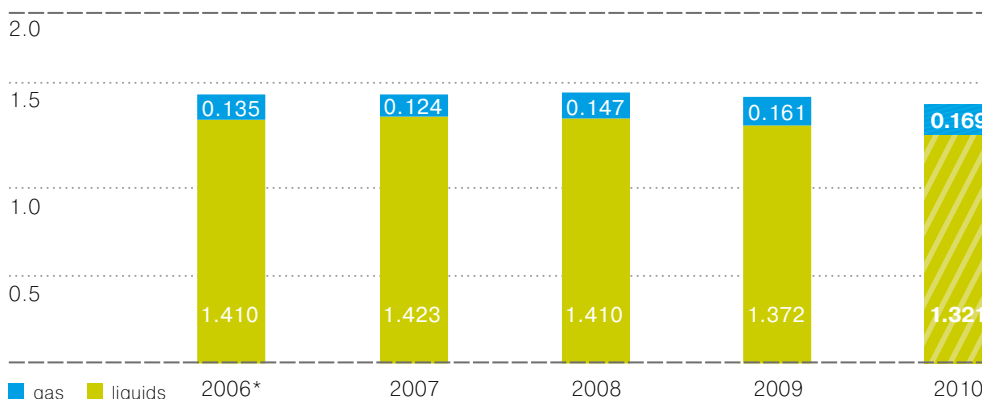
In 2010, TNK-BP brownfields produced approximately 1.3 mmb/d of liquids, or 88% of the company's total production. The company's strategic goal is to maintain the level of brownfield production and extract the remaining reserves in the most efficient manner, using the best and safest technologies.

**Brownfield production in 2010**



\* excluding Kamennoye oil field

**Brownfield oil and gas production, 2006-2010, excl. Slavneft, mmb/d**



\* Normalised for divestment of OJSC Udmurtneft



Samotlor is one of the largest oil fields in the world

## Western Siberia

### History in brief

Western Siberia is a unique region containing both oil and gas reserves, with a resource potential comparable only to the vast fields of Saudi Arabia. Around 500 oil, oil-and-gas and oil-and-gas condensate fields have been discovered in Western Siberia, containing 73% of Russia's current proven oil reserves. Almost 6 billion tons of oil have been produced in Western Siberia over a period of less than 30 years, accounting for 45% of Russian cumulative production.

The first reserves were discovered in the region in the early 1960s. Samotlor, one of the world's five major fields in Western Siberia was discovered in 1965.

The first producing well was drilled in Samotlor in 1969 and, in less than eight months, production at the field reached 5 mln tons. Samotlor reached peak production of 158.9 mln tons per annum in 1980, eleven years after its discovery.

In 1981, Samotlor produced its billionth ton of oil. In the years that followed, Samotlor wells could yield up to one million tons per day, with the field accounting for half of all Russian oil production at the time.

Western Siberian oil production grew from 1964 to 1988, when it reached an annual output of 415 mln tons (including condensate).

Between 1989 and 1992, regional production fell by more than 150 mln tons, due to the difficult economic situation in the country. Nevertheless, Western Siberia remained the leading Russian province in terms of annual oil production. The revival of the Russian oil industry began in 2000 when the economy stabilised, creating opportunities for full-scale investments.

## Water flood management – the key to maintaining brownfield production in Western Siberia

We maintain production levels at our brownfields in Western Siberia by effective water flood management. This has helped bring about a 3.5% reduction in the base rate of decline in production from Western Siberian fields in 2007–2010. Around 95% of Western Siberian production is maintained by water flooding. The company maintains an injection well stock of approximately 5,100 wells, and a production well stock of 13,700 wells in the region.

Water flood management includes the following principal activities:

- Improved efficiency of water injection by optimising the reservoir pressure maintenance system, coupled with a focus on redistributing injection and better injectant efficiency
- Development of a reservoir pressure maintenance system, which involves commissioning new injectors and creating flood starting points which help maintain production in sections of the reservoir with new drilling, sidetracking and wellwork

- Development of injection analysis and performance technology

How do we manage water flooding?

- We draw up a list of wells that could require reservoir pressure maintenance measures, along with the corresponding production wells
- We carry out surveys to identify the causes behind declines in production and formulate future actions on the basis of the survey results

We understand that the accurate selection of water flooding technologies is key to our success. In 2010, we developed water flooding management through:

- Selecting water injection techniques
  - Horizontal drilling/sidetracking for reservoir pressure maintenance
  - Equalisers to manage well response (these devices ensure an even rate of water injection into the reservoir)
  - Dual water injection
  - Tandem systems for down-hole water injection from the water-bearing to the oil-bearing bed

- Reservoir simulation modelling
- Using tertiary recovery methods to manage water inflow, which include injecting chemical agents and polymers to clog pores and cause water to flow in the required manner, in order to optimise production (non-stationary injection, re-distribution of filtration flows, Bright Water nanotechnology)

### Overview of brownfield production

TNK-BP is developing 48 license areas in the Khanty-Mansi Autonomous District, and in the Tyumen region. The main fields under development are Samotlor, Van-Yogan, Verkhnekolik-Yogan, Khokhryakovskoye, Em-Yogovskoye, Talinskoye and Kamennoye.

In 2010, Western Siberia's share of brownfield production amounted to 336 million bbl (0.9 mmb/d or 44.4 mln tons), or approximately 60% of the company's total liquids production. Liquids production in Western Siberian brownfields decreased by 5% on 2009 levels due to a natural production decline in depleted fields.

Sales of associated petroleum gas produced in Western Siberian brownfields amounted to 8.6 bcm, or 67% of the company's total gas production, and grew by more than 5% compared to 2009, owing to the expansion of APG utilisation capacities in the region.

Western Siberian brownfields offer considerable resources, with some 18.28 billion bbl of PRMS 3P reserves. It remains the company's strategic goal to continue exploration in the region and test innovative technologies to improve the brownfield oil recovery factor and develop complicated reservoirs.

As part of 2010 exploration activities, the company drilled 9 wells and carried out 3D seismic surveying over an area of 580 sq. km. In 2011, the plan is to drill four exploratory wells and carry out 3D seismic surveys over 282 sq. km in preparation for future development.

In the medium term, TNK-BP intends to maintain stable hydrocarbon production in Western Siberia by compensating for the decrease in natural oil production from depleted fields by developing additional reserves and increasing gas production.

### Western Siberian associated petroleum gas utilisation projects

In 2010, we pursued two main ways of utilising associated petroleum gas (APG) in Western Siberia. APG was used to generate on-site electricity and supplied to gas processing plants in the Nizhnevartovsk area (see page 90). APG utilisation in Western Siberia (excluding Nyagan) reached 91.8% in 2010, which is 6% above the 2006 level. The volume of gas produced for sale was 8.6 bcm.

In 2010, the company commissioned the Vanyogan gas turbine power plant (GTPP) in the Nizhnevartovsk area, which has an aggregate installed capacity of 36.4 MW.

Thanks to the optimisation of gas processing capacities, we also increased APG supplies to the Belozerny and Nizhnevartovsk gas processing plants (GPPs) by JV Yugragazpererabotka (YuGP) – our joint venture with the Sibur petrochemical company.

In 2010, we succeeded in implementing our first project under the Kyoto Protocol – the Samotlor gas project. This project envisages the construction of five gas compressor stations at the Samotlor field. The Samotlor gas project was supported as a joint implementation project by the Ministry of Economic Development in July 2010. The company will continue to update its Kyoto Protocol project portfolio in 2011 (find out more about the gas value chain on page 86).

### Cost management

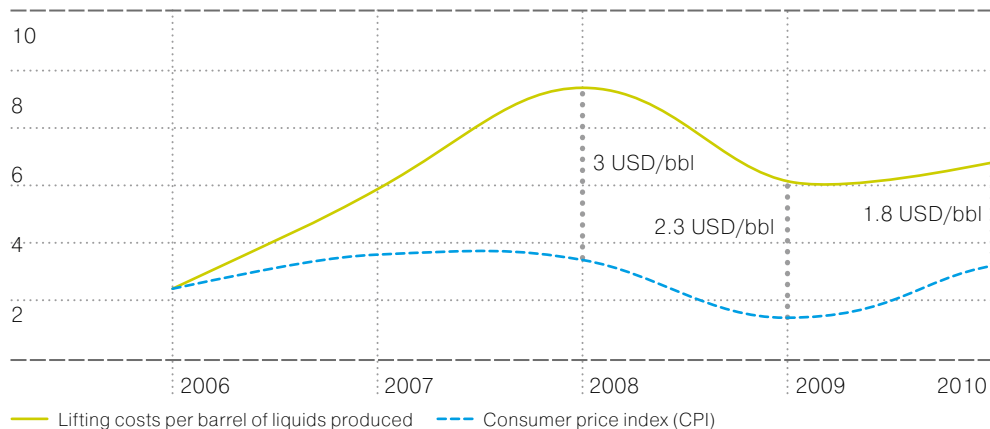
Efficient cost management is key to the successful development of our business both in the regions where we operate and with regard to new projects. Cost management comprises several critical elements, such as the implementation of an integrated energy efficiency program, optimisation of all production processes, a specific set of qualification requirements for investment, and strict control over expenditure.

In addition to the centralised cost management system, company management encourages proposals from individual units aimed at improving the efficiency of specific regions/projects.

### Efficiency improvement proposals for the Western Siberian region

- Improvement of the performance of artificial lifts
- Initiatives to reduce water production
- Suspension of uneconomic wells
- Identification and minimisation of inefficient water injection
- Infrastructure re-engineering
- Improvement of wellwork, sidetracking and drilling efficiency
- Implementation of gas projects
- Generation of own electricity

### Lifting costs, 2006-2010, USD/bbl



The increase in lifting costs was primarily caused by foreign exchange rate differences and rouble costs inflation, in particular electricity tariffs more than doubled over a 5-year period. Starting 2009, that was partly curbed by measures to improve efficiency, with actual cost growth lower than inflationary to improve efficiency trends.



### Maintaining production at Samotlor

Production at Samotlor amounted to 562 mb/d in 2010, putting its share in the total production at 36.8%. The field remains the largest asset in TNK-BP's portfolio with 7.8 bn boe of 3P (proved, probable and possible) reserves according to PRMS criteria.

Over the last five years, production at Samotlor has decreased due to natural depletion (the accumulated reserve depletion exceeds 70%) and the field has seen an increase in the percentage of hard-to-recover reserves.

The company's strategic goal with regard to the development of the Samotlor field is to stabilise production, while arresting as far as possible the natural depletion process.

Our strategic priorities at Samotlor include the optimisation of field development and improving the efficiency of oil production, along with the reduction of associated water production and the use of new technologies in hard-to-recover reserves.

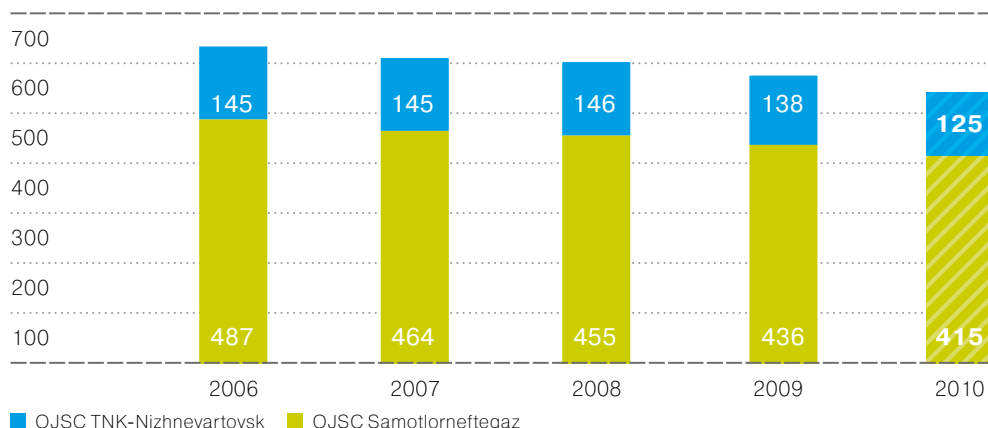
In 2010, TNK-BP started to implement selective isolation technology with associated water inflow restriction, which improved reservoir development economics. Successful water shut-off enables the water rate to be reduced in some cases by up to 5-10 times. In 2010, the company completed 104 water shut-offs and plans to further increase this figure to 200-250 operations per year.

The Ryabchik shallow formation is one potential site for future development, although it is also characterised by complicated reservoir properties. During 2010, we continued to examine Ryabchik potential drilling and water flood options.

## Crude production at Samotlor, mb/d

In 2006-2010, aggregate production at Samotlor exceeded 1 bn barrels.

In 2010, Samotlor accounted for 37% of our total output.



## Innovative solutions for Samotlor

In 2010, TNK-BP implemented a series of new technical solutions with a view to developing the Ryabchik formation at Samotlor:

- Pilot projects involving water flood management and a network of horizontal wells

- T-Navigator software that plans and monitors the efficiency of well transfer to injection, based on focused 3D modelling

- Testing multi-stage hydrofracture in horizontal wells

We believe that the continued development and roll-out of these technologies will allow us to increase oil recovery at Samotlor.

## Nyagan brownfield development

TNK-BP is currently involved in the development of eight licenced areas around the city of Nyagan, in the south-west of the Khanty-Mansi Autonomous District. The Kamennoye, Talinskoye and Em-Yogovskoye fields are the largest in the area. They form the so-called Krasnoleninskaya field group with hydrocarbon resources estimated at one billion tons.

In 2010, a pilot production was initiated in the northern part of the Kamennoye field (please see the Greenfield Production Chapter, page 50). Later in the year, the northern part of the Kamennoye field progressed from pilot to commercial production. Contribution from this part of the field is to be recorded as brownfield production starting from 2011.

The company's PRMS 3P reserves at Nyagan are estimated at 7.18 billion boe, including Kamennoye's 3P reserves of 2.31 billion boe.

In 2010, crude oil production at Nyagan amounted to 142 mb/d (6.9 mln tons), or 9.4% of the company's total liquids production.

Meanwhile, overall production at Nyagan grew by more than 11%, thanks to further development of the Kamennoye field (please see page 51).

APG utilisation at Nyagan in 2010 was 1.1 bcm, some of which was supplied to the Krasnoleninsky gas processing plant (GPP).

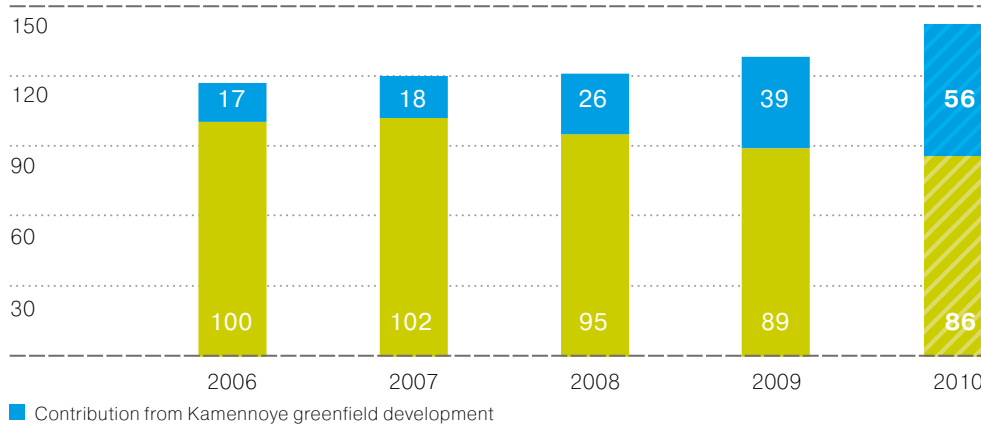
In late 2010, TNK-BP reached an agreement with Sibur over the incorporation of the Krasnoleninsky GPP into JV Yugragazpererabotka, which will allow it to increase APG supplies for processing.



Oil treatment unit at the Kamennoye oil field

Another promising area for APG utilisation is the construction of a gas turbine power plant (GTPP) at the Kamennoye field. The installed capacity of the first stage of the Kamennoye GTPP is 24 MW. Completion of construction at the plant and the launch of the first stage are scheduled for 2011. The project also entails the construction of a second GTPP stage which will double capacity. These activities will enable the company to achieve an APG utilisation rate of at least 95%, which is in compliance with regulatory requirements. The APG utilisation rate at Nyagan was 80.4% in 2010.

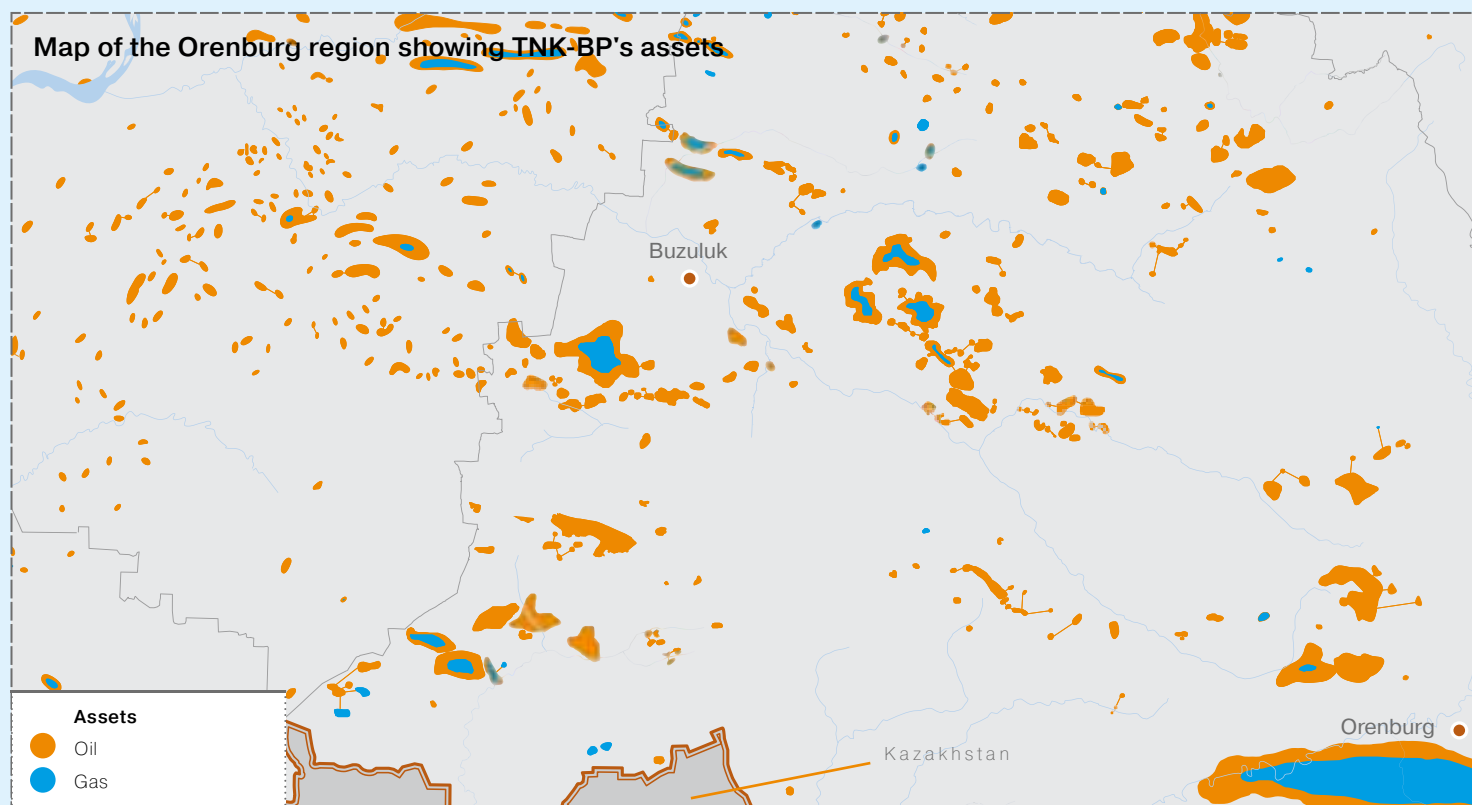
#### Crude oil production at TNK-Nyagan, 2006-2010, mb/d



## Orenburg miracle

We take pride in the results achieved at Orenburg. TNK-BP's brownfields in the area have consistently shown record-high growth rates – convincing proof that our team has the right approach to maintaining production at mature sites. Over the past five years, our crude oil output in the Orenburg region increased by 18.6%.

TNK-BP's strategic goal in this region is to sustain hydrocarbon production growth through the efficient use of technologies and the acquisition of licences in the region and adjacent areas, as well as comprehensive development of our gas business.



### History of oil production in the Orenburg region

**25 July 1937** – Buguruslan field Well No. 1, drilled to a depth of 285m in the eastern area of Buguruslan provides the first commercial oil production in the Orenburg region.

**5 November 1937** – The first train carrying Orenburg oil departs from Buguruslan railway station.

**19 February 1963** – The Orenburneft oil production company is established.

**March 1976** – 13 years later, the one hundred-millionth ton of Orenburg oil is produced.

**1978** – An oil production level of 13.102 mln tons per annum is achieved in the Orenburg region.

**September 2000** – TNK takes over ownership of Orenburneft.

**29 August 2003** – TNK-BP announces that it is commencing operations in the region, as TNK (a heritage company of TNK-BP) production assets in the Orenburg region are incorporated into TNK-BP.

### Resource base potential and the transition of reserves into production

Operations in the Orenburg region are performed by three producing subsidiaries – Orenburgneft, Sorochinskneft and Buguruslanneft. Production is carried out in 18 districts of the Orenburg region.

In 2010, TNK-BP's production subsidiaries operated 114 license areas across 95 fields. PRMS 3P reserves included in Orenburg assets amounted to 3.23 billion boe.

TNK-BP continued to implement an active exploration program in 2010, investing more than 90 mln USD. Eleven wells were completed in the course of the exploration program, ten of which came to be productive (seven were brought on stream). In addition, the company covered 1,413 sq. km with 3D seismic surveys and 390 linear km with 2D seismic surveys over the course of the year.

Orenburgneft's exploration of three license areas in the Astrakhan region could open up new territories for the company. In 2010, we carried out seismic surveys in the region and are now evaluating prospective sites for exploration and appraisal drilling. In addition, company specialists carried out exploration and appraisal drilling in licenced areas in the Saratov and Samara regions.

TNK-BP continued inorganic expansion of its reserve base in the region and acquired 9 new licences through tenders and M&A, with aggregate estimated reserves of 51 mln tons. The proximity of these new license areas to existing infrastructure will enable them to be brought on stream quickly and at minimum cost.

Successful work by the company's subsidiaries in the regions also resulted in the discovery of the Kulikovskoe field in the Saratov region, with reserves planned to be booked in 2011.

The gradual increase in its resource base and the presence of developed infrastructure has allowed the company to maintain its record brownfield production growth rates. 2010 liquids production at the Orenburg subsidiaries exceeded 400 mb/d (20.050 mln tons), while production growth amounted to 8%.

Morgunovskoye deposit – a new discovery by TNK-BP – with reserves of 10.3 mln tons according to Russian ABC1+C2 criteria

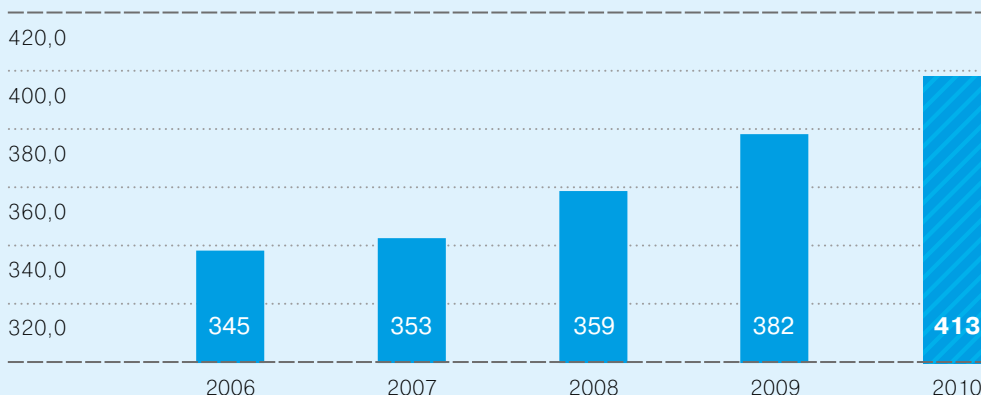
#### The key factors behind our record oil production

- effective drilling and wellwork activities
- new discoveries within developed areas
- new license acquisitions in Orenburg and neighbouring regions
- a successful reservoir pressure maintenance program

8%

production growth in Orenburg in 2010

#### TNK-BP liquids production in the Orenburg region, 2006–2010, mb/d



## Use of innovative technologies

A major priority for the company in 2010, particularly in the Orenburg region, has been the implementation of innovations, both as a way of improving efficiency and adding value.

The successful implementation of pilot projects is a vital precondition for the full-scale application of a particular technology. The practice of knowledge-sharing is well-established within the company. In 2010, Upstream created a database of innovations, containing information about technologies that have been successfully tested in various areas of the company's operations.

A total of 23 innovation projects were implemented in the Orenburg region over the course of 2010, involving an investment of some USD 9.2 million.

In 2011, TNK-BP plans to increase support for innovation and implement 94 projects worth a total of USD 118.8 million.

### most successful pilot projects in 2010:

- 1. Investigation to determine the technical limitations of drilling using the methodology of the RLG company** – The goal of this project was to find the best possible drilling cycle in technical terms and to minimise downtime.
- 2. Pitless drilling pilot project at the Gremyachevskoye field** – Sludge, waste water and drill mud were removed (around 6,000 cub. m) from five wells and treated in order to minimise environmental impact.
- 3. Pilot use of the new Discovery drilling rig (manufactured by Weatherford) to improve drilling efficiency**
- 4. Testing of the hydraulic drive for a geyser sucker rod pump as an alternative to electric submersible pumps (ESP) operated in periodic mode** – The new unit operates constantly, thus providing stable oil production and saving electricity. A pilot operation of two rigs is currently in active use at wells at the Bobrovskoe field.
- 5. Oil recovery improvement technologies** – This includes bottom-hole treatment using the latest chemicals and compounds, ensuring better oil and incremental oil recovery, as well as technology that eliminates the need to treat high water-cut and high-permeability areas.
- 6. Implementation of down-hole equipment for dual completion** – This enables TNK-BP to reduce capex and also develop individual reservoirs separately.

## Our gas business development strategy in the Orenburg region

Creating a dynamic gas business, from well head to end customers, is another prospective area for the future development of company operations in the Orenburg region, thanks to its favourable geographical location, developed infrastructure and established demand.

In 2010, the Board of Directors reviewed the company's gas and power supply business strategy in the Orenburg region, which envisaged three main areas of activities:

- (1) An increase in gas sales from the current 1 bcma to 3 bcma, in the short-term
- (2) Potential development of large-scale captive power generation capacities, providing for the sale of excess electricity to external customers
- (3) Creation of a gas value chain in the region

The Orenburg Integrated Gas Project is aimed at implementing the best options for associated petroleum gas utilisation from both economic and technical perspectives. This is the largest gas business development project in the region, and will result in the creation of additional opportunities for the commercial use of APG at the Pokrovskaya, Bobrovskaya, Zapadnaya and Vostochnaya field groups. The project envisages the construction of extensive infrastructure



Oil production at Orenburg

for APG transportation, treatment and processing. In particular, the project involves doubling the capacity of the Zaykinskoye gas processing plant (GPP) to 2.2 bcma, while scaling up gas processing.

In 2010, TNK-BP carried out a series of important preparatory activities that will enable us to move towards the main implementation phase of the Orenburg Integrated Gas Project in 2011. In addition to developing a regional gas and power supply business development strategy, the company secured appropriate infrastructure and permits to move onto the main phase of project implementation, which involves:

- Constructing five gas compressor stations and 90 km of gas pipelines in the Bobrovskaya field group
- Constructing facilities and 110 km of gas pipelines in the Vostochnaya field group
- Manufacturing basic process equipment for the Pokrovskaya Gas Treatment Unit and the second stage of the Zaykinskoye GPP

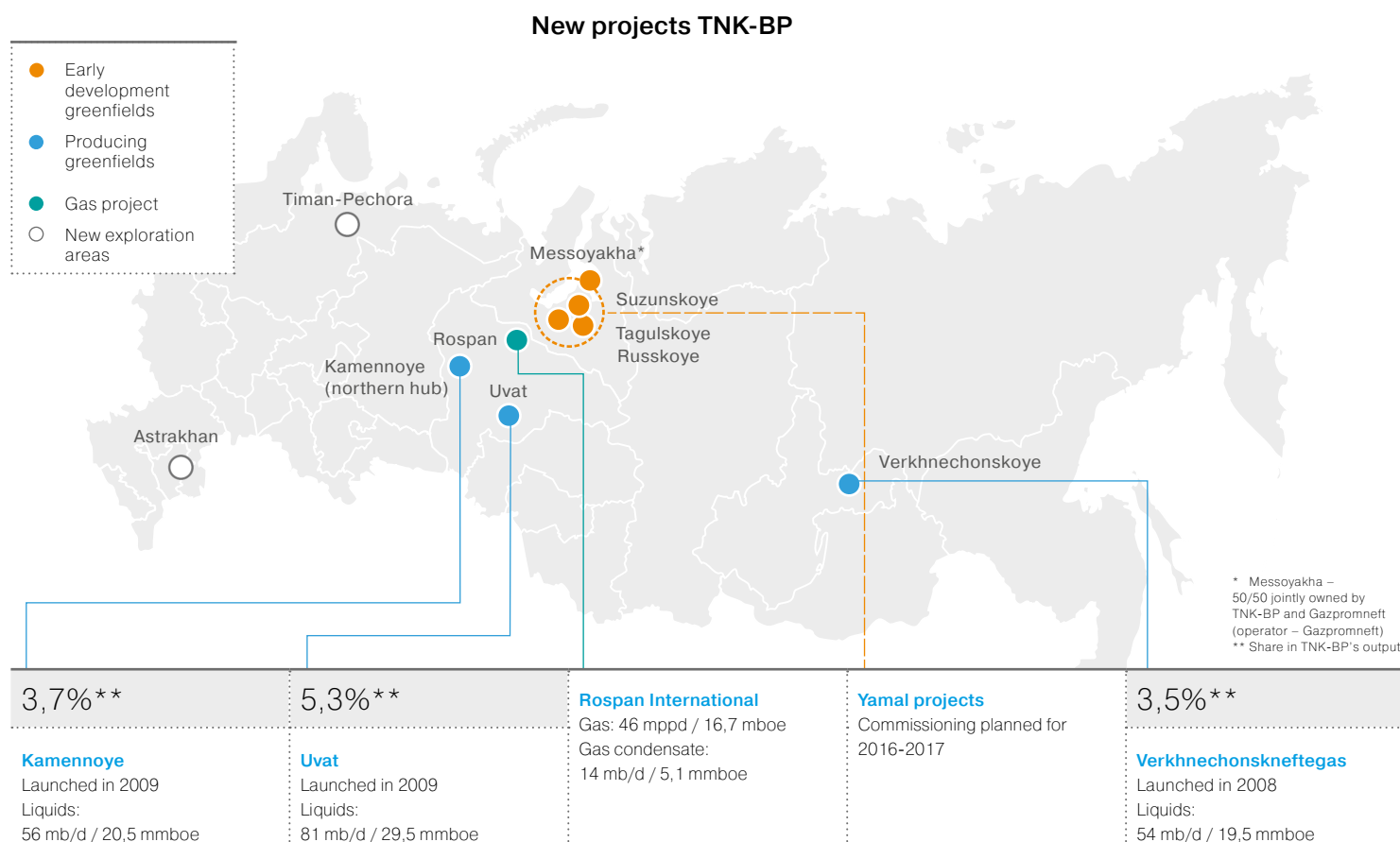
The project will grow significantly in 2012, and will include the start of construction, assembly activities and equipment supply for the second stage of the Zaykinskoye GPP, as well as the construction of infrastructure for other facilities. TNK-BP also plans to start construction of a railway terminal at the GPP to expand opportunities for the distribution of gas processing products.

# Greenfield Production

TNK-BP enjoys an excellent portfolio of new projects that in the long run will ensure sustainable production growth. The aggregate PRMS proved reserves of TNK-BP's new projects exceed 10 bn boe. Some of these projects, such as the Uvat field group and the Verkhnechonskoye and Kamennoye fields, were discovered in the second half of the last century. TNK-BP has enabled the development of these fields through a systematic approach to technology selection and project management in accordance with international standards. Support from the Russian government, which offers tax benefits for developing new oil and gas provinces and encourages creating an appropriate transportation infrastructure, plays an important role in the implementation of new projects (see pages 31, 55).

**12%**  
greenfield share in  
2010 company liquids  
production

Our greenfields can be split into two groups: those where commercial production is already on stream, including the Uvat group and the Verkhnechonskoye and Kamennoye fields, and those where active exploration and full field development preparation for the mid-2020s are still in progress, such as fields in the Yamalo-Nenets Autonomous District and in the north of the Krasnoyarsk region.



## Verkhnechonskoye field – a new production hub in Eastern Siberia



The Verkhnechonskoye field is a new large production hub in Eastern Siberia. In 2010, the field's crude oil production reached 54 mb/d (2.6 mln tons), which is 3.5% of total company's liquids production. Production growth was 120% compared to 2009.

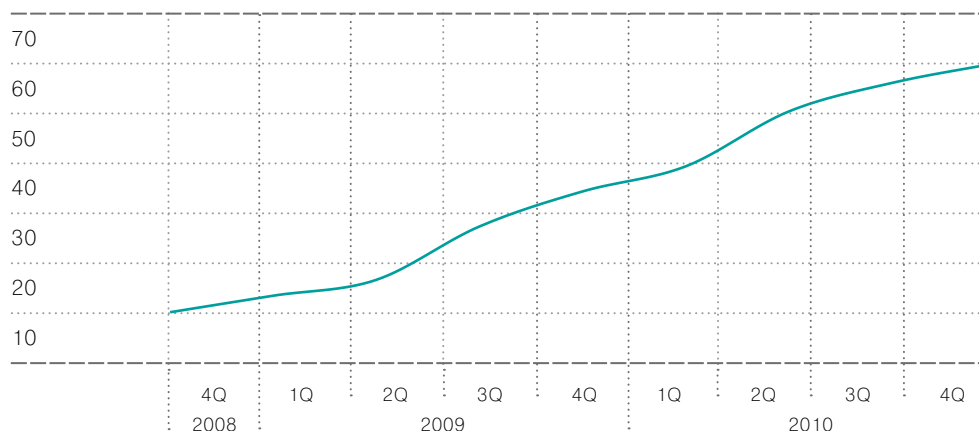
Verkhnechonskoye 3P (PRMS) reserves are estimated at 2.15 bn boe, which places the field as the second largest in Eastern Siberia.

Since development started in 2005, the company had invested USD 1.8 bn in the Verkhnechonskoye field. Infrastructure to support current production is already in place and includes an oil treatment facility (OTF-1) and two captive power plants. Further infrastructure development is also in progress.

# 54 mb/d

crude oil production of Verkhnechonskoye in 2010, more than double compared to the previous year

**Crude oil production at Verkhnechonskoye, mb/d**



5<sup>th</sup> drilling rig commissioned to increase production and reduce field drill-out time

## Exploration activity

Eastern Siberia is one of the oldest oil provinces in the world, and the Verkhnechonskoye field is an ancient, pre-Cambrian rock formation that goes back as far as the origins of the very first life forms.

Verkhnechonskoye is a multi-horizon field where the Verkhnechonskoye main pay is the most explored portion. The overlying formations still require appraisal.

In 2010, company specialists performed 3D seismic testing over 631 sq. km of the field. The Tyumen Petroleum Research Centre (TNNTs) drafted a plan for further field exploration in 2011, which should include an additional 500 sq. km 3D seismic survey.

## Unique technical properties of the Verkhnechonskoye field

The Verkhnechonskoye geological structure is one of the most complicated, not only in Russia, but in the world. It is unique for its combination of geological and geophysical factors, such as hard rock, salt deposits and a low reservoir temperature, as well as for the presence of gums and paraffin in the oil. These combined factors require an unconventional approach towards field development.

To resolve these issues, a multi-disciplinary team of geologists, reservoir engineers, seismologists, core analysis specialists, petro-physicists, industrial engineers, drillers and economists was put together by JSC VCNG, TNNTs and our Technology and Upstream experts. Gas impact, water-gas and well completion strategy specialists from BP contributed actively to developing and guaranteeing technical solutions to the problems.

The mix of specialists from different disciplines and areas representing various TNK-BP streams helped the company create an innovative development approach to the Verkhnechonskoye field, successfully implement the most advanced technological solutions and significantly increase short- and mid-term oil production.

## Technology application at Verkhnechonskoye

### Inflow control devices in the horizontal wellbore

This technique is used to modify inflow profile along the wellbore and reduce the watercut of the well product (pressure equalising the activities).

### Logging while drilling (LWD)

LWD techniques enable the user to record data while drilling, making real-time decisions on well path adjustments a possibility and thus drilling horizontal wellbores into the most productive beds.

### Bottom-hole treatment (BHT)

In 2010, a new bottom-hole wax treatment technique was introduced whereby chemical agents were injected and tested on low-temperature formations.

### Hydraulic fracturing

The purpose of hydraulic fracturing at the Verkhnechonskoye field is to improve well productivity. In 2010, ten proppant fracturing jobs were performed on the Verkhnechonskoye pay horizon (both in directional and horizontal wells). Another 16 fracturing jobs are planned for 2011.

### Extended logging system and petrophysical model

In 2010, logging was performed on four directional wells to draft an alternative petrophysical model. Logging improves the quality of field geology and engineering models and, ultimately clarifies reserve and production forecasts.

### Geomechanical model

The purpose of geomechanical modelling is to investigate reservoir behaviour in the course of development, and assess the optimal operating modes for production and injection wells in terms of their impact on production.

## Brief historical background

The Verkhnechonskoye field was discovered in 1978 and remained unexplored for a long time due to the lack of infrastructure to transport oil to potential markets.

Field development began with the construction of the Eastern Siberia – Pacific Ocean (ESPO) pipeline that passes through 80 km of the field. With the provision of MET benefits and export duty preferences for fields in Eastern Siberia, the economic attractiveness of the project significantly increased. The Verkhnechonskoye gas condensate field development project is TNK-BP's first major project in the development of oil fields in Eastern Siberia. The first commercial oil was delivered into the ESPO system in October 2008. JSC Verkhnechonskneftegaz is the field operator and is owned by TNK-BP (74%) and Rosneft (26%). Peak production is expected at 154 mb/d (7.5 mln tons). Total investment in developing the field will amount to roughly USD 5 bn.



Verkhnechonskoye is TNK-BP's most remotely located oil field asset

## Associated petroleum gas utilisation

Owing to its remote location, there is no potential demand for power in the vicinity of the Verkhnechonskoye field. In 2010, the company decided to apply gas injection technology to temporarily store associated petroleum gas underground. It will be the first use of gas injection technology for this purpose in the Russian oil industry.

Company specialists, in cooperation with VNIIGAZ (The Russian Research Institute for Natural Gases and Gas Technologies), have developed a draft document explaining how APG can be stored underground by making use of gas reservoirs in the licence area.

With a view to organising the construction of the required APG injection infrastructure, terms of reference for the construction of a high-pressure compressor station (HPCS) were developed and a tender was announced – the results of which will be summarised in early 2011. An important requirement for the HPCS is the reliability of equipment to minimise downtime during regular maintenance. In the future, subject to development of the region, injected gas could be used to produce electricity and gas.

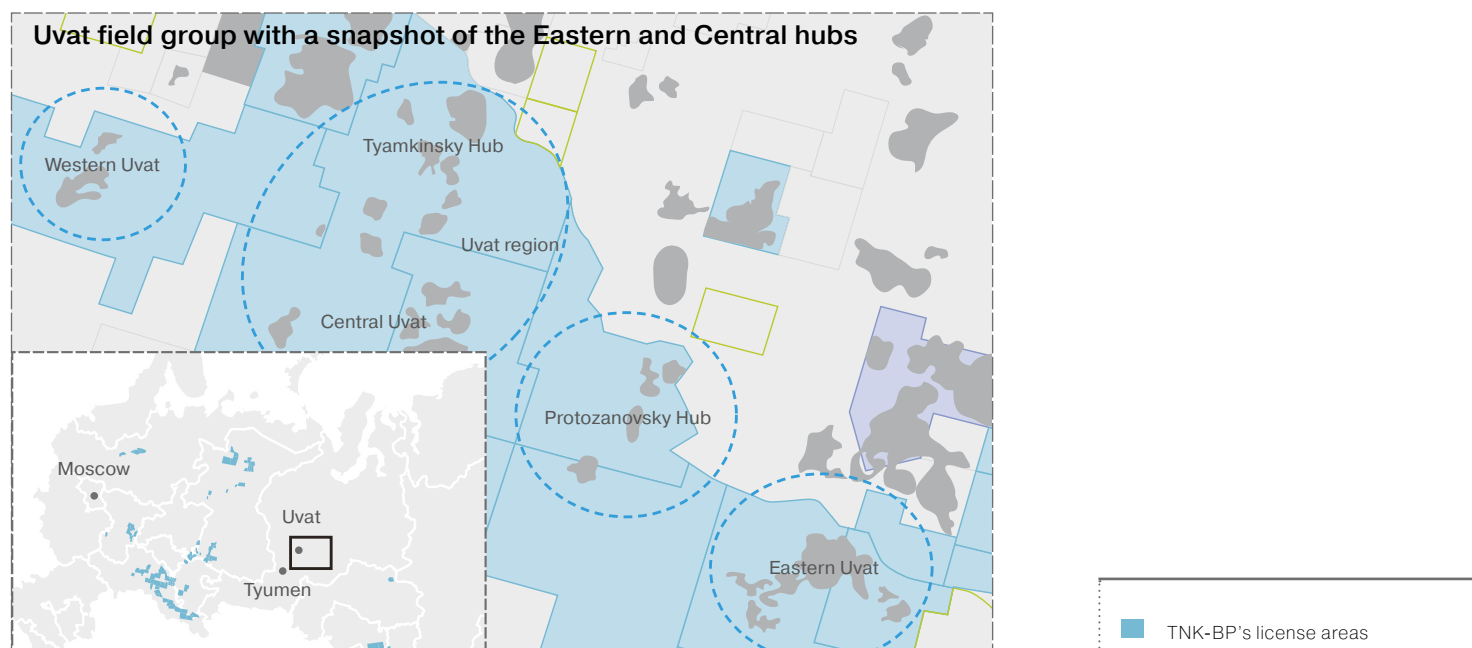
## Innovative project management

The Verkhnechonskoye field is situated by the Chona River, 1,100 km to the north of Irkutsk in Eastern Siberia. It is a sparsely populated and remote area, which creates a number of challenges, including:

- Materials and equipment can only be supplied seasonally
- Field workers are on a rotational timetable, and can only reach the field by helicopter from the nearby Ust-Kut airport
- The lack of electricity has meant the company has had to build its own power plants operating on associated petroleum gas. This partially resolves the problem of associated petroleum gas (APG) utilisation.

## Uvat field group

Development of the Uvat field group with potential production of 200 mb/d is one of TNK-BP's main projects. In 2010, the Eastern and Central Uvat hubs produced 81 mb/d (3.9 mln tons), an increase of 99% from the previous year. In 2010, the company started a pilot development of the Central Uvat field and continued active exploration of other potential areas.



### Brief project overview

The Uvat project consists of 15 license areas. In addition to field development, the project envisages creation of the large-scale infrastructure in the south of the Tyumen region of Western Siberia where TNK-BP is a key license-holder.

This is the largest for TNK-BP where exploration and development have started from scratch. The remoteness area of the fields, their isolation from the region's transport infrastructure, difficult terrain and the complicated structure of reservoirs long prevented TNK-BP from finding an economically viable the method of developing the area.

The company started active operations in the region in 2006.

Currently, the Uvat project includes two development areas, or the Eastern and Central hubs.

In February 2009, we started the commercial development of the Urnskoye and Ust-Tegusskoye fields, which are part of the Eastern hub. We also constructed all the necessary facilities and in-field pipelines to connect the fields to a trunk pipeline system. Russian Deputy Prime Minister Igor Sechin took part in the opening ceremony of the fields in the eastern hub.

# 44

million bbl (5.9 mln tons) – Uvat production since commissioning the Eastern hub in February 2009

## The dynamics of field development

In 2010, TNK-BP built three completed pads, completed the second stage of building a central oil and gas gathering facility and completed the first stage of building a gas turbine power plant at the Eastern hub. By the end of 2010 a total of 189 wells had been drilled in that area.

The company has also designed a water management system. Seven horizontal wells and one well with dual completion equipment were drilled at the Ust-Tegusskoye field. Work on 3D seismic inversion continued at the Urnenskoye field, which will improve understanding of the field's complicated geological structure.

TNK-BP started pilot oil production at the Tyamkinskoye field in the Central hub in 2010 once the required infrastructure and first well-pad had been completed. Thirteen wells were drilled and the first Tyamkinskoye oil was delivered to the regional pipeline in March 2010.

Exploration is in progress on nine other potential fields in the Uvat Central hub.

March 2010 – start of pilot production at the Tyamkinskoye oil field, the first in Central Uvat

### Crude oil production at Uvat, mb/d



## Development challenges and solutions

The Central and Eastern Uvat fields are located in a largely swampy area in the south of the Tyumen region. The area has no industrial or social or transport communication facilities. The nearest oil and gas facility infrastructure is 300 km away.

The climate is temperate and rainy in summer, while the winter is severely cold.

Under such weather conditions, cargo deliveries can only be made in a 90-day period using temporary winter roads across frozen

swamps. Limited time for the delivery of goods and materials determines the specifics of the Uvat project management. Our teams have to have completed to do all the preparatory work, including felling forests, digging borrow pits and clearing areas for construction and storage of goods, fuel and equipment, within that 90-day time span. Residential camps also need to be built for contractors and TNK-Uvat staff and sufficient cargo has to be delivered to cover winter operations.

LLC TNK-Uvat was set up to ensure the company's sustainable development in the region by creating cargo accumulation bases, winter roads and well pads. The first stage of the Ust-Tegusskoye field central oil and gas gathering facility has been completed along with trunk oil pipelines and the Kalchinskoye field oil pumping station.



Drilling pad at the Urnskoye field in Eastern Uvat

## Associated petroleum gas utilisation

One of the crucial aspects in the development of the Uvat fields is the environmental safety of the entire production cycle, including the complete utilisation of associated petroleum gas produced. As a solution, much of the gas is being used to generate electricity in captive power plants.

In 2010, the first stage of a 25 MW gas turbine power plant was commissioned at the Eastern Uvat field, with the second stage already underway. By virtue of the work being done, the gas utilisation ratio may reach 35% to 45% in 2011.

Stage one of the construction of an 18 MW gas turbine power plant has started at Central Uvat. As a result, the gas utilisation ratio is expected to reach 75% to 95% by 2013.

## Technical processes at the Uvat development

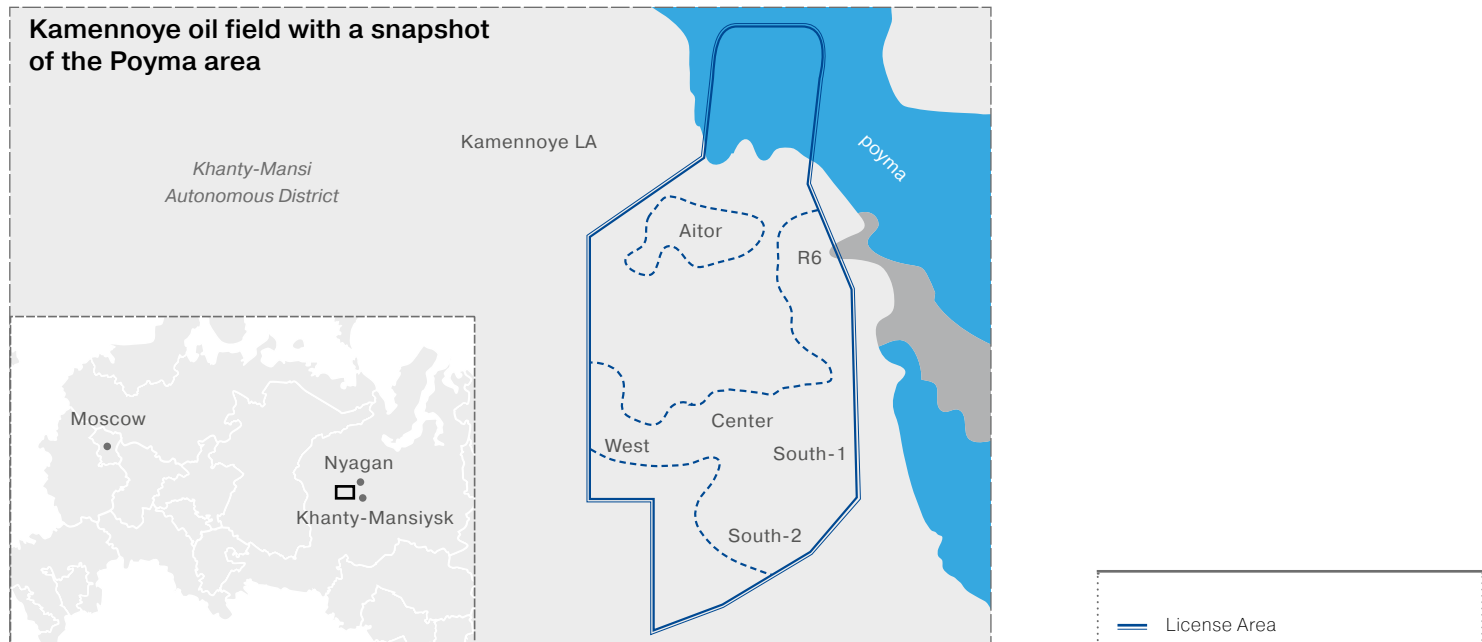
### 1. Horizontal drilling and dual completion

In 2010, LLC TNK-Uvat implemented two simultaneous pilots, the first being horizontal drilling techniques and the second a technique for drilling large diameter production casing (245mm) wells which will allow the use of dual completion equipment. This new technology will aid the development of multi-horizon fields without actually having to drill that many wells.

### 2. Hydraulic fracturing

In 2010, hydraulic fracturing on 18 wells were performed at the Urnskoye and Ust-Tegusskoye fields during development drilling using new hydrofracturing technology including FiberFrac, ClearFrac and SuperFoam.

## Northern and southern hubs of the Kamennoye field



The Kamennoye field with PRMS 3P reserves of 2.31 bn boe is one of the most significant in the Nyagan region of Western Siberia. In 2010, the Kamennoye share in total Nyagan production was 40% (please see page 37), or 56 mb/d (over 2.7 mln tons).

This significant production growth has become possible thanks to the greenfield development in the northern part of Kamennoye, particularly the wetlands Poyma area, in the last two years.

Poyma is located in the Upper Dvuobye wetlands – one of the largest water-bird and gull reproduction areas – and is protected by the Ramsar Convention. The development of the Poyma area was authorised on the condition that guarantees were given regarding the preservation of the wetlands. As a result, TNK-BP has drawn up a field development plan to minimise the environmental impact of its operations in the area. It also liaises closely with the local community to obtain the permits it requires for its operations (for more details see the Sustainability report).

Drilling was completed at the Kamennoye northern hub in 2010. At 31 December 2010 a total of 565 wells had been drilled and put on stream.

Oil production at the northern hub in 2010 was 36 mb/d (1.7 mln tons), which is more than double that from 2009.

The South-2 project was launched in Kamennoye in 2010 to ensure further growth in production.

The South-2 area forms part of the southern hub which is part of Kamennoye's priority development areas. The South-2 project is characterised by its tight implementation schedule, proximity to infrastructure at the developed South-1 and Western areas, and also by the

associated petroleum gas utilisation strategy that envisages the construction of a gas turbine power plant.

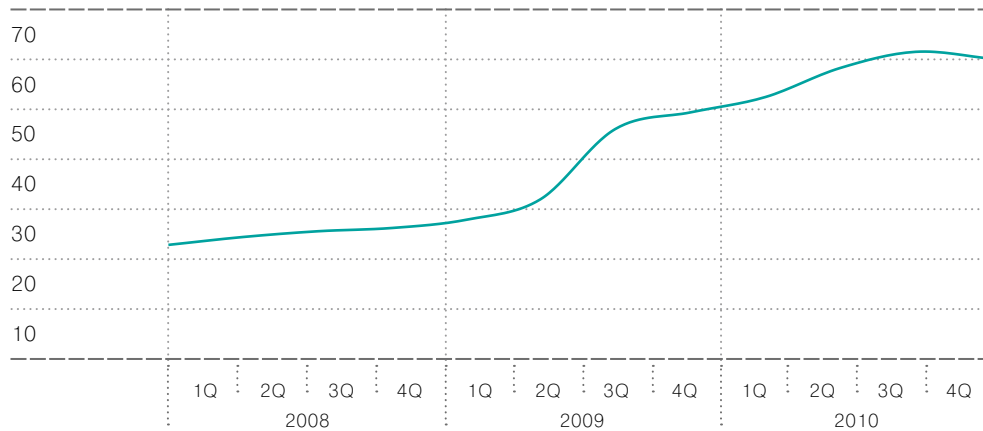
In 2010, work on the South-2 project included interpreting 3D seismic data, testing exploration wells and developing a reservoir simulation model. Other activities included work on the infrastructure concept and receipt of the necessary governmental approvals.

The first oil is expected to be received from the South-2 area in June 2011.



### Crude oil production at Kamennoye, mb/d

In 2010 crude production increased by 44.5% as compared to 2009



## Kamennoye – the asset of the future

The Kamennoye field is being developed within the framework of the TNK-BP concept of Smart Field.

A Smart Field is based on the following criteria:

- 1. Safety as the number one priority** for people, equipment, processes and the environment.
- 2. Reduced oil losses** – monitoring and remote management of the oil and gas production process.
- 3. Cost reduction** – improved transparency, reduction in the number of equipment repairs and well servicing.
- 4. Reduction of the 'human factor' impact** – automation of basic technical processes.

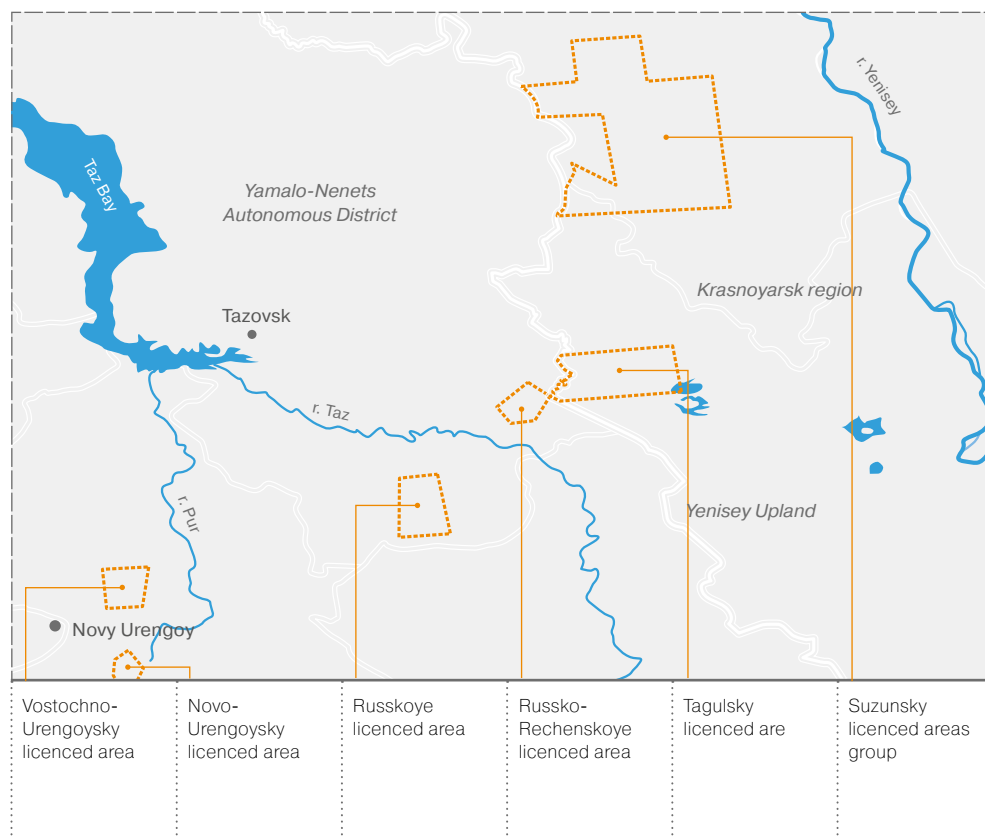
## The territory of the future – project development in the Yamalo-Nenets Autonomous District and in the north of the Krasnoyarsk region

The hydrocarbon reserves in Yamal and the north of the Krasnoyarsk region will form the basis of a new major oil and gas province. The region boasts of 236 oil and gas fields with only 63 being developed so far. The majority of the fields are above the Arctic Circle in the permafrost region, where average annual temperatures fluctuate from around minus 10 degrees Celsius, reaching as low as minus 67 Celsius in winter and local population density is just 0.7 people per square kilometre.

TNK-BP holds 19 field production licenses in the region, the largest of which are for the Russkoye oil field and the gas-condensate fields of ZAO Rospan International in the Yamalo-Nenets Autonomous District, along with the Suzunskoye and Tagulskoye fields in the north of the Krasnoyarsk region. The company has also carried out geological exploration at the Messoyakhskaya fields group in conjunction with Gazpromneft. TNK-BP's 3P reserves in the area are estimated at 9.8 bn boe according to the PRMS criteria (excluding our share in the Messoyakha group of fields). This is the next generation of our greenfield projects which have the potential to account for 30-40% of TNK-BP's total production by 2020. We are in a constant dialogue with other large oil companies and the government to find the most effective production solutions for Yamal and to ensure the required transport infrastructure is in place.



## Projects in the Yamalo-Nenets Autonomous District



## Suzunskoye field

Estimated reserves (3P PRMS) – **0.14 bn bbl**

Estimated overall investment: **USD 2.5 bn**

Estimated production start date: **2016**

Expected peak production: **120 mb/d (5.9 mln tons per year)**

A team of professionals were brought together in 2010 to implement Yamal projects

The Suzunskoye field is located in the north of the Krasnoyarsk region, above the Arctic Circle. It is the most explored field in the area with clear geology and high-quality light oil reserves. The field may be subdivided into northern (containing the majority of the field's reserves), southern and central sections.

In 2010, the company's main task was to select the best exploration strategy to provide maximum cost efficiency for production at the field. This involved implementation of a pilot project in the northern section of the field, providing for surveying work and the drilling of 8 wells.

In 2010, as part of the above pilot project, TNK-BP drilled 4 wells in the northern section of the field, which has so far enabled it to estimate the viability of vertical and horizontal wells, and to determine optimum well depth and distance between wells. At the same time, it has allowed us to determine the characteristics of hydraulic fracture operations and flood patterns, and to create clearer field hydrodynamic simulations. The company envisages that the pilot project in the northern section of the field in the second half of 2012, when the results will be used to ready the northern section for full field will be completed development. In the short-term, the focus will be on completing the pilot project in the northern section and preparing to implement a second pilot project in the southern section of the field.

## Tagulskoye field

Estimated reserves (3P PRMS) – **1.39 bn bbl**  
 Estimated overall investment: **>USD 3.0 bn**  
 Estimated production start date: **2017**  
 Expected peak production: **100 mb/d (4.9 mln tons per year)**

The Tagulskoye oil field is also located in the north of the Krasnoyarsk region, above the Arctic Circle. It differs from the Suzunskoye field in that it has a complicated structure, with multiple reservoirs containing oil with different properties.

In 2010, TNK-BP continued to implement a pilot project at the Tagulskoye field, which is being carried out in the first area of the field to be explored and has involved drilling five operating wells and one water well. The goal of this pilot project is to estimate the production potential of the field's main productive formation. In 2010, the company completed the drilling program with regard to all of the wells envisaged by the pilot project. The company also carried out a geological survey and began preparations for a second pilot project.

Flow rates  
at the Tagulskoye field  
in 2010 were above  
expectations

## Russkoye field

Estimated reserves (3P PRMS) – **2.21 bn bbl**  
 Estimated overall investment: **>USD 3.0 bn dollars**  
 Estimated production start date: **2016**  
 Expected peak production: **154 mb/d (7.5 mln tons per year)**

The Russkoye field is located in the Yamalo-Nenets Autonomous District and holds a vast quantity of viscous oil reserves.

In 2010, TNK-BP initiated three pilot projects at the field, which included drilling 16 wells. TNK-BP specialists then tested the wells and analyzed the resulting data. At the same time, work continued on the construction of a 48 km-long permanent access road to the federal highway at the Zapolyarnoye field, which is needed to transport oil offsite during long-term well tests. Construction of the road and related bridges is set to be completed in the second half of 2011.

The 2011 work plan also includes carrying out 3D seismic surveys to update the geological model of the field and improve the development well success ratio.

Pumping water heated to  
80 degrees Celsius at the  
Russkoye field to assess  
its efficiency for full-scale  
development

## Messoyakha Project

The development project at the Messoyakha group of fields is one of the largest projects in the company's portfolio, with potential C1+C2 oil reserves nearing 1.9 bn tons, as well as C1+C2 gas reserves exceeding 230 bcm. The estimated start date for commercial production at the fields is 2017. In the future, the Messoyakha project can contribute up to 20% of our production. The Messoyakha project includes licences for

developing the Vostochno-Messoyakhskoye and Zapadno-Messoyakhskoye fields, located in the Tazovsk area of the Yamalo-Nenets Autonomous District, some 300 km north of Novy Urengoy. Development of the fields is being carried out by ZAO Messoyakhaneftgaz, ownership of which is shared, on a parity basis, by TNK-BP and Gazpromneft (please see page 97). At present, the volume and degree of exploration of the fields'

reserves have been sufficient to begin evaluation of options for its commercial development and for the implementation of pilot projects. In 2010, one new well was drilled and drilling continued at 5 prospecting wells. At the Vostochno-Messoyakhskoye field, 3D seismic surveying was carried out over 300 sq km. In 2011, we will continue geological exploration work and preparations for a pilot project.

## Transportation infrastructure for oil fields in the Yamalo-Nenets Autonomous District and the north of the Krasnoyarsk region

Transportation infrastructure is vital in order to successfully develop the region's oil fields. We are an active participant of a working group that is formulating a strategy to develop Yamal's hydrocarbon resources (please see page 119). We welcome all feasible solutions to create oil and gas infrastructure in the region and are ready to take an active part in its implementation.

In October 2010, Prime Minister Vladimir Putin signed a government decree on the construction of the Purpe-Zapolyarnoye pipeline. The document provides for financing the construction of the Purpe-Zapolyarnoye pipeline through a joint venture between Transneft, oil companies and a state bank.

### Pipelines of the Yamalo-Nenets Autonomous District and the north of the Krasnoyarsk region



## Innovative technologies at the fields of the Yamalo-Nenets Autonomous District and the north of the Krasnoyarsk region

The long-distances that need to be covered in undeveloped areas, severe weather conditions and a complicated geological structure at the fields in the region require an innovative approach to the project. In 2010, TNK-BP implemented the following important initiatives in this area:

- InterAct online data transmission system, which gives access to any computer with an Internet connection, allowing of horizontal drilling to be monitored online and timely decision-making.
- Successful testing of PeriScope, which is designed for the "proactive" geo-steering of horizontal wells. PeriScope technology will increase the efficiency of horizontal sections in the complicated reservoirs of the Tagulskoye field.
- Selection of an engineering contractor for the integrated development of our deposits in Yamal and the north of the Krasnoyarsk region. The concept should optimize infrastructure costs for each field and obtain an optimal synergy effect.

#### Oil pipelines

- Vankor trunk oil pipeline
- Designed trunk oil pipelines
- Designed field oil pipelines
- Oil pumping station

## Associated petroleum gas utilisation

In 2010, TNK-BP carried out a preliminary study of associated petroleum gas utilization options, including gas re-injection, APG transportation via the Gazprom pipeline system, sales to end consumers as well as captive generation.




Our main objective is to assess the feasibility of different approaches for AGP utilization and adopt the best option for our oil projects in the region.

Our team aims to achieve the most effective gas utilization solutions, primarily through an integrated utilization system for associated petroleum gas, natural gas resources and gas caps at oil fields. The region has a well-developed gas transportation system with the potential to transport incremental gas volumes. At the same time, the company is studying potential options for collaboration with other subsoil users over the use of gas infrastructure.

### Gas pipelines in the Yamalo-Nenets Autonomous District and the north of the Krasnoyarsk region



#### Oil pipelines

-  Acting trunk gas pipelines
-  Designed gas pipeline
-  Gas pumping stations

# Development strategy for Rospan International

## Project overview

JSC Rospan International, a subsidiary of TNK-BP, develops the Vostochno-Urengoysky and Novo-Urengoysky licence blocks in the Purovsky region of the Yamalo-Nenets Autonomous District. Rospan's proved reserves are estimated at 2 bn boe of gas and gas condensate (gas condensate constitutes approximately 20% of total reserves). Rospan's 3P reserves (proved, probable and possible) under the PRMS criteria amount to 6 bn boe. The huge potential of Rospan's fields makes the full-scale realisation of this project fundamental for TNK-BP's sustainable development in the future.

The development of Rospan's fields requires innovative technological and design solutions. The Rospan accumulation lies at a considerable depth (>3,500m), has a complicated geologic structure, an abnormally high formation pressure and a high concentration of the condensate in gas formations. The high concentration of wax is another factor complicating field.

The Vostochno-Urengoyskoye and Novo-Urengoyskoye fields have the required infrastructure to prepare and transport gas and gas condensate produced. Each field has a gas treatment unit (GTU), with the stand-alone power generation from several gas turbine power generators. Treated gas is supplied through the company's own gas pipelines (25 km in length) into the intra-field gas pipeline system of the regional Gazprom production unit, and from there into Gazprom's unified gas transportation system.

In 2010, we reached a breakthrough six-year agreement with Gazprom to transport gas from Rospan fields. The agreement will enable the company to press ahead with the full-scale development of the Vostochno-Urengoyskoye and Novo-Urengoyskoye fields and increase annual production up to 13.2 bcm in 2016 (please see page 89).

Stabilised gas condensate is transported by oil tank trucks to railway oil depots at a distance of 50-150 km, for further transportation by rail.

## Activity in 2010

In 2010, Rospan produced 2.7 bcm, or an 16% increase on the previous year. The volume of condensate produced was 14 mb/d (615 th. tons). In 2011, TNK-BP plans to further increase gas production by 16% and production of gas condensate by 11%. The capital spending of the project is estimated at USD 158 mln vs USD 66 mln invested in 2010.

In 2011, we will concentrate on preparing for the full-scale development of Rospan fields to reach a production peak of 16.5 bcma. The project feasibility study is carried out by the design institute TyumenNIIgiprogaz.

TNK-BP is working with Gazprom on an integrated development program of the Achimov formation in the Urengoy region, a highly promising but technologically challenging structure.

2 bn boe –  
Rospan's proved  
reserves under  
PRMS criteria

16%  
increase in natural gas  
production to 2.7 bcm



A Rospan International gas field in Yamal

## Innovative methods to develop the Rospan project

- The use of modern software to interpret control the drilling process and production technology
- Field development simulation models
- New technology to measure the flow of gas condensate wells without separation which eliminates atmospheric pollution and, as a result, reduces the company's environmental footprint increasing measurement accuracy and work safety
- Innovative high-volume fracturing (>300 tons of proppant)
- Modernisation of existing production facilities to increase industrial and environmental safety

In 2010, TNK-BP completed the modernisation of gas treatment units (GTU), providing for:

- A four-fold reduction of greenhouse gas emissions
- Full automation of technological processes
- Upgraded security, including a three-level automatic emergency shutdown system
- A 1.4% growth in gas condensate output

## Innovations in technology application

The company's strength is its people – innovative thinkers committed to excellence in creating vital technologies and delivering outstanding results across its asset portfolio.

The Exploration and Production team has developed an internal process to identify the technology needs of TNK-BP's brownfield and greenfield sites. In 2010, TNK-BP also pioneered a variety of methods of working with suppliers, scientific institutions and service companies to fill identified technology gaps.

### Brownfield technology focus

TNK-BP has a long list of technologies and approaches that are applied to brownfield sites.

— Base Production Management – Water management and water flooding pattern optimisation	— Ineffective well stock reduction
— Water shut-off (WSO)	— Power management
— Pump run-life improvement – MTBF	— Infrastructure re-engineering and integrity management
— Low-cost access (drilling & sidetracking)	— Smart Fields
— Well production enhancement – stimulation	— Effective gas utilization

Over the last year, we actively worked with leading international and Russian service companies to identify technology and innovation focus areas, while we are continually looking for new techniques and technologies to deploy at the pilot and commercial levels.

### Technology pilots and scale-ups

The technology piloting process was launched in 2009 to ensure a systematic approach to the testing and scale-up of new technologies. Over the course of 6-12 months, TNK-BP carried out multiple tests at various wells, and then decided whether or not to scale up the tested technology, based on its economic and operational performance.

In 2010, TNK-BP implemented 76 pilot and scale-up projects, and plans to more than double that figure in 2011.

The core areas of pilot project implementation have been well stimulations, water shut-off and in relation to the TNK-BP "field of the future" concept, providing for computerised online well monitoring.

The well intervention projects completed provided an additional 350 th. tons of production in 2010. In 2011, TNK-BP expects the increasing implementation of successful pilots across the company to result in about 1.7 mln tons of incremental production.

# Greenfield technology

## Case study on dual completion

The majority of the company's fields contain multiple stratified oil reservoirs. In many cases, the fluid properties, geological parameters and reservoir pressure conditions are such that each reservoir has to be developed separately, as dictated by legislation. These options involve heavy CAPEX commitments and a significant delay in production, with a drastic negative impact on profitability. The alternative is implementing dual completion technology. The advantages of dual completion include a reduction in drilling costs, production acceleration, independent control and optimum drawdown at each layer, a reduced environmental footprint and full compliance with legal requirements.

In the Russian Federation, the main requirements for allowing simultaneous production from several reservoirs using a single wellbore are defined in Resolution of the Federal Mining and Industrial Control Body No. 71, of 6 June 2003, On the approval of subsurface protection rules. Overall, these requirements apply to 33 TNK-BP fields, and could potentially affect reserves of over 800 million bbl and a well stock of more than 4,000 facilities.

The operational conditions at TNK-BP's fields have led company experts to test technologies with a dual concentric ESP-ESP design for the first time in Russia.

The objectives of the project were as follows:

- To select the best design for ESP-ESP dual completion given the geological conditions
- To evaluate the viability of the selected dual completion option and identify areas for improvement at the design and execution phases
- To perform production testing of technology and outline a plan of further actions with regard to the move to scale-up

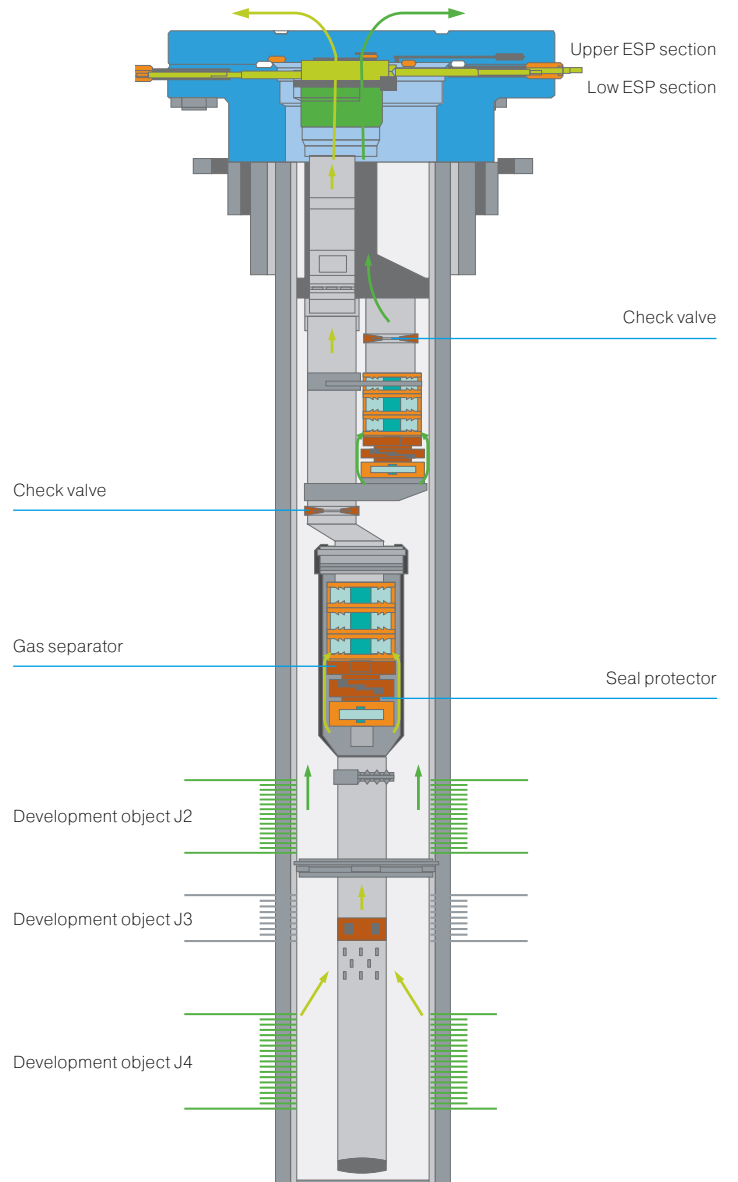
## Project planning and execution

Leading technological contractors were engaged to carry out this task. Based on a design review, a decision was made to drill two special wells with 9 5/8" production casing at TNK-Uvat's Ust-Tegusskoye greenfield site in Western Siberia. Two leading international contractors were chosen for dual completion design and equipment. Each contractor was assigned one well to demonstrate their technology.

The biggest challenges were technical complexity, the numerous items of specialised equipment and the multidisciplinary nature of the project. The scope of work required management by various specialised contractors, mobilisation of a special 100-tonne workover rig, and the extensive use of international expertise. The field is only accessible by road in winter, which makes logistics and high service quality extremely important, leaving no margin for error.

Design and preparation work began in the first quarter of 2009. The well locations were selected based on hydrodynamic modelling carried out by the Tyumen Petroleum Research Centre (TNNTs). Well construction and completion designs were developed and equipment purchased and delivered. Wells were drilled in the second quarter of 2010. The first dual completion was carried out in June and put into production a month later.

### Dual completion well





## Results and lessons learned

The pilot project was completed successfully without any service quality or HSE incidents. Production levels are stable.

An evaluation of this pilot project has shown that the dual option NPV is similar to the option involving drilling two standard wells, which is a good starting point.

The second production casing with Schlumberger design will be completed in the first quarter of 2011.

Future work will focus on cost efficiency and adapting the technology to the company's standard production casing sizes to maximise project value.

Along with the contractors, TNK-BP demonstrated a high level of professionalism and validated the technology in remote West-Siberian conditions. Once the technology has been fully tested and an optimum cost/benefit solution found, it will be scaled up at other TNK-BP fields.

If you want to learn more about the TNK-BP technology application, please read an enhanced version of the 2010 Annual Review on the company's website at [www.tnk-bp.com](http://www.tnk-bp.com)

# Interaction with suppliers and contractors

In 2010, TNK-BP purchased materials and services worth more than USD 6 billion, of which 85% came from Russian contractors and suppliers. The company considers its business relationships with suppliers in the regions of our operations to be very important.

In addition to Russian contractors, TNK-BP works with many internationally renowned companies, such as Halliburton International, Baker Hughes, Schlumberger, KCA Deutag, ABB, GE and the Wood Group.

Maintaining long-term relationships with contractors is one of TNK-BP's highest priorities, evidence of which is that more than 60% of materials and equipment, and over 40% of services are purchased under long-term contracts. By signing contracts for several years, the company guarantees its partners sales over a long period; helping them invest in development and innovations. While a contract is in place, contractors can rely on technical support from TNK-BP experts who take active interest in the technological leadership of their suppliers and the high quality of products supplied.

TNK-BP operates according to the principle that long-term business relations based on good faith, respect, and mutual benefits play a key role in a company's success. Relationships that violate laws and business ethics are expressly forbidden, as they can tarnish a company's reputation and the good name of its employees, as well as undermine the company's stable and sustainable development. As a result, TNK-BP pays a great deal of attention to the selection process for its suppliers and contractors, and also its interactions with them. The company's activities in this field are regulated by a number of standards and procedures aimed at the further development of its Code of Business Practices.

According to TNK-BP's Corporate Procurement Standard, the company is committed to bona fide management, integrity and transparency with regard to its procurement activities. It applies the highest professional standards, based on the strict observance of laws and regulations.

The company ensures that all necessary conditions are in place for fair and open competition among its suppliers, and that it remains impartial and objective at all stages of the selection process (please see the Sustainability report). The mechanism used by the company to select suppliers in tenders is based on an analysis of all the proposals it receives and the selection of the most technically appropriate proposal at the best price. All tender participants are guaranteed equal opportunities by clear regulations and the transparency of the selection process, which includes the publication of proposals on the company's website and which prohibits all TNK-BP employees from accepting business gifts and entertainment services from a company while they are participating in a tender.



An operator at the oil and gas production shop in Nizhnevartovsk

TNK-BP was the first company in Russia to open a dialogue with its suppliers and the contractor community. On 24 September 2010, the first TNK-BP suppliers and contractors forum was held in Moscow, and provided a good basis for direct dialogue between the company and its suppliers and contractors. The forum discussed initiatives for improving interaction between TNK-BP companies and their suppliers and contractors, as well as the interaction and cooperation of corporate and regional councils with contractors. TNK-BP senior management and around 300 of the company's contractors took part in the forum.

"Our goal is absolute leadership among Russian private oil companies," said Maxim Barskiy, Deputy Chairman of the TNK-BP Management Board. "To attain this goal, the company must standardise and enhance the transparency of cooperation with suppliers and contractors. This will help us to improve the efficiency of operations, ensure a competitive price offer by different contractors, simplify price evaluation and create favourable conditions for the future development of our company's business activities and those of our contractors."

"The main goal of the forthcoming changes is to make the system of interaction between TNK-BP and its contractors and suppliers more efficient, based on the key principles of cooperation with our partners – quality, safety and zero-tolerance of abuse," said Anatoly Tyomkin, Executive Vice President for Business Support, TNK-BP.

In order to systematise dialogue between the company and the market, a Corporate Council was established to manage the activities of the following six regional councils: Central (Moscow), Siberian (Tyumen), Western Siberian (Nizhnevartovsk), Orenburg (Orenburg), Saratov (Saratov), and Ukrainian (Kyiv). Conflict resolution commissions were created within these regional councils to settle current issues and moot points, and also analyse complaints from suppliers and contractors in relation to their pre-qualification, selection, and disqualification.



TNK-BP strives to create and maintain a corporate culture based on zero-tolerance towards bribery, corrupt business practices and money laundering. Moreover, potential contractors are screened to make sure that they strictly observe applicable laws, regulations, ethical business standards and human rights. If this screening detects any violation of laws and regulations, the provision of fraudulent information, or the complicity of contractor owners, founders or managers in illegal activities, the contractor in question will be excluded from the list of potential contractors.

One part of the standard contract between TNK-BP and the contractor is related to health, safety and environmental protection. This states that contractors must comply with current laws and regulations of the Russian Federation, implement all necessary health, industrial safety, fire safety and environmental protection measures, and ensure that natural resources are used appropriately. In addition, the standard contract contains an anti-corruption article (please read the Sustainability report for more details).

All policy and procedural requirements related to interaction and cooperation with suppliers and contractors are brought to the attention of all contractors, suppliers, and company employees. TNK-BP regularly inspects the activities of its employees, in order to check their compliance with relevant laws, regulations and corporate standards and practices. Every year, TNK-BP employees fill in a declaration about their compliance with business ethics policies and company standards, including those related to countering corruption, bribery, and money laundering. This document facilitates the detection and resolution of conflicts of interest that may arise during interaction and cooperation with suppliers and contractors.

# Downstream



Dawn at the Ryazan refinery

# The Core Value of Integration

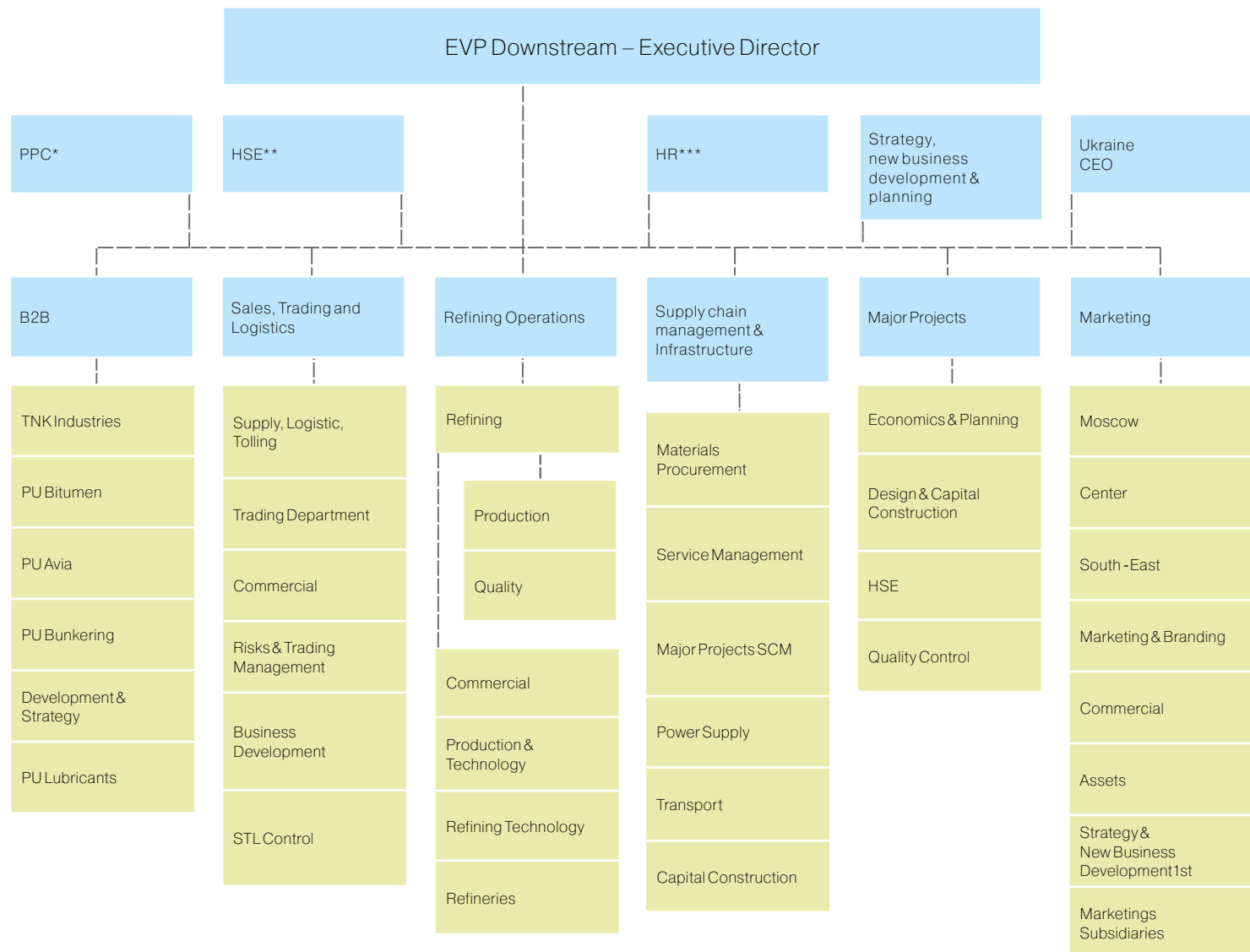
Downstream runs an integrated business, which works to make the best possible use of every barrel of oil we produce. The strategic goal of Downstream is bringing the company's oil refineries into compliance with international quality and safety standards, optimising the throughput capacity of every oil refinery, increasing the sales of high-quality oil products through the company's own retail networks in its key producing regions, and developing highly efficient operations for trading oil and oil products both within and beyond Russia.

25,642	12	732 mb/d	5
employees	regions of retail operations in Russia as well as in Ukraine and Belarus	record refining throughput	oil refineries in Russia and Ukraine and a 50% stake in the YANOS oil refinery
36 mln tons	1,490	0.5 bn USD	3.409 bn USD
of oil products sold in Russia and abroad	service stations	in downstream capital investment	downstream EBITDA

# Downstream

TNK-BP's Downstream includes refining of oil, marketing of the oil products, sales, trading and logistics of crude and oil product supplies for export and to the domestic market as well as development of our B2B business. Our strategic goal is to create a sustainable, competitive and integrated business in selected regions with dynamic consumer demand.

## Downstream management structure



\* Planning, performance management and control

\*\* Health, safety and environment

\*\*\* Human Resources

Management, divisions and departments directly reporting to management

Departments and production units

## Performance improvement culture

- Encouraging employees to take on greater responsibility in decision-making
- Definition and enforcement of required management behaviour standards
- Simplification of procedures and the clarification of decision-making roles and rights when applying these procedures
- Elimination of redundant reports and the duplication of activities
- A reduction in the number and variety of committees, commissions and working groups

## Downstream strategy

The success of our downstream business is based on a cost efficient supply of crude and quality oil products; best-in-class refining assets in terms of safety, production complexity and efficiency; superior marketing efforts sustaining the strengths of the BP and TNK brands supported by a leading performance culture.



Ryazan refinery

### Optimum coverage with refining capacities

- Best-in-industry performance
- Best HSE indicator, integrity costs, and energy efficiency

### Optimum coverage with marketing channels

- Best-quality assets
- Best-in-class logistics
- Best brand value
- Best B2B channels

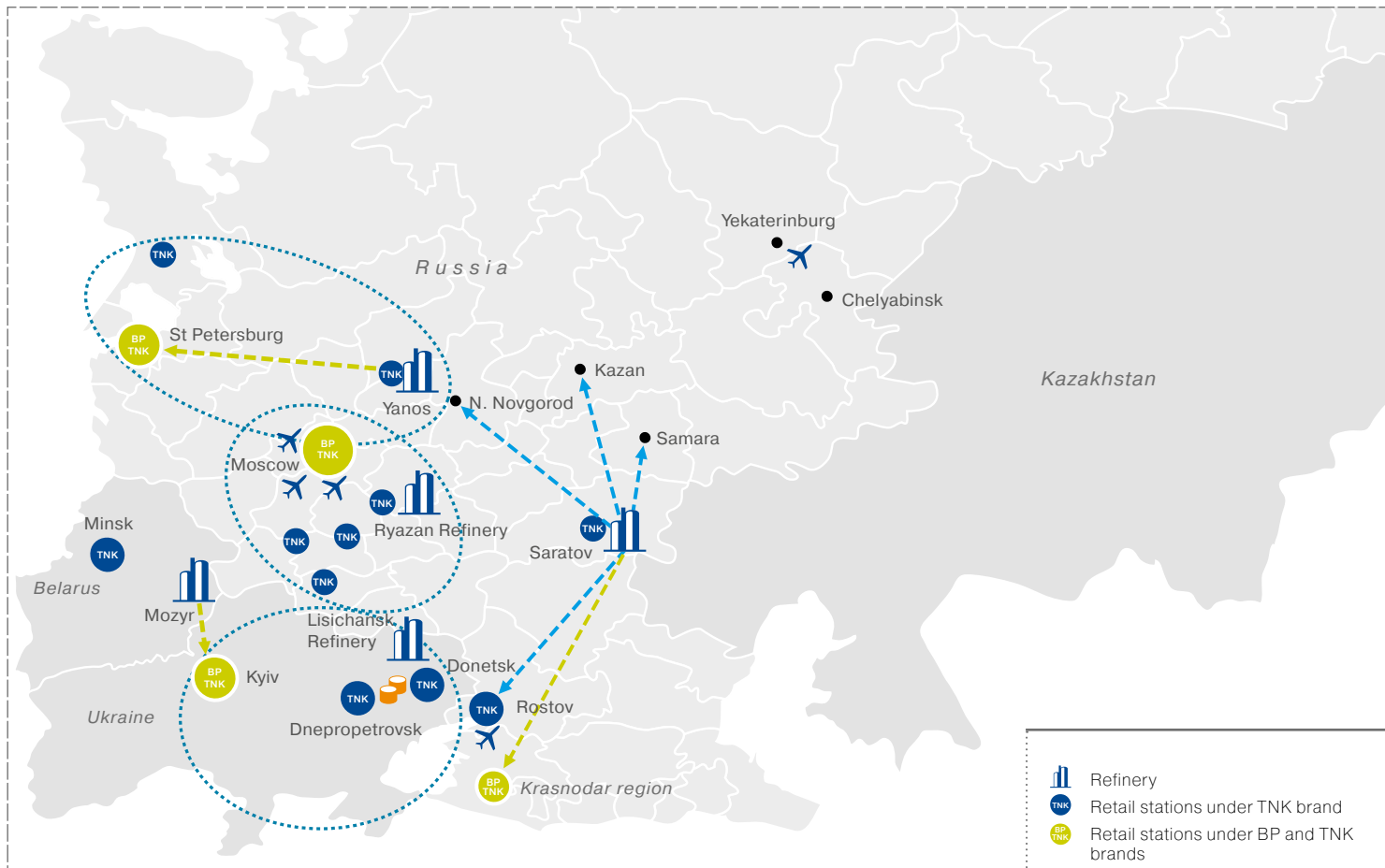
### Competitive logistics

- Logistics that provide a competitive edge
- Preferential supply and export channels

Fully integrated model, coordinated growth, and improved management

Maintaining a reasonable balance between oil refining capacities, sales of oil products, and the production of oil is an important task for TNK-BP. The nameplate capacity of the oil refineries the company currently controls is approximately 772 mb/d (38.6 mln tons of oil per year). The company's main refining assets are the Ryazan refinery, Saratov refinery, Nizhnevartovsk refinery (NNPO, Nizhnevartovsk, West Siberia), Krasnoleninskiy refinery (Nyagan), Yaroslavlnefteorgsintez (YANOS, a 50% joint venture with Gazprom Neft), and Lisichansk refinery (LINIK, Ukraine).

### Major Downstream assets and projects



	<b>YANOS (50%)</b> Upgraded in 2006	<b>Ryazan refinery</b> Upgraded in 2006	<b>Saratov refinery</b> Upgraded in 2004	<b>Lisichansk refinery (LINIK)</b> Upgraded in 2008	<b>Nizhnevartovsk refinery</b> Built in 1998	<b>Krasnoleninskiy refinery</b> Built in 1998
Capacity:	286 mb/d (Yanos 100%)	323 mb/d	132 mb/d	144 mb/d	26 mb/d	4 mb/d
Conversion ratio:	66%	63%	67%	71%	not applicable	not applicable
Refining throughput in 2010	144 mb/d (50% share of TNK-BP), +5% on 2009	322 mb/d, +10% on 2009	135 mb/d, +17% on 2009	103 mb/d, no change	25 mb/d, +7% on 2009	3 mb/d, +7% on 2009
Output of light prod- ucts:	57%	55%	44%	58%	not applicable	not applicable
Operational availability:	95%	97%	98%	82%	90%	78%

## Oil refining

The development of refining is based on the implementation of major integrated projects, which will improve the efficiency of oil refining, strengthen the competitive edge of TNK-BP in the refining industry, and considerably increase the production of high-quality light oil products. In 2010, TNK-BP achieved a record refining throughput of 732 mb/d. Another important accomplishment was a 4% increase (1.5 mln tons) in the refining cover through the debottlenecking at the Ryazan and Saratov refineries and incremental crude oil production. We continued to implement quality projects and improve operational efficiency.

### TNK-BP refining investment program

Area	Projects	Capex 2011-2015, bn USD
Integrity and quality projects	Ryazan: Isomerisation, Diesel Hydrotreater upgrade, MTBE* Saratov: Isomerisation, Diesel Hydrotreater upgrade	1.5
Efficiency and growth	Ryazan: Vacuum unit, Visbreaker, Hydrocracker, Crude unit, FCC expansion Saratov: Visbreaker, Crude unit expansion	1.4
<b>Total</b>		<b>2.9</b>

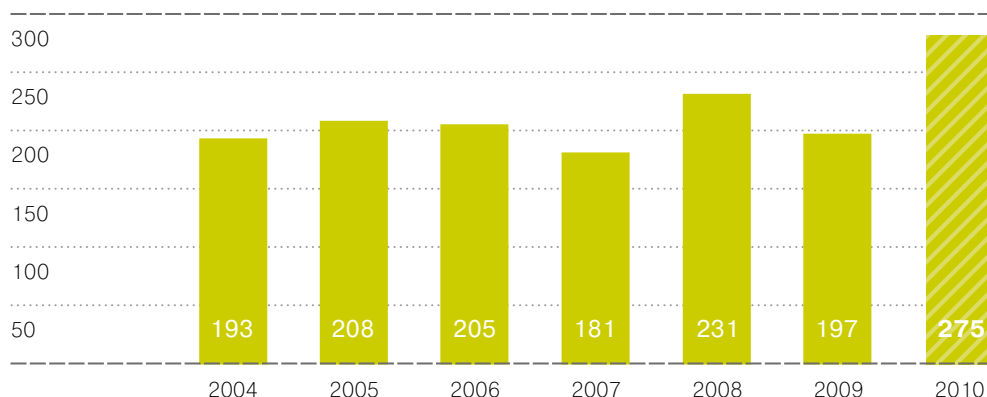
#### Implementation of TNK-BP's mid-term refining development program will enable us to achieve:

- Sustainability of operations and the highest HSE standards
- Compliance with Russian technical regulations for gasoline, diesel and jet fuel, gasoline pool octane improvement
- Throughput expansion and light yields growth leading to increase of competitiveness

\* MTBE – methyl tert-butyl ether, a fuel additive for increasing the octane number of gasoline

### Investment in refining, mln USD

In 2004-2010, TNK-BP's investment in refining amounted to USD 1.49 bn



**4%**  
increase in the refining cover due to technical improvements and rising production

### The main oil refining projects of 2010

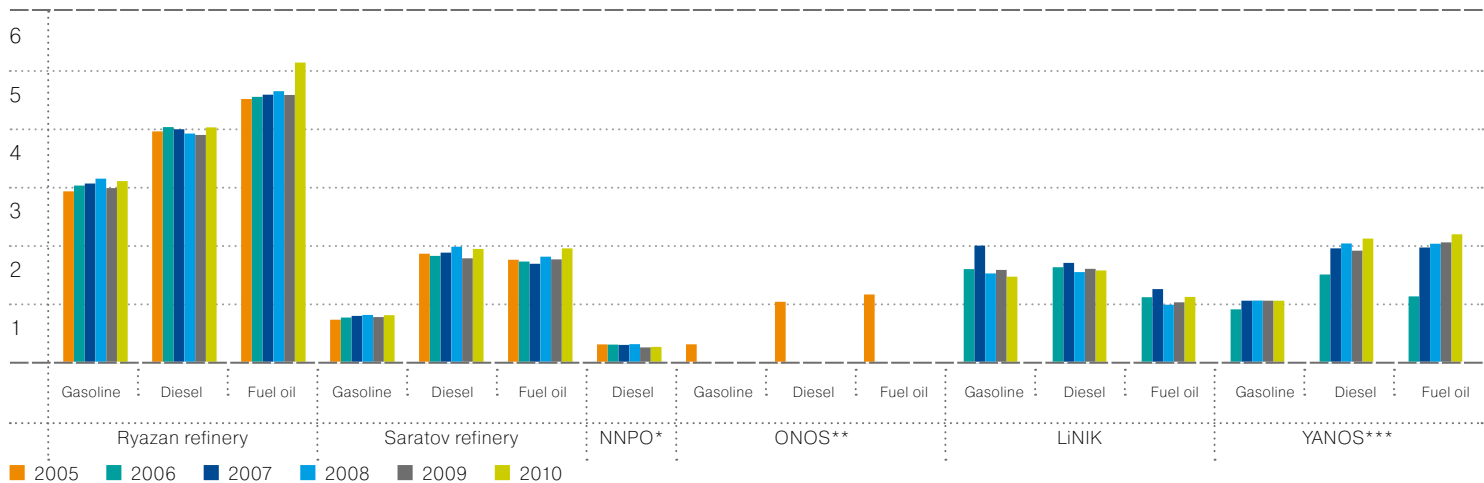
In 2010, TNK-BP reached a record refining throughput, owing mainly to aligned teamwork and implementation of the following projects:

- Conversion of the AVT-2 unit at the Ryazan refinery to process crude oil instead of fuel oil, which led to a record refining throughput of 323 mb/d (16 mln tons a year)
- Transportation of light crude to the Ryazan and Saratov oil refineries by rail

Optimized refinery operations enabled the company to refine an additional 1.3 mln tons of crude oil (above plan) and improve oil product yields. In 2010, the company carried out major repairs at the Ryazan refinery, Nizhnevartovsk refinery (NNPO) and Lisichansk refinery (LINIK), which increased the reliability and integrity of the equipment. This work also served to increase the capacity of the Ryazan refinery, and improved the operational availability of each of the refineries.

## Output of oil products, mln tons

In 2010, production of gasoline and diesel regained momentum owing to the optimisation of outputs and the improvement of production units at the oil refineries after a decline in light oil product yields due to sales a slowdown in 1H 2009 and major scheduled repairs.



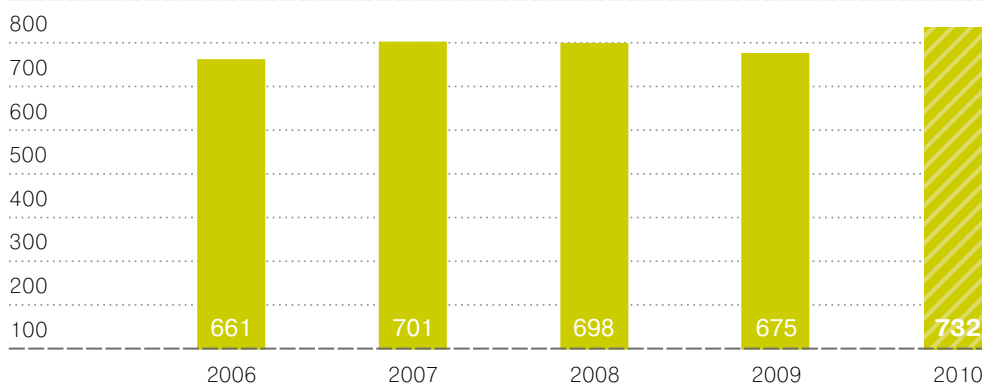
Note: Gasoline includes alkylate and M-grade; diesel fuel does not include heating fuel.

\* Nizhnevartovsk Oil Refining Enterprise

\*\* Orsknefteorgsintez divested at the end of 2005

\*\*\* Showing our 50% share

## Refining throughput, mb/d



# 732

mb/d record throughput thanks to aligned teamwork, improved performance and successful debottlenecking

## Operational efficiencies in refining

In 2010, we achieved significant improvements in efficiency of refining operations and management.

— Energy efficiency and fuel-loss reduction program

The economic effect of these performance improvement initiatives amounted to USD 35 mln.

### Ryazan refinery

- Feedstock optimisation for the AVT primary oil treatment units
- Optimisation of the technological mode in refining units

### Saratov refinery

- Optimization of the technological mode and heat exchange at the ELOU-AVT-6 oil treatment unit in spring 2010 led to a feedstock increase from 18,200 to 18,700 tons/day.

## Quality of oil products

The production of high-quality oil products for the Russian and Ukrainian domestic markets, as well as for export, has always been a high priority for TNK-BP. We are constantly working on improving quality to meet modern environmental requirements and satisfy the growing demand for higher-quality fuels. Our investments in quality projects are also in compliance with the governmental requirement to comply with new technical regulations for fuel marketed in Russia.

In 2010, the company implemented a number of measures as part of quality improvement projects:

- Saratov refinery
  - Design work was completed and the necessary permissions obtained to commence the construction of an isomerisation unit, while orders were placed for long-lead equipment.
  - Design documentation was submitted to obtain the necessary permissions to construct a diesel fuel hydro-treatment unit.
- Ryazan refinery
  - A list of equipment was drawn up for the planned hydro-cracking unit.
  - Preparatory work was carried out for the construction of an isomerisation unit and a diesel fuel hydro-treatment unit.

In 2010, the company made considerable changes to the range of oil products it produces.

### Gasoline

- Production of high-octane gasoline brands at the Saratov and Ryazan refineries increased to 3.488 mln tons, a 14.7% increase on 2009 figures.
- Production of AI-80 gasoline at the Saratov and Ryazan refineries terminated, and the resulting free production capacities were converted to produce AI-92 and AI-95 gasoline.
- Production of AI-92 and AI-95 gasoline meeting Euro-3 standards started at the Saratov refinery in the autumn of 2010 – earlier than the 2011 deadline set by government regulations. Upgrades carried out at all other refineries to produce gasoline compliant with Euro-3 standards as of 1 January 2011.
- Production of base gasoline for the branded fuel Pulsar-95 started at the Saratov refinery.

### Diesel fuel

- The Ryazan and Yaroslavl refineries have produced and exported Euro-5 diesel with less than 10 ppm of sulphur since 2008. In 2010, the refineries began supplying Euro-5 diesel to a number of Russian regions.
- The standard diesel fuels supplied to service stations in 2010 by Ryazan refinery were Euro-3 and Euro-4 diesels.
- All diesel produced by the Saratov refinery and supplied to service stations has met the requirements of Euro-3 standards since November 2010.



The Saratov refinery

## Quality management and control systems

The quality management systems of all TNK-BP enterprises comply with the requirements of ISO 9000 international standards.

The general management systems of the company's enterprises include an environmental protection management system compliant with ISO 14000 international standards and a health and safety system compliant with OHSAS 18000 international standards, ensuring that the

company's business processes are organised in accordance with global best practices.

In 2010, the quality management system used in the production of jet fuel at the Ryazan refinery was certified as being compliant with the requirements of AS 9100 international standards, which is the first step towards the production of Jet A-1 fuel.

The quality of testing is an important element of the quality of products. The laboratories of all TNK-BP refineries are accredited as technically competent in accordance with Russian laws and regulations and the company's test-reliability verification procedures.

## Health, safety and environmental achievements

— Major repairs were carried out at the Ryazan Oil Refinery, Nizhneartovsk Oil Refinery (NNPO) and Lisichansk Oil Refinery (LINIK) over the course of 1.2 million man-hours without accidents causing temporary incapacity.

— Within the period 2008-2010, major repairs were carried out at the company's oil refineries without accidents causing temporary

incapacity over the course of a total of 6 million man-hours.

— 94 service stations were built or upgraded without any accidents causing incapacity.

— Construction of protective facilities to eliminate the subsurface pollution layer at the Uvek Oil Depot was completed

(see TNK-BP's Sustainability Report for more information).

# Marketing

TNK-BP's marketing efforts are aimed at capitalising on the competitive oil product supply and market growth potential.

## TNK-BP retail assets



BU Marketing is one of the most dynamic functions within TNK-BP. In 2010, the company expanded its retail presence in two Russian regions and acquired Vikoil, a major retail operator in Ukraine. The implementation of in 2010 projects will ultimately lead to a 7.5% increase in the company's retail presence.

TNK-BP's marketing activities are geared towards promoting two brands at once – TNK and BP – which are aimed at different segments of the consumer market. The company is particularly focused on the promotion of branded BP Ultimate and PULSAR fuels, which offer improved environmental and technical properties. We aim to gain the maximum possible share of the Russian and Ukrainian retail markets, with dynamic demand growth for quality fuels.

## Business expansion in Russia

TNK-BP's main objective in 2010 was to improve the quality and efficiency of its existing retail chains and expand the geographical reach of its business. The company's Russian retail assets comprise 1,490 retail petrol stations. The retail chain includes owned sites and jobber sites operated by two major brands - TNK and BP.

### The company's branded service stations as of 31 December 2010

	Own			Jobber			Others the announced under the jobber program	Total
	Total	BP	TNK	Others	Total	TNK brand		
Russia	738	85	445	208	296	196	100	1,034
Ukraine	156	3	50	103	260	245		416
Belarus	40		36	4	-			40
Total	934	88	495	351	556	456	100	1,490

## Current operations in the regions

One of the main areas where the company's profitability can be increased is through optimisation of the existing retail networks and oil depots by reconstructing commercially attractive assets and selling assets with a low commercial potential.

445 stations have been rebranded under the new TNK brand, more than 150 outlets sold, and more than 35 oil depots liquidated or sold since 2005. This has allowed us to reduce the costs of maintaining inefficient assets and focus on maximising profits from its top-performing retail outlets and oil depots. At the same time, the company has continued to build new retail stations according to the highest standards of quality and safety. Five BP stations (four in St. Petersburg and one in Moscow) and four TNK stations (two in St. Petersburg and two in Moscow) were built in 2010.

In 2010, TNK-BP expanded its retail network also by purchasing land plots and retail stations in regions where it currently maintains a presence, with six new plots in St. Petersburg and ten new stations and plots in Rostov and Krasnodar

## The expansion of retail into new regions

In addition to optimising existing assets, TNK-BP is expanding in new regions. In 2010, the company acquired 18 retail stations in the Belgorod region, as well as a further 32 new assets in the Smolensk, Pskov, Novgorod and Tver regions.

The company's presence in the above regions is focused around the federal highways that make up the main routes through north-western Russia. The development of a retail chain on the Moscow-St. Petersburg highway will create a synergy of the TNK- and BP-branded networks located in the Moscow and Leningrad regions.

We are keen to further expand our retail business and are currently considering opportunities in major industrial regions such as the Urals, Samara and Nizhny Novgorod.

## Brands managed by TNK-BP

In 2010, the company continued to position the TNK and BP brands and improving their customer appeal. Average fuel sales at each TNK service station amounted to 4.5 mln litres per year, while fuel sales at a BP service station averaged 16.5 mln litres per year (a record sales volume for one BP-branded service station in Europe).

### TNK brand

The main features of the TNK brand are quality, freshness, professionalism and reliability. To illustrate all of these features, new visual standards were developed for the trademark in 2006, which entailed a revamped TNK logo and the addition of orange to the colour scheme.

Customers have the choice of about 30 new products under the TNK brand, including engine oils from the TNK Magnum series and sub-brands, TNK Jet Fuel, TNK Bitumen, TNK Marine Fuels and PULSAR fuel. At our service stations we have TNK-branded restaurants and express shops TNK-branded products with the aim of performing as well as imported goods, while being more competitive in price.

### BP Brand

The BP brand is a recognised leader in supplying quality gasoline on the Russian market. The distinctive features of this brand are:

- Quick service: Our express system allows customers the opportunity to stop and have a snack, avail of free parking and visit one of our BP Connect food stores.
- A comfortable and pleasant environment: Customers can buy freshly-baked goods, use gloves provided free-of-charge at all pumps, and enjoy open planning and vibrant music in our shops.
- Guaranteed quality of our petrol, accompanying products and level of service

The key target customers and priority segments for BP fuel stations are brand-loyal individuals and professionals in major regions and cities who are short of time.

By the end of 2010, TNK-BP managed 85 BP outlets in Russia and 3 in Ukraine. The company has plans to expand the distribution of its BP-branded outlets within Russia beyond Moscow and St. Petersburg.

Over 50 retail assets acquired in 2010 with expansion to the Belgorod, Smolensk, Novgorod, Pskov and Tver regions. Project implementation will lead to a 7.5% increase in TNK-BP's retail cover.

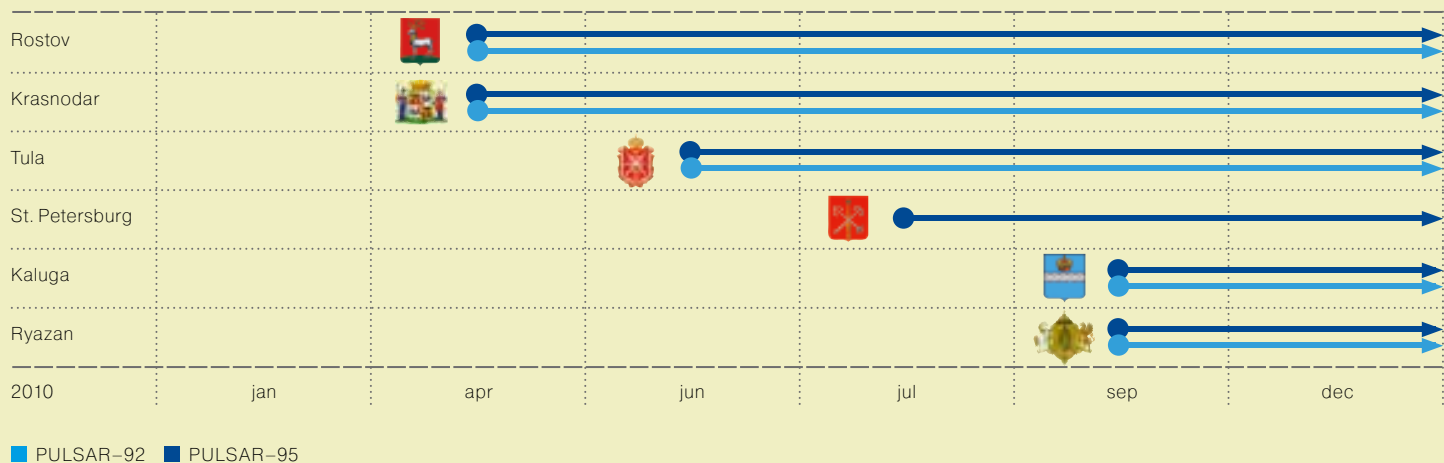
# 445

TNK-branded stations rebranded to meet the new standards by the end of December 2010

Thanks to the retail rebranding program, fuel sales grew by an average of 30%. In 2010, 19 stations were rebranded from TNK to BP (in the Moscow region) and 80 stations were rebranded under the new TNK brand (Moscow and Yaroslavl regions).

## Attracting new customers to branded fuel

### PULSAR



In 2010, marketing activities were carried out with the aim of building trust in the quality of TNK-branded fuels and services, improving the image of the TNK brand in line with its positioning strategy, and promoting TNK-BP branded fuels. Promotional activities were carried out at retail stations, while outdoor, radio and Internet advertising resources were also used.

April 2010 saw the launch of PULSAR fuel in the Rostov and Krasnodar regions. 55.5 th.tons of fuel had been sold in those regions by the end of 2010. The shares of PULSAR-95 and PULSAR-92 in total petrol sales for April-December 2010 amounted to 44.0% and 28.4%, respectively. PULSAR fuels are currently sold at 49 stations in the Rostov region and 27 stations in the Krasnodar Area.

June 2010 witnessed the launch of PULSAR fuel on the Tula regional market, with 21.7 th.tons of fuel sold by the end of 2010. PULSAR-95 accounted for 100% of AI-95 petrol sales in June-December 2010, while PULSAR-92 accounted for

43% of total AI-92 petrol sales. PULSAR fuels are sold at 24 stations in the Tula region.

In July 2010, PULSAR fuel was launched in St. Petersburg. Branded fuel sales accounted for 20% of total AI-95 petrol sales by the end of the year.

PULSAR fuel was then launched in the Kaluga and Ryazan regional markets in September 2010. PULSAR-95 achieved a share of 40.4% and PULSAR-92 a share of 5.8% of total petrol sales in the Kaluga region. The fuel was sold at 24 stations in the Kaluga region and 26 stations in the Ryazan region.

In light of the demand for PULSAR fuel among its customers, the company is planning further expansion of its sales geography in 2011.

#### BP Ultimate

Thanks to successful marketing activities, in 2010, TNK-BP managed to increase the share of BP Ultimate sales to 42% of total gasoline sales in Moscow and the Moscow region. At the same time, the company continued to promote BP Ultimate at BP outlets in St. Petersburg, where the fuel accounted for 36% of ordinary AI-95 petrol sales.

In March 2011, TNK-BP launched BP Ultimate sales in the Moscow region (see the Subsequent Events Section on page 143).

[For more information on PULSAR and BP Ultimate fuels, please see the Sustainability report.](#)



Fuelling cars with our branded PULSAR gasoline

## A socially responsible business

### Entry into the open market for purchasing oil products

In 2010, all marketing subsidiaries gained access to the St. Petersburg International Mercantile Exchange and Inter-Regional Stock Exchange of the Oil and Gas Complex (MBNK). The total volume of oil products traded on the exchange exceeded 180 th. tons. The company intends to build on its experience of trading oil products on open markets in the future.

### Participation in the RTCC (Russian Touring Car Championship)

In 2010, a TNK racing team took part in the RTCC (Russian Touring Car Championship). After completing the seven stages, the TNK Racing Team was named Russian champion in the most prestigious Touring class.

### Cooperation with agricultural producers

In 2010, TNK-BP marketing subsidiaries supplied over 360 th. tons of oil products to agricultural producers on favourable terms. The privileges granted totalled around RUR 870 mln.

## Wholesale B2B trading of oil products

TNK-BP's B2B business is closely integrated with our refining capabilities to ensure competitive product supply.

### Jet fuel

#### Achievements in 2010

- New contracts with leading airlines, including "into-wing" fuel deliveries
- An increase in sales to airlines as end customers to 25% of total sales by volume
- An almost six-fold increase in sales to key customers, including Aeroflot, Transaero and S7
- Success in a tender to acquire 74,9% of Sheremetyevo airport's refuelling complex
- Rigorous compliance with delivery schedules and a high level of responsiveness

Total jet fuel sales amounted to 1,222 th. tons, an 8% increase on 2009 figures.

In 2011, the company plans to consolidate its long-term strategic relationships with airlines and look into opportunities to expand its direct jet fuel deliveries.

**6-fold**  
increase in sales to  
Aeroflot, Transaero  
and Sibir airlines

### Bitumen

#### Achievements in 2010

- Use of the most profitable marketing channels
- Refocusing production on roofing bitumen
- Product deliveries primarily by rail
- Rigorous compliance with delivery schedules and a high level of responsiveness

Total bitumen sales amounted to 932 th. tons, an 11% increase on 2009.

In 2010, TNK-BP adopted a new innovative development strategy in its bitumen business, continuously seeking out the most profitable markets – including export markets – and offering its customers new products. In 2010, the company developed two new product lines – asphaltenes and softening agent M – and began marketing its advanced road construction material polymer-modified bitumen (PMB).

In 2011, TNK-BP plans to expand its bitumen business by entering into long-term agreements with key customers, promoting new product brands and building a bitumen storage facility.

**24%**  
bitumen market share  
in European Russia

Agreement on cooperation  
with the federal road  
agency Rosavtodor  
to supply high-quality  
bitumen and develop  
highway service stations

### Lubricants

#### Achievements in 2010

- Increased sales of premium and packaged products
- Development and industrial testing of new products
- Work to improve quality
- Technical design of a new lubricant-blending plant
- Marketing activities

Total lubricant sales decreased by about 20% to 229 th. tons due to closure of a lube unit at the Ryazan refinery. However, an incremental share of premium products helped the company to keep intact profitability levels in this line of business.

In 2011, the company will focus on maintaining growth in the sales volumes of premium and packaged products, as well as controlling the timing and quality of design work on the new blending plant. Customers will be kept fully up-to-date through advertising and marketing events.

## Sales, trading and logistics

The strategic role of Sales, Trading and Logistics lies in optimising the integrated value of downstream. In 2010, TNK-BP's Sales, Trading & Logistics (STL) division completed a series of innovative projects aimed at improving the efficiency of sales of oil and oil products. Constructive cooperation with Transneft – the national pipeline operator – helped to remove bottlenecks from oil pipelines running between the company's producing assets and refineries. As a result, we achieved record high oil supplies to the Ryazan refinery. The advantageous distribution of TNK-BP's crude oil production and use of efficient logistics enabled the company to send increasing volumes of crude to the Yaroslavl refinery, as well as to organise light crude deliveries, needed for the production of higher quality oil products, to the Ryazan and Saratov refineries.

Trading efficiency was enhanced by the implementation of a risk management system (Value at Risk) and a practice of upgrading international trading expertise through partnerships and other beneficial relationships.

### Sales of oil and oil products in 2010

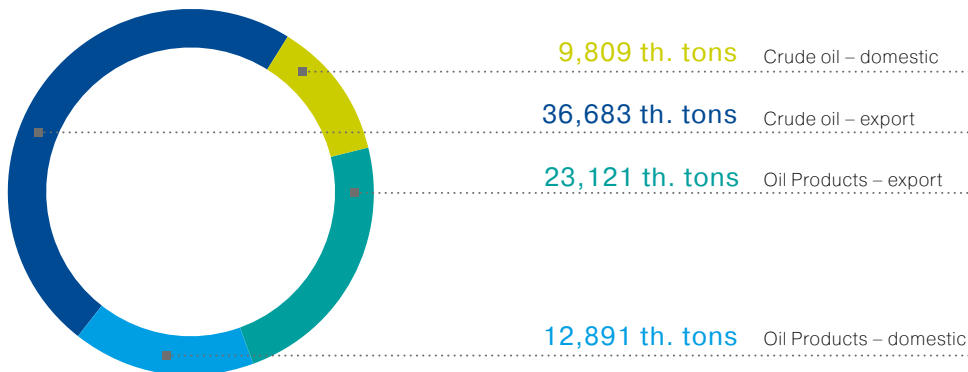
In 2010, domestic sales were generally more attractive than exports. As a result, some crude oil export allocations were redirected to the domestic market to maximise efficiency. The resulting growth in domestic sales amounted to approximately 2 mln tons, an increase of 26% on 2009 levels.

	th. tons	mln bbl
<b>Crude sales volumes</b>	<b>46,493</b>	<b>339</b>
Crude exports	33,114	241
Pipeline	29,296	213
Rail	3,818	28
CIS	3,569	26
Domestic sales	9,809	72
<b>Deliveries of own crude to refineries*</b>	<b>35,440</b>	<b>259</b>

\* Excluding external purchases of crude by LINIK

	th. tons	mln bbl
<b>Oil product sales volumes</b>	<b>36,012</b>	<b>263</b>
Exports of oil products	20,372	149
CIS exports	2,749	20
Domestic sales:	12,891	94
Large wholesale	2,541	18
Retail sales	10,350	76

## 2010 oil distribution



## Achievements in 2010

- 1. The export of LPG in tankers:** In a first for Russia, processed associated gas from the company's Orenburg fields was exported in containers to gas terminals with varying throughput capacities. Argus-based pricing was used and two contracts were signed with terminal owners as end customers. The company obtained HSE approval for the tankers in accordance with the Marine Register.
- 2. The first floating storage facility in Kerch for the segregation of light and heavy oil products:** The company used to operate 1 or 2 storage depots for heavy oil products at Kerch seaport. In 2010, the company discovered an opportunity to optimise logistics costs by participating in a joint program to create a floating storage platform for heavy products (fuel oil and VGO) and light products (gas oil). The vessel used for storage (with a displacement of about 100 th. tons) is vetted in accordance with BP's internationally accepted safety standards, and has coated tanks and segregated pumping/storage systems to prevent contamination.
- 3. A new tender system for purchasing transportation services:** For the first time, the company held tenders for long-term rail transportation contracts with a view to reducing transportation costs.
- 4. Profitable joint ventures with international traders:** The counterparties in these JVs provide TNK-BP with guidance on new trading/logistics decisions with respect to selling and hedging equity. Profit-sharing agreements provide for the allocation of additional margins earned above the stated prices between partners in the project. The projects also add value by generating knowledge about new market environments and end customers in new regions.
- 5. The continued practice of signing formula-based contracts:** In a first for Russia, the company signed a formula-based contract for the sale of diesel on the domestic market. In Q4 2010, TNK-BP signed a sale and purchase agreement to supply gas condensate and purchase the naphtha produced from it.

## Reshaping and optimising STL activities

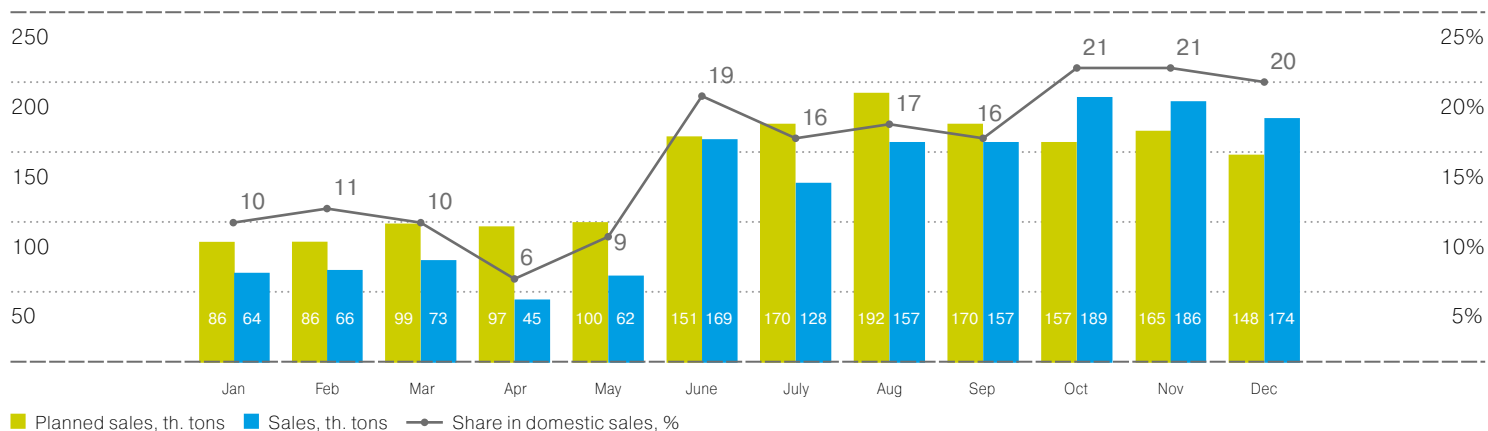
Like other aspects of the company's Downstream business, STL activities in 2010 were aimed at maximising the value of the business as a whole. The company increased supplies to its own refineries and deliveries of oil products to marketing subsidiaries. Supplies to the company's Russian refineries amounted to 33.134 mln tons (241.879 mln bbl) – a 13% increase on 2009. Deliveries to TNK-BP marketing companies totalled 10.35 mln tons, as the company focused on maximising the benefits of the improved economic situation and ensuing higher demand for high-quality fuel. Meanwhile, wholesale sales on the domestic market exceeded 2.5 mln tons.

## Exchange trading in Russia

In 2010, the sales of TNK-BP oil products on the St. Petersburg International Mercantile Exchange and commodities exchanges in Moscow met the target level for domestic sales of 15% required by the Russian government, and reached record high margins for both types of light products traded – gas oil and petrol.

In the fourth quarter of 2010, we sold more than 20% of our domestic production volumes at the exchange. In absolute terms, the company sold 553.600 th. tons of gas oil and 710.600 th. tons of gasoline via exchange trading in 2010. TNK-BP remains a strong supporter of the development of exchange trading in Russia as an effective mechanism for fair and transparent price-setting. In 2011, the company intends to sell at least 20% of its oil products at the exchange and is ready to start registering over-the-counter contracts with SPIMEX.

### TNK-BP's sales of light oil products via exchanges/auctions in 2010, th. tons



The company continued to diversify its export channels, primarily by increasing volumes transported via the East Siberia-Pacific Ocean pipeline (ESPO) and sold through the port of Kozmino in Russia's Far East. In 2010, we transported approximately 2.45 mln tons of crude via the ESPO, around 80% of which was produced at the Verkhnechonskoye oil field in Eastern Siberia, with the remainder originating from the company's Western Siberian fields.

## Risk management

In 2010, the company's STL division upgraded and improved its risk management framework to incorporate international best practices and more sophisticated real-time methods of measuring trading risk. This reinforced the controls, measures, and systems in place to manage risks associated with trading, including ensuring transparent reporting of the market and price exposure created by trading (Value at Risk). New features include advanced reporting of exposure and Value at Risk calculations, along with upgraded daily mark-to-market P&L reporting.

Risk management will form an integral part of the future TNK-BP's trading activities, as the complexities of the market require a firm understanding and competent management of the risks inherent to trading activities.

## Developing talent in-house

In 2010, the company's STL division initiated a Trader Talent Development Program. The program created a unique internal training and assessment opportunity for identifying traders of the future ("grow your own talent"). It was announced company-wide and aimed to attract people from other streams. Over 40 people from various

streams participated in the program, as a result of which two participants have already joined STL, while one STL operator is set to be promoted to a junior trader position. Members of the STL team played an active role in facilitating in-house cross-functional educational programs, leading courses on the prospects for

exchange trading, the principles of international trading and other relevant subjects. Employees from the STL division were nominated "Best In-house Coach in the Company" for the period 2009-2010.

# Gas Business Development



Nizhnevartovsk gas processing plant

# Transformational Change

TNK-BP's strategic goal is to move away from being a predominantly oil-producing business to being a major, world-class, integrated oil and gas company. In 2010, the company made significant progress in implementing its gas strategy which now provides for an increase in production over the next 5 years. This will be achieved through full-scale development of existing world-class gas reserves in Russia – such as Rospan – as well as through participating in the implementation of new gas projects in Russia and internationally.



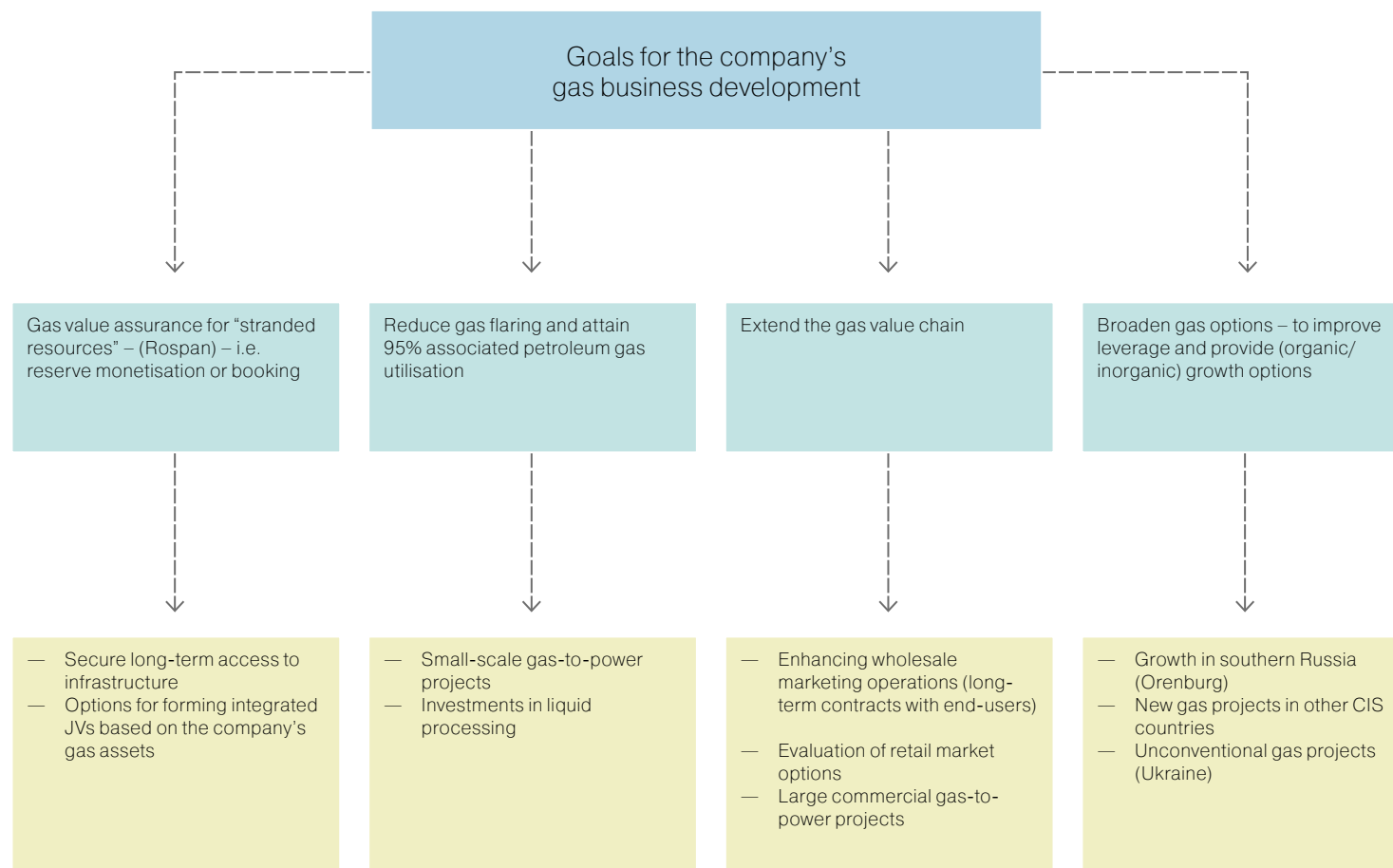
# Gas business development

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Another important objective is to ensure compliance with associated petroleum gas flaring regulations. The company's goal in this regard is to achieve a utilisation level of 95% for all of its oil fields. TNK-BP will also continue to invest in commercial power generation, where it can monetise gas and ensure energy efficiency for oil production and refining.

By capitalising on its gas resource base, the favourable changes in the economic situation and regulations, and additional gas-related opportunities in Russia and abroad, as well as on experience gained, TNK-BP should aspire to achieving more than 20% gas contribution to its total output deriving over 20% of the company's total EBITDA from the gas business. We plan to reach these targets by 2020. Thus, TNK-BP's gas strategy can be summarised simply as 20/20/20.

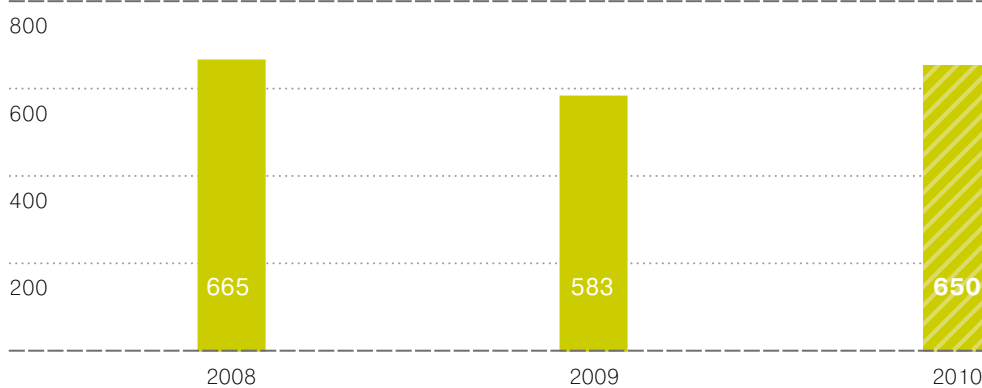
## 20/20/20 gas strategy



## External environment

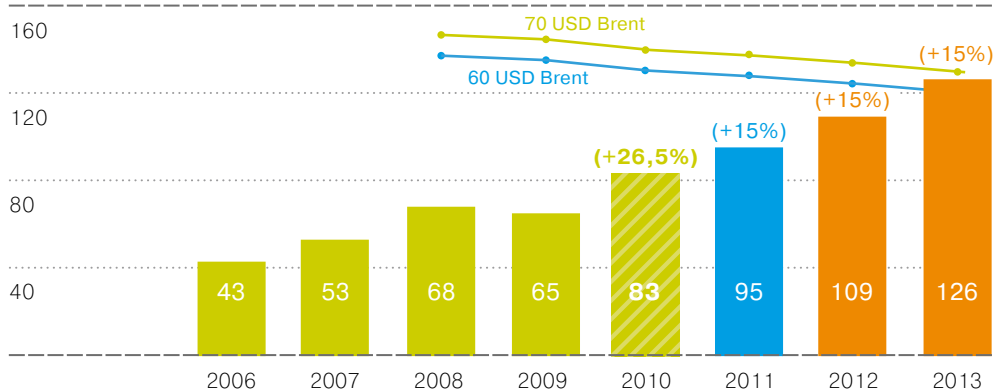
Despite the fall in gas demand caused by the economic crisis, the ambient environment has become more favourable for the development of an independent gas business. In 2010, gas production in Russia approached pre-crisis indicators. In the long-term, according to company estimates, the demand for natural gas will continue to grow in all major gas markets. This factor, along with the continuing decline of gas production in old fields, will stimulate interest in the development of new fields.

### Gas production in Russia, bcm



Gas prices in Russia will definitely grow in the coming years, while the tax burden will remain balanced. TNK-BP believes that these tendencies will help to increase the profitability of gas projects in the foreseeable future.

### Dynamics of gas prices in Russia, USD/mcm



■ Federal Tariff Service fact and forecast 2010

— Export parity @ Brent = USD 60/bbl

— Export parity @ Brent = USD 70/bbl



## Natural gas

TNK-BP owns 100% of Rospan International, a gas-producing company in the Yamalo-Nenets Autonomous District. Rospan has significant gas potential, with 2 bn boe of proved reserves (PRMS) and 6.034 bn boe of 3P reserves, and an ability to produce 16.5 bcma (please read more about Rospan on page 57). In 2010, Rospan sold 2.74 bcm of gas, while in 2011, the company expects to sell 3.2 bcm.

Rospan sells gas through the Novy-Urengoi gas company (NUGK), a marketing joint venture with Mezhrefiongaz (a Gazprom subsidiary) that started operating in March 2008, selling gas to industrial customers in Russia at prevailing market prices. Based on the experience of Mezhrefiongaz and its knowledge of the domestic market, NUGK will build up its presence in regional Russian markets and secure opportunities to increase gas production at Rospan's fields.

The joint venture markets Rospan's entire gas production, and in 2010, large volumes of Rospan gas were delivered to "premium" markets (such as Yekaterinburg and Perm), which, combined with the general increase in gas prices in Russia, allowed the company to secure a better price for the gas.

In 2010, TNK-BP was granted access to a unified gas pipeline system for incremental production, which is effective until 2016, and on that basis concluded a transportation agreement with Gazprom, also effective until 2016. The company plans to sign a further transportation agreement with Gazprom, which will be effective until 2018, and to continue negotiations about further pipeline access.

In addition to Rospan, the company has significant reserves in gas caps in the Nizhnevartovsk region. The gas caps development project has the potential to deliver gas by 2018-2019 (with pilot work commencing in 2014-2015). Comprehensive technical and commercial analysis of this project was ongoing during 2010 and will continue in 2011.

The next stage of expanding our gas business will involve the production of associated and free gas at the Suzunskoye, Tagulskoye, Russkoye, and Messoyakhskoe fields in the Yamalo-Nenets Autonomous District and in the north of the Krasnoyarsk region. The fields have abundant resources, although they have not yet been fully explored.

Pioneering gas transportation agreement concluded with JSC Gazprom for 6 years

## Associated petroleum gas

TNK BP produces most of its associated petroleum gas around two strategic gas hubs in its key oil producing areas in Nizhnevartovsk and Orenburg. In 2010, the company produced 13.09 bcm of associated petroleum gas, with a utilisation rate of around 84.6%. TNK-BP sees the increase in associated petroleum gas utilisation as a business priority, and plans to invest approximately USD 1.3bn to enhance its overall associated petroleum gas utilisation at least to 95%. This program involves the construction of new gas storage and processing facilities, and the potential application of gas reinjection, as well as the construction of power plants at our oil fields, in order to generate electricity for own consumption. The utilisation of associated petroleum gas is an essential part of the company's commitment to protect the environment and fulfil licensing obligations.

In November 2006, TNK BP and Sibur Holding created a joint venture to process associated petroleum gas at the Nizhnevartovsk and Belozerny gas processing plants in Western Siberia. The joint venture, LLC Yugragazpererabotka, which commenced commercial operations in April 2007, processes associated petroleum gas that TNK BP and other gas companies produce in the Nizhnevartovsk area. TNK BP then receives all of the dry lean gas produced, while Sibur receives all of the liquid products.

In 2010, Sibur and TNK-BP signed an agreement to incorporate the gas processing company LLC Nyagangazpererabotka, previously owned by Sibur Holding, into LLC Yugragazpererabotka, in order to expand operations. Nyagangazpererabotka's current processing capacity allows the delivery of up to 2.14 bcma of associated petroleum gas. In 2010, Nyagangazpererabotka processed 1.3 bcm of gas to produce 1.18 bcm of lean dry gas, 88,000 tons of straight-run gasoline, and 247,000 tons of liquefied petroleum gas, which is used mostly as domestic and gas-engine fuel. After the incorporation of Nyagangazpererabotka into Yugragazpererabotka, the supply of associated petroleum gas to Yugragazpererabotka from TNK-BP's fields will grow from 0.9 bcm in 2010 to more than 1.3 bcm by 2013. Thus, total associated petroleum gas processing will exceed 1.7 bcm by 2013.

TNK BP is also pursuing a project aimed at increasing the use of associated petroleum gas at its Orenburg fields by investing in gas storage, compression and treatment facilities. Commercial gas sales will increase from 1.6 bcma in 2010 to 2.7 bcma by 2015. The project envisages a major expansion of the associated petroleum gas storage infrastructure, the construction of a gas fractionation unit and a railway terminal at the Zaikinskiy gas processing plant, as well as the expansion of rail connections and the development of several other gas treatment facilities (please read more about the Orenburg Integrated Gas Project on page 41).

In addition to the associated petroleum gas utilisation program in Orenburg, the company envisages significant free gas resource potential, the development of which will allow the company to fully leverage the scale of its operations in the region. Technical and commercial analysis of these opportunities started in 2009 and continued in 2010.



Nizhnevartovsk

## Kyoto Protocol projects

As a company, TNK-BP believes that, alongside the implementation of its associated petroleum gas utilisation program, use of the Kyoto Protocol mechanism is an important step towards extending the efficient use of associated petroleum gas. In 2010, TNK-BP's pilot joint-implementation project "Gas Collection at the Samotlor Field" was approved by the Ministry of Trade and Economic Development. The project was named the best of the 35 projects that took part in the first contest organised by Russian state-run Sberbank. Implementation of the project will allow TNK-BP to sell emission reduction units (ERU), equivalent to 850 th. tons of carbon dioxide (CO<sub>2</sub>), on international markets.

The associated petroleum gas utilisation project at the Samotlor field provides for the installation of five vacuum compressor stations for low-pressure processing of compressed associated petroleum gas. TNK-BP will sell BNP Paribas 170 th. tons of carbon dioxide equivalent prior to issuing ERUs and 680 th. tons after they are issued. The project was approved by the French government, as a symbol of Russian-French cooperation, under a framework agreement on implementing projects in accordance with Article 6 of the Kyoto Protocol. In September 2009, a set of documents (a verification report, monitoring report and a verifier's expert findings) required to issue ERUs for the "Gas Collection at the Samotlor Field" project

were prepared and submitted to the Ministry of Economic Development, and Sberbank. ERUs were also issued for the project in 2010. In 2011, design documentation will be developed for a project entitled "Utilisation of Associated Petroleum Gas at the Vakhitovskoye Field," and submitted for participation in a contest which will again be organised by Sberbank. Analysis of TNK-BP's energy efficiency program, the availability of joint implementation projects, and an update of the current project portfolio will continue. Apart from the aforementioned projects, TNK-BP is preparing two new joint implementation projects in the Orenburg region (please see further details on the energy efficiency program on page 98).

## Power generation projects

Power generation projects form an important part of TNK-BP's gas business development strategy. The company also regards them as an effective means of cost control.

The first group of power generation projects are designed to supply the company's internal needs by replacing external power suppliers. This will have the following benefits:

- More transparency in the lifting costs structure, which will bring more efficiency in well stock management and planning of well interventions
- Cost-efficient electric power supply to our subsidiaries

Captive power generation involves building power stations at the company's operating sites and, thereby, contributes to the utilisation of associated gas. In 2010, TNK-BP commissioned gas turbine power plants (GTPP) at three of its fields: Kamennoe, Ust-Tegusskoe (Eastern Uvat) and one of Varyoganneftegaz's blocks. In the future, the company plans to expand its existing facilities or to build new GTPPs at virtually all its major fields.

Secondly, TNK-BP specialists are looking closely at opportunities to expand the gas-to-power business in the regions where the company operates. Potential new power projects are currently being assessed in the fields around Nizhnevartovsk and in the Orenburg region, as well as at the Verkhnechonskoe field, in Nyagan and on the Yamal peninsula. Successful implementation of all of the company's captive power generation plans will cut operating costs by USD 1.5 bn by 2020.

**18-year**  
gas supply contracts  
for Nizhnevartovsk  
power plant signed with  
INTER RAO UES for the  
first time in Russia



High-voltage power lines near the Nizhnevartovsk electric power plant

## Nizhnevartovsk Power Plant

CJSC Nizhnevartovsk Power Plant is a joint venture between TNK-BP (25% plus one share) and OJSC INTER RAO UES. The JV owns and operates the plant's existing units 1 and 2 (producing a total of 1,600MW); construction of a third unit (combined cycle, producing 700-900MW) is planned in two phases.

TNK-BP currently supplies up to 3.2 bcma of gas to the Nizhnevartovsk Power Plant's existing units. Once completed, unit 3 will consume up to 1.6 bcma of additional dry gas (1.9 bcma of

associated gas). The gas for all three units will be supplied from fields in TNK-BP's Western Siberian Area Division. The company will be entitled to purchase 6bn kWh of power (unit 3) per year for its own upstream needs, with a further option to buy up to 5.5bn kWh per year (units 1 and 2).

The project will enable the company to use the substantial volumes of associated gas it produces efficiently, while ensuring a secure supply of electricity.

Work on the first phase of unit 3 began in the 4<sup>th</sup> quarter of 2010. This section will have a capacity of 410 MW and is scheduled for commercial start-up at the end of 2013.

Over the course of 2011, the JV partners will analyze the energy and finance markets to determine the optimum timing for their initial work on Phase 2. They also plan to complete the design documentation and obtain all of the necessary permits, as well as choosing a general contractor, who will then make a start on the construction work.

# Energy efficiency program

The company recognises the adverse impact that industrial activities can have on the Earth's environment and limited natural resources. Given the consistent growth in the cost of energy resources and the high energy intensity of processes associated with the production, transportation and refining of oil, gas and gas condensate, the company regards the continuous improvement of its energy efficiency as a vital element of consistent of its business activities and as a contribution to the sustainable development of society as a whole.

## Energy efficiency organisation

In August 2010, the Deputy Chairman of TNK-BP's Management Board set up a standing Energy Efficiency Commission, comprising representatives from all of the company's business streams and functions. The commission's primary objective is to achieve commercially viable improvements in the energy efficiency of systems, business processes, structural units and equipment throughout all areas of the company, on a long-term basis.

### The following initiatives will be implemented to improve energy efficiency:

- Use of advanced methods and techniques to manage energy efficiency
- Optimisation of existing technological processes and cost savings through improved energy efficiency, while maintaining the key parameters of technological processes
- Energy efficiency improvements in electrical and thermal energy transmission and distribution systems
- Use of energy efficiency as a criterion for analysing and refining existing business processes, as well as in designing and commissioning new production facilities
- Introduction of up-to-date systems for energy metering and technical monitoring of process parameters

In December 2010, a plan of action was drawn up to boost energy efficiency within the company during the period 2011-2013. The plan is aimed at extracting the maximum economic benefits by unlocking potential energy savings of more than USD 300 mln and creating a functioning, ISO 50001-certified energy management system by 2014.

## Energy efficiency program: approach, implementation and impact

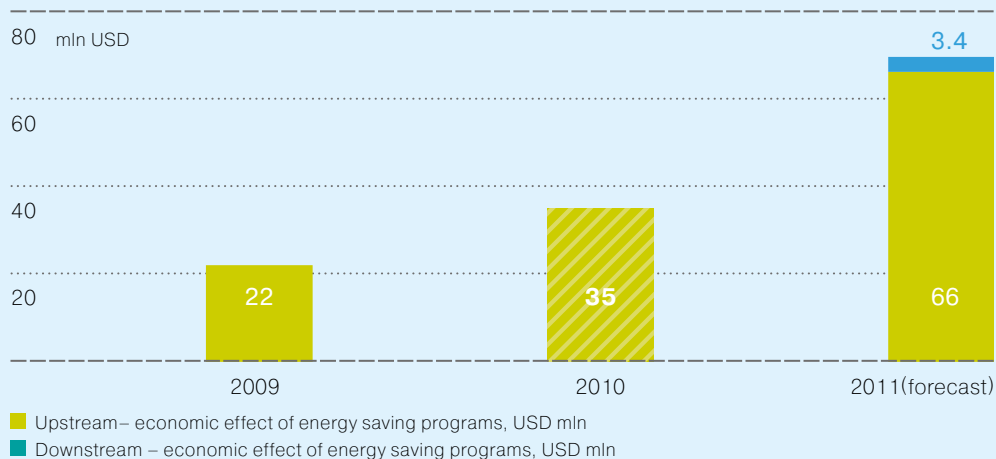
Systematic work on creating a process for controlling and managing energy efficiency improvements with regard to the company's oil production began in early 2009 (2008 was taken as the baseline starting point) and is now one of TNK-BP's key initiatives for reducing operating costs per tonne of oil output. In 2010, following the creation of the Energy Efficiency Commission, this activity was expanded into the oil and gas processing sector.

During 2009-10, the savings to the company resulting from energy efficiency improvements amounted to 988 mln kWh (USD 57 mln).

# 988

mln kWh savings from  
energy efficiency  
improvements  
in 2009-2010

## Economic effect of energy saving programs



## General initiatives for improving energy efficiency:

- Creation of permanent working groups and the appointment of a senior manager at each subsidiary to be wholly accountable for energy efficiency improvements
- Planning and monthly monitoring of the implementation of energy saving measures, with mandatory confirmation of actual benefits
- Development and introduction of energy efficiency control systems for key technological processes that measure regulation and actual energy resource usage
- Energy inspections of technological processes to identify and assess the feasibility of implementing additional measures to improve existing energy-saving programs
- Implementation of pilot projects, with a company-wide roll-out of successful projects
- Training for company staff in the basics of improving energy efficiency and standard energy-saving measures

More detailed information on the energy efficiency program can be found in TNK-BP's 2010 Sustainability Report.

Slavneft



Slavneft is the seventh largest oil company in Russia, accounting for 3.6% of the country's output. TNK-BP effectively owns 49.9% of Slavneft on an equal basis with Gazpromneft. Slavneft is an important investment for the company, and we hope to see this asset achieve maximum operational efficiency and create real economic value. In 2010, the company completed two important initiatives to this effect. In December 2010, TNK-BP and Slavneft established a 50/50 joint venture to develop the Messoyakhskaya group of fields, spinning it off from Slavneft. The Messoyakhskaya group is a giant deposit in a remote, previously untouched area, and its development as a separate project will help to better allocate people, technology and capital. Over the course of the past year, the company also divided up Slavneft's retail assets, which have now been fully integrated into the company's own retail networks. Strategic guidance is provided to Slavneft by the Board of Directors, comprising 10 individuals, with equal representation from both shareholder groups.

In 2010, Slavneft held a total of 33 production and exploration licences for fields in Western Siberia and the Krasnoyarsk region in Eastern Siberia. Its main production subsidiary is Slavneft-Megionneftegas, located in the Nizhnevartovsk area in Western Siberia. In 2010, Slavneft produced over 370 thousand barrels per day (18.4 million tons), which represented a 2.8% decrease on the previous year, due to the natural reduction of its brownfield production base. The company is applying modern technologies to slow down the natural production decline at its mature fields. In 2010, it drilled 222 new wells, which represents a 17.5% year-on-year increase. The utilisation rate of associated petroleum gas amounted to 71.9%.

Slavneft operates the Yanos refinery in central Russia and holds a 42.5% stake in the Mozyr refinery in Belarus. YANOS is one of the largest and most modern refineries in central Russia, with a refining throughput of over 280 thousand barrels per day in 2010, which represents a 4% increase on the previous year. YANOS produces high quality fuels, including 10 ppm diesel, which meets Euro 5 quality standards.

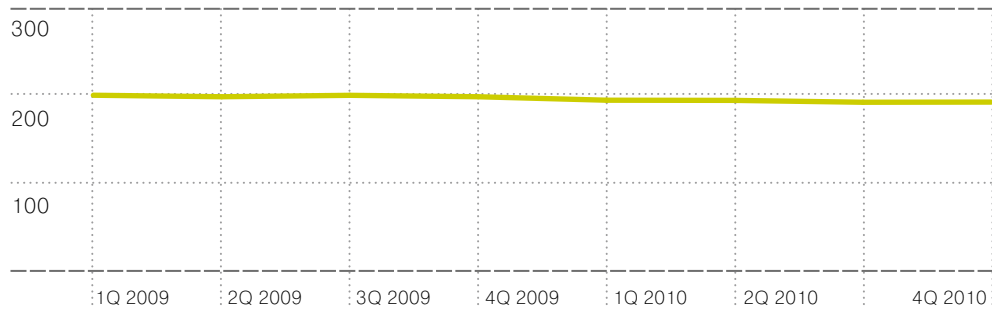
TNK-BP and Gazpromneft purchase the bulk of the crude oil produced by Slavneft on a pro rata basis. Under the agreement between the two companies, TNK-BP and Gazpromneft also deliver crude oil to the YANOS refinery on a pro rata basis, and then independently market their respective shares of the refined products.

#### Slavneft's performance figures for 2010 (TNK-BP share unless stated otherwise)

Metric	2010	Change on 2009
Crude production	186 mb/d (9.170 mt)	- 2.8%
Gas production	6 mbo/d (337 mmcm)	- 8.3%
Oil reserves as of 31 December 2010 (100% Slavneft)	1.636 bn bbl (SEC) 7.385 bn bbl (3P PRMS)	+ 138% + 212%
Gas reserves as of 31 December 2010 (100% Slavneft)	275 bn cub. feet (SEC) 640 bn cub. feet (3P PRMS)	+ 121% + 98%
Crude supplies to YANOS	7.158 mln tons (52.253 mln bbl)	+ 4%
Gasoline yields at YANOS	1.149 mln tons	- 1%
Diesel yields at YANOS	2.197 mln tons	+ 18%

In 2010, Slavneft provided confirmation that its operations comply with international standards by completing quality management system certification for compliance with ISO 14001:2004 requirements (environmental obligations) and OHSAS 18001:2007 (industrial and labour safety requirements).

### Slavneft's oil and gas production (TNK-BP share), mboe/d



Yanos refinery

You can find out more about Slavneft at [www.slavneft.ru](http://www.slavneft.ru)

# Social responsibility



Workers of the Ryazan refinery

# Doing It Right

Corporate responsibility brings sustainability to our business. Being socially responsible has many facets for TNK-BP:

We pay taxes, timely and in full, in Russia and Ukraine; support important social initiatives in countries where we conduct our business; care about safety and the environmental impact of our projects; and honour obligations to our employees, guaranteeing fair pay, social security and professional development.



# Corporate Governance

Good corporate governance is the foundation of any successful business that aims to grow value in the long term. We believe that our corporate governance is among the best implemented by any Russian company and we are working constantly to raise it to the highest international standards.

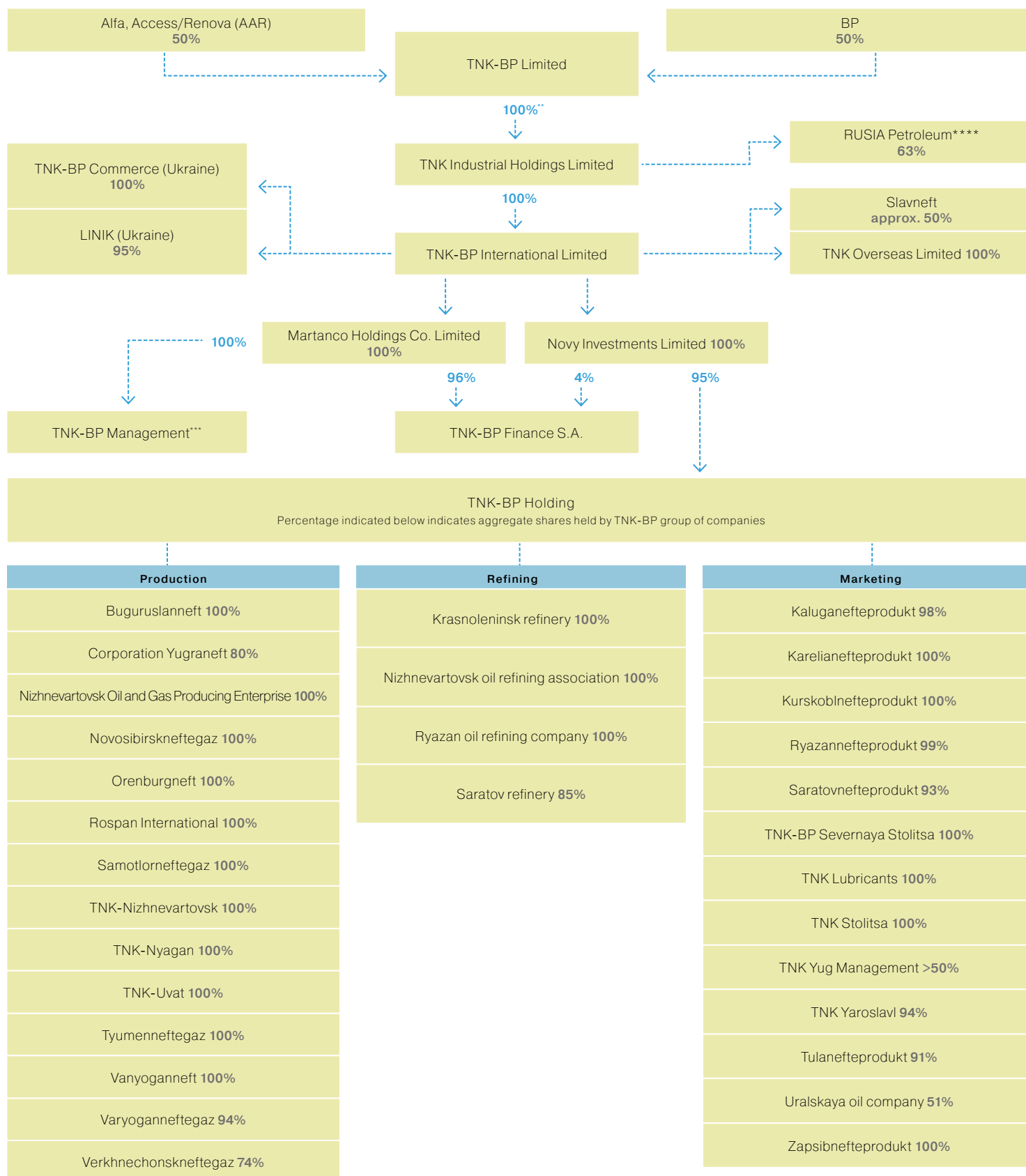
Good governance is an ongoing commitment shared by our people at all levels in the company. Our key business principles are cascaded down the organisation through our Code of Business Policies and underlying corporate standards to which all employees are expected to adhere.

We foster a culture where both corporate and personal ethics, integrity and accountability are at the bottom line of everyday business practices. Our Code of Business Policies is discussed in more detail on page 109.

The general principles underpinning corporate governance at TNK-BP are stipulated in the Shareholder Agreement between our two principal shareholders, BP and the Alfa/Access/Renova consortium (AAR). One of the highlights of 2009 was the signing of an amended Shareholder Agreement by the AAR consortium and BP.

Under the Shareholder Agreement, as well as specifically addressing key elements of governance and authorities, independent directors were appointed to TNK-BP's Board of Directors and the Boards of Directors of its key subsidiaries, allowing for more effective decision-making and conflict resolution. The revised agreement establishes three decision-making bodies within the TNK-BP group: the Board of Directors, the Management Board and the CEO.

**Corporate structure of the TNK-BP group of companies  
(Core holding and operations companies indicated\*)**



\* Shareholding indicated as percentage of the charter capital  
 \*\* The total number of voting shares  
 \*\*\* TNK-BP Management is the managing company of TNK-BP Holding  
 \*\*\*\* The stake in RUSIA Petroleum was sold at a bankruptcy auction in March 2011

## Board of Directors

The Board of Directors of TNK-BP Limited, the ultimate holding company of the TNK-BP group (see corporate structure on page 103), is comprised of 11 members: four directors representing each of the two shareholder groups (AAR and BP) and three independent directors.

The Board provides strategic guidance to the company, reviews company performance and strategy implementation, advises on major acquisitions and divestments, endorses capital expenditure, appoints and evaluates executives, executes financial control and ensures that TNK-BP meets high ethical standards of business.

The terms of reference of the Board of Directors are determined by the Shareholder Agreement.

### In 2010, members of the Board of Directors were:

#### AAR nominees

- Mikhail Fridman, Executive Chairman
- Viktor Vekselberg
- Len Blavatnik
- Alex Knaster

#### BP nominees

- Lord Robertson of Port Ellen
- Andrew Inglis / Anthony Hayward as of 29 September 2010
- David Peattie
- Iain Macdonald / Brian Gilvary as of 1 January 2011

#### Independent directors\*

- Gerhard Schroeder
- Alexander Shokhin
- James Leng

Biographies of the Board members can be found on pages 112-117 of this report. In 2010, the Board of Directors met four times.

\* The Shareholder Agreement describes an independent director as a person who is not and has not been, for the three years prior to his appointment, an employee, officer or consultant to any of the shareholders; does not receive and has not received, for five years prior to his appointment, remuneration from the TNK-BP group (except for a director's fee) and other shareholders; does not have and has not had, in the three years prior to his appointment, any business relations with any of the shareholders; and is not a close relative of any director or senior employee of any of the shareholders.

## Board committees

To assist the Board in fulfilling its responsibilities, three Board committees have been set up: the Audit Committee; the Compensation Committee; and the Health, Safety and Environment Committee. Each committee acts within its scope of authority delegated by the Board. The committees are represented by an equal number of members from the two shareholder groups and one independent director.

## Audit Committee

The Audit Committee assists the Board in fulfilling its functions in relation to internal control and financial reporting, monitoring compliance with legal and regulatory requirements, assessing the work of the internal audit function and the effectiveness of the risk management and internal control systems.

Members of the Audit Committee in 2010: Lord Robertson of Port Ellen (Chairman), Len Blavatnik, Iain Macdonald, Alex Knaster (Vice-Chairman) and Alexander Shokhin.

In November – December 2010, the Audit Committee implemented a self-assessment procedure. The self-assessment was carried out for the second time and involved a poll of the members of the Audit Committee, company management, an external and internal audit representatives and the support office of the Audit Committee. The self-assessment showed that in most cases the Audit Committee operates effectively and covers most of the significant matters that the Committee should to cover according to its Charter and best practice.

In 2011, the Committee activities will be improved further to stay in line with the latest best practice in the area with a respective plan developed and approved in December 2010.

In 2010, the Audit Committee met five times.

## Compensation Committee

The Compensation Committee determines compensation packages and agrees performance contracts for the CEO and top management and reviews their performance. It also reviews the company's performance against the performance indicators and agrees annual performance rewards (subject to the Board's approval).

Members of the Compensation Committee in 2010: Viktor Vekselberg (Chairman), Len Blavatnik, James Leng, Iain Macdonald and David Peattie (Vice-Chairman).

In 2010, the Compensation Committee met five times.

## HSE Committee

The HSE Committee monitors major HSE risks and compliance with relevant laws and applicable corporate policies, approves the HSE strategy and policy, and reviews the company's HSE performance.

Members of the HSE Committee in 2010: David Peattie (Chairman), Alex Knaster and Gerhard Schroeder.

In 2010, the HSE Committee met four times.

# The CEO, Management Board and corporate committees

Beyond matters reserved by the Board for its consideration and decision-making, all decisions related to the daily running of the business rest with the CEO and the management.

## Chief Executive Officer

The CEO is nominated by BP and is approved by the Board of Directors for a period of three years. The CEO is entitled to make decisions related to the business activities of the company, generally up to a limit of USD 100 million, and is accountable to the Board for the performance of the company.

In the first half of 2009, the position of interim CEO was held by Tim Summers, Chief Operating Officer of TNK-BP. In the second half of 2009, Mikhail Fridman took over this position in addition to his role as Executive Chairman of the Board of Directors of TNK-BP Limited.

Meanwhile, a search was undertaken for a candidate for the position of TNK-BP CEO. After a rigorous selection process, the Board of Directors, together with full support from independent directors, elected Maxim Barskiy, currently Deputy Chairman of the Management Board, as Chief Executive Officer. Until the appointment, Mikhail Fridman will continue in his role as TNK-BP's interim CEO.

## Management Board

The Management Board of TNK-BP Management (the managing company of TNK-BP Holding — please see the corporate structure on page 108 of this report) is the company's executive body. It is comprised of the Chief Executive Officer (who chairs the Management Board), Deputy Chairman of the Management Board, Chief Operating Officer, Chief Financial Officer and three Executive Directors. The functions of the Management Board are related to the day-to-day running of the business. The Management Board's terms of reference include approving the company's business plan, making changes to TNK-BP's organisational structure and appointing executives, reviewing reports from company streams, approving the Code of Business Policies and corporate standards, creating and dissolving corporate committees and working groups and controlling their activity.

## Corporate committees

Corporate Committees are created by the Management Board and aim to resolve specific issues related to corporate governance and project management. There are seven Corporate Committees at TNK-BP.

### Policies and Compliance Committee

- Oversees risk management.
- Sets the norms for ethical business behaviour and monitors adherence to corporate business ethics regulations.
- Manages conflicts of interest.
- Acts as a single coordination centre to control efficient implementation of the enterprise wide risk management system and the Internal Control System (see page 108).

### HR Committee

- Manages the development of corporate HR standards and programs.
- Assures that these programs are implemented in headquarters and subsidiaries.
- Makes recommendations related to the development of our corporate culture.

### Operations Committee

- Develops and oversees the delivery of the company's business plan.
- Assures the implementation of major projects and operational strategies.
- Assures high standards of operational efficiency, optimisation and integration across streams.
- Assures the efficiency of contracting processes (procurement and marketing), endorses approaches and oversees adherence to contracting rules.
- Reviews and endorses the guidelines of stream operational strategies and business priorities.

### Investment Committee

- Approves and monitors major investment projects.
- Optimizes the investment process and redistributes capital among company streams.
- Approves key performance indicators and the principles for investment project assessment.

### Internal Finance Committee

- Approves and implements our internal financing strategy and key principles.
- Reviews financial transactions that may lead to material financial or legal risks.

### Credit Committee

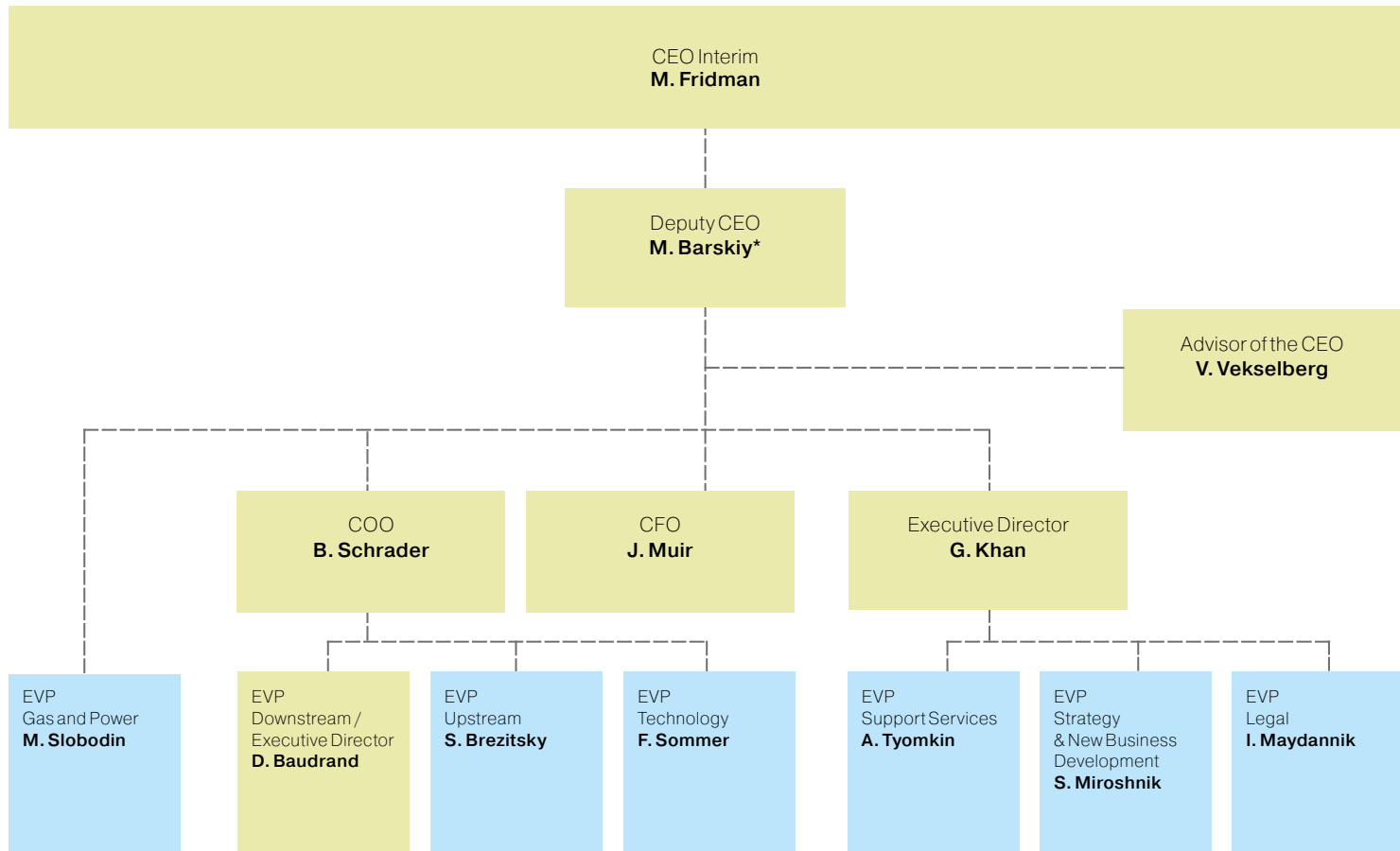
- Manages our credit risks by introducing and monitoring a number of internal control processes.
- Approves major credit transactions.

### IT Committee

- Endorses a uniform IT strategy and implementation plans, aligned with business needs and priorities.
- Oversees the implementation of our main corporate projects in IT .
- Controls the efficiency of IT investments.

A dedicated intranet site on matters related to corporate governance is available to our employees. All normative documents, the company's governance structure, decisions of the Management Board and committees, are posted on a regularly updated website.

## Management structure



■ members of the Management Board

\* M. Barskiy will become CEO in 2011

## Internal control system

TNK-BP's internal control system underpins the preparation of the company's financial statements, safeguards the integrity of the results of its business operations and ensures compliance with relevant legislation. The system was developed in accordance with the methodology developed by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework).

Since the completion of the Internal Control Improvement Project (ICP) in 2008, the company's Internal Control department has focused on assisting the business units in fully realising the benefits of the project, as well as on providing assurance to management regarding the effectiveness of the internal control system. At the same time, the company is constantly looking to identify and implement further improvements.

In light of the above, in 2010, the department reorganised the team of internal control managers into teams of control designers and assessors. In addition to ensuring the independence of assessors, this step will also improve the efficiency of the internal control managers' work.

The 2011 strategy for the Internal Control team is to become a methodological centre of excellence, supporting the changing requirements of the company's business units while, at the same time, ensuring an effective and robust internal control system. The division's specialists will continue to apply international experience and best practices in order to achieve this goal.

## The Code of Business Policies

Over the past few years, we have created a comprehensive internal regulatory framework that governs our operations and the behavior of our people. The documents that make up this framework are structured into **four tiers**:

- **The first tier** contains the Code of Business Policies, which includes five policy commitments addressing Ethics, Employees, External Affairs, HSE and Finance and Control.
- **Tier two** consists of 15 corporate standards detailing the practical meaning of these policies.
- **Tier three** includes documents (core procedures) describing how processes are to be executed in accordance with the standards. There are 55 key procedures supporting our corporate standards.
- **The fourth tier** includes documents (procedures, instructions, technical standards and process maps) detailing business processes and identifying responsible individuals, timelines and other matters.

The policies and underlying documents are communicated to our people through training workshops and seminars, the intranet and emails. The policies and standards are mandatory rules that cover the behavior of all our people and those acting on our behalf.



Occupational safety is top priority for TNK-BP. Safety gear at the Saratov refinery.

# Internal Audit

TNK-BP is engaged in a continuous process of improving the effectiveness of its corporate governance. One of the most important elements of this process is an effective internal audit function, which the company created immediately upon establishment.

The role of Internal Audit, its mission and goals, are set out in the company's Internal Audit Charter, which has been approved by the Board Audit Committee and complies with International Standards for the Professional Practice of Internal Auditing.

The goal of Internal Audit is to provide company shareholders, executives and management with independent and objective assurance and consulting services designed to add value to the company's operations.

Internal Audit helps the company achieve its objectives by applying a systematic, disciplined approach to evaluating and assisting management in improving the effectiveness of risk management, internal controls, and governance processes.

To ensure the independence of Internal Audit, the General Auditor reports to the Board Audit Committee functionally and to the company CEO administratively. In their absence, internal auditors report to the company's Executive Director. The Internal Audit Report is a standing agenda item at every Audit Committee meeting. Throughout the year, the Chairman and members of the Audit Committee hold at least five private meetings with the General Auditor. The Audit Committee approves the appointment and termination of the General Auditor, as well as annual work plans and any changes made to them. The Audit Committee also participates in the annual performance review of Internal Audit.

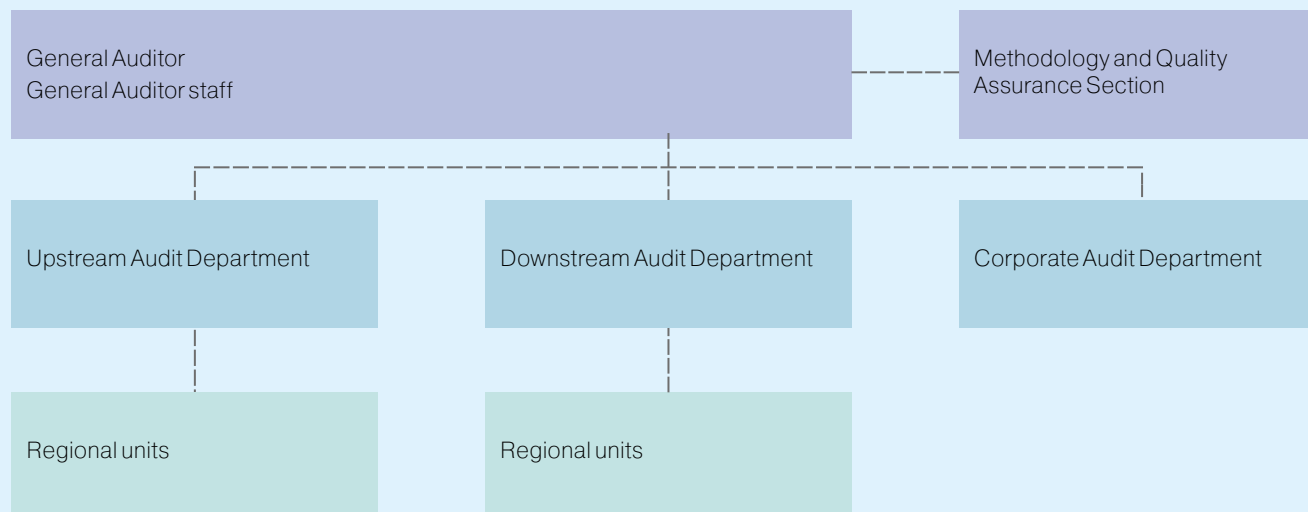
## Organisational structure of Internal Audit

Since changes were introduced in 2010, the organisational structure of Internal Audit has followed a model usually applied by large organisations with a number of remote subsidiaries and affiliates, by being organisationally centralised and geographically dispersed. Within the company's HQ, Internal Audit is responsible for evaluating the management and performance of the regional offices in Ryazan, Tyumen, Nizhnevartovsk, Kyiv and Buzuluk. The appointment and termination of all regional internal auditors, as well as compensation matters, is the responsibility of the General Auditor.

## Activities and achievements in 2010

The company's annual and audit engagement planning processes are risk-based. Their primary objective is to ensure coverage of material business processes and audit coverage risks to enable internal auditors to express their opinion on, and provide the Board Audit Committee with, reasonable assurance regarding the effectiveness of the controls, risk management and corporate governance practices used by the company (please read more about compliance and risk management in the Sustainability Report).

## Internal Audit Division structure



All Internal Audit employees are members of the Institute of Internal Auditors (IIA); participate regularly in international and domestic professional forums and events, both internal audit and functional areas, such as oil and gas technology, procurement or investment governance. The company's internal auditors hold CIA, ACCA and CISA certifications, as well as engineering diplomas and other qualifications.

Internal Audit was charged with developing and implementing a quality assurance program for TNK-BP. The division's performance quality and compliance with International Standards for the Professional Practice of Internal Auditing and the Institute of Internal Auditors' Code of Ethics are reviewed periodically. The implementation in Internal Audit in 2010 of TeamMate software helped automate the internal audit cycle, as well as monitor (together with company management) the effectiveness and timeliness of the implementation of corrective actions.

In 2010, Internal Audit performed more than 90 scheduled and ad-hoc audits aimed at reviewing the effectiveness of controls, risk management and corporate governance. Overall, more than 40% of the company's risks and processes have been covered by audits. No material weaknesses attesting to the ineffectiveness of internal controls and corporate governance systems were discovered at the company level as a whole.

Based on the results of an annual assessment of the effectiveness of Enterprise-Wide Risk Management (EWRM) carried out in the summer of 2010, Internal Audit concluded that the risk management process generally complies with COSO ERM criteria, which the company used as a basis for process design. EWRM is incorporated, to a certain extent, in the company's corporate governance, as well as in the planning and performance of management processes.

During 2010, Internal Audit received positive feedback from company executives and Audit Committee members on the value of audit reports, communication quality and the general level of satisfaction with audit activities and the division's progress since the previous year.

Internal Audit's main objectives in 2011 include further development of the function's organisational capability, in particular, through meetings with internal auditors from other oil and gas majors, as well as through training and certification. Of equal importance are the further improvement of effective communications with audit clients and the timely accommodation of changes related to the acquisition of international assets.

90  
scheduled and ad-hoc  
internal audits carried  
in 2010 with no material  
weaknesses attesting  
to the ineffectiveness  
of internal controls and  
corporate governance  
systems discovered

# Board of Directors

## AAR

### Mikhail Fridman

- Executive Chairman
- Interim CEO of TNK-BP since June 2009
- Chairman of the Board of the Alfa Group Consortium
- Member of the Board of Vimpel-Com, Member of the Board of Alfa-Bank and the Supervisory Board of X5 Retail Group
- Member of the Bureau of the Management Board of the Russian Council of Industrialists and Entrepreneurs
- Founder and member of the Board of Genesis Philanthropy Group

### Viktor Vekselberg

- Founder and current Chairman of the Board of Directors of the Renova Group
- President of the SUAL Group from 1996 to 2003, Chairman of the Board of Directors of the SUAL Group since January 2003 to April 2007
- Chairman of the Board of Directors of the UC RUSAL since April 2007
- Chairman of the TNK Management Board from 2002 to September 2003
- President of Non-Profit Organisation – Foundation for the Development of the Center for Elaboration and Commercialisation of New Technologies (the Skolkovo Foundation)
- Member of the Bureau of the Management Board of the Russian Union of Industrialists and Entrepreneurs since 2003
- Member of the Board of Directors of the Russian Industrialists Association
- Co-Chairman of the Coordinating Council on Social Partnership and member of the Board of Trustees of the Bolshoi Theatre
- Member of the Board of Trustees of the State University Higher School of Economics

## Len Blavatnik

- Founder and Chairman of Access Industries
- Director of numerous companies in the Access portfolio, including UC RUSAL
- Member of academic boards at Cambridge University, Harvard Business School and Tel Aviv University
- An active philanthropist, he sits on the Board of Directors of the 92nd Street Y, The White Nights Foundation of America and the Center for Jewish History in New York

## Alex Knaster

- Chairman and Founder of Pamplona Capital Management
- CEO of Alfa Bank in Russia from 1998 to 2004
- General Director of Sidanco from 2002 to 2003
- Managing Director, President and CEO of Credit Suisse First Boston in Russia and the CIS from 1995 to 1998
- Managing Director at Bankers Trust Company from 1993 to 1995
- Managing Director and Partner at Simmons & Company from 1985 to 1993
- Member of the Board of Directors of Alfa-Bank
- Member of the International Society of Financial Analysts and the National Association of Petroleum Investment Analysts
- Founder and Chairman of the Board of Directors of Genesis Philanthropy Group



## Lord Robertson of Port Ellen

- Deputy Chairman of the Board and Chairman of the Board Audit Committee since 2006
- Elected to the House of Commons (Labour, Hamilton) in 1978
- Re-elected five times and on his appointment to NATO elevated to the House of Lords
- Served as Executive Deputy Chairman of Cable & Wireless Communications plc and Non-Executive Director of the Smiths Group plc
- Currently Senior Advisor to Cable & Wireless and Non-Executive Director of the Weir Group plc and Western Ferries (Clyde) Ltd
- Senior Counsellor with the Cohen Group of Washington, D.C.
- Defence Secretary of the United Kingdom from 1997 to 1999
- Secretary General of NATO from 1999 to 2003
- Held a number of official positions in the opposition between 1979 and 1997
- Currently Joint President of the London-based Royal Institute of International Affairs, Joint President of the UK/Russia Round Table, Chairman of the Ditchley Foundation and a member of Her Majesty's Privy Council

## Iain Macdonald\*

- Joined BP in 1979; held a variety of project management and operational roles, including field management of the Prudhoe Bay oilfield in Alaska
- Led the Acetyls business unit, served as Vice President for Strategy and Development for the Petrochemicals segment
- Led the Financial Control and Accounting functions, having previously been Group Vice President for Planning and Performance Management
- Head of Finance and Deputy Group CFO for BP until March 2010
- Currently Chief Financial Officer at Fairfield Energy Limited

\*Iain Macdonald stepped down from the TNK-BP Board of Directors and was replaced by Brian Gilvary as of 1 January 2011

## Dr. Brian Gilvary

- BP's Deputy Group Chief Financial Officer (January 2010)
- Member of the BP Group Financial Risk Committee
- Chief Executive Officer of Integrated Supply & Trading, the commodity trading arm of BP
- Served as a member of two of BP's executive committees, Refining & Marketing (2002–2005) and Gas, Renewables, Supply & Trading (2005–2006)
- Joined BP in 1986 in Exploration & Production Technology, moving to R&M in 1990 and Oil Trading in 1994, where he held various management roles
- Moved to the Commercial Management of the Amoco Natural Gas Liquids Business in America and Canada based in Chicago in 1999 following the merger of BP and Amoco
- Chief of Staff for the Refining & Marketing business in 2000

- Became Vice President, Strategy, in 2001, taking a lead role in the \$5bn acquisition of Veba Oil in Germany
- Became Executive Assistant to Group Chief Executive in 2002
- PhD in Mathematics from Manchester University

## David Peattie

- Joined BP in 1979; became leader of the Algeria/Southern Europe gas business unit in 1995
- Worked as Head of Investor Relations for over three years
- Appointed Group Vice President and member of the Executive Committee of BP's Petrochemicals business in 2001, responsible for BP's businesses in Asia
- Became Group Vice President, Group Planning in 2003
- Appointed Group Vice President, Exploration and Production in 2005
- Became a member of the Exploration and Production Operating Committee in 2007; deputy to BP's Exploration and Production Chief Executive
- Head of BP Russia since September 2008

## Andy Inglis\*

- Joined BP Exploration in 1980
- Appointed Chief of Staff for BP Exploration in 1997
- Became Vice President of the US western gas business unit in 1999
- Appointed Executive Vice President and Deputy Chief Executive of Exploration and Production in 2004
- Chief Executive of BP's Exploration and Production and Executive Director of BP since February 2007
- Fellow of the Royal Academy of Engineering and a Fellow of the Institute of Mechanical Engineers
- Non-executive Director of BAE Systems plc since June 2007

\*Andy Inglis stepped down from the TNK-BP Board of Directors and was replaced by Anthony Hayward as of 29 September 2010.

## Dr. Anthony Hayward

- Rejoined the TNK-BP Board in 2010 having formerly been a Board Member from 2003 to 2008
- Group Chief Executive of BP p.l.c from 2007 to 2010
- Joined BP in 1982 as a rig geologist and subsequently worked in a number of roles in China, France, Venezuela, Colombia and the UK. Became Group Treasurer in 2000 before being appointed CEO of Exploration & Production and a Main Board Member in 2003
- Studied geology at Aston University in Birmingham, England, gained a his PhD at Edinburgh University, Scotland
- Holds Honorary Doctorates from the Universities of Edinburgh, Aston and Birmingham.

## Independent directors

### Gerhard Schroeder

- Elected to the Bundestag in 1980
- Prime Minister of Lower Saxony from 1990 to 1998
- Re-elected to the Bundestag in 1998 and became Chancellor of the Federal Republic of Germany; served as Chancellor for seven years
- Chairs the Shareholders' Committee of Nord Stream AG
- Member of the European Advisory Council of Rothschild Group and advisor to the Ringier publishing company
- Elected to TNK-BP's Board of Directors in January 2009

### Alexander Shokhin

- Assistant for economic matters to the Minister of Foreign Affairs of the USSR, head of the International Economic Relations Directorate from 1987 to 1991
- Worked as Deputy Chairman of the Government of the Russian Federation
- In the course of three years, held the positions of Minister of Labour and Employment, Minister of Economics and Chairman of the Russian Agency for International Cooperation and Development
- Elected to the State Duma in 1994 and worked in three consecutive parliaments as First Deputy Chairman of the State Duma and Chairman of the State Duma Committee for Credit Organisations and Financial Markets
- In 1998, worked in the Government of the Russian Federation as Deputy Chairman with responsibility for financial and economic issues
- Joined Renaissance Capital Investment Group in 2002; headed the group's Supervisory Board until 2006
- Currently heads the Russian Union of Industrialists and Entrepreneurs
- President of the State University Higher School of Economics and Chairman of the Department of Theory and Practice of Business — Government Relations
- Elected to TNK-BP's Board of Directors in January 2009

## James Leng

- European Chairman of AEA , an American private equity partnership
- Non-Executive Director on the Board of Alstom, chairing the Nomination and Remuneration Committee
- Senior Advisor to HSBC, a Governor at Ashridge Business School and the National Institute of Economic and Social Research
- Between 2001 and 2009, Chairman of Corus, a global steel company, and Deputy Chairman of Tata Steel of India until July 2009
- Past Non-Executive Directorships include Chairman Doncasters Group Ltd., Pilkington plc, Hanson plc and IMI plc
- Occupied the position of CEO at Laporte plc, an international chemicals company, and before that at Low & Bonar plc, a diverse materials and packaging company
- Elected to TNK-BP's Board of Directors in January 2009

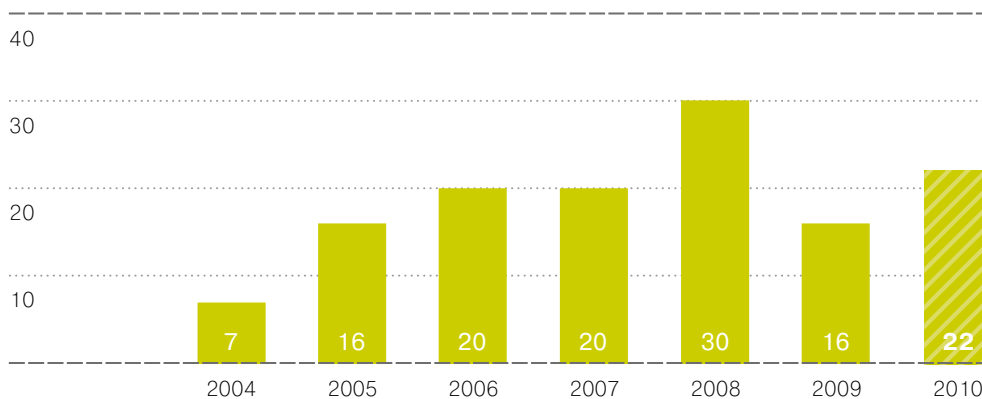
# Contributing to society

Business is part of society. Our success depends on the prosperity, well-being and commitment of our stakeholders. Extracting oil and gas economically, safely and with a minimal environmental impact is crucial for our consumers. This translates into our diverse social initiatives, ranging from cooperation with the government on new taxation initiatives, support for modernizing oil and gas education and contribution to social welfare in the regions where we operate. In 2010, we paid USD 22 billion in taxes in Russia and Ukraine, and spent another USD 49 million on social programs. We are also responsible for over 50,000 employees in 12 regions in Russia, Ukraine and Belarus, providing competitive employment conditions, education and career opportunities. We maintain an ongoing dialogue with non-governmental organizations and have increased access to information on our main projects. In 2010, TNK-BP held 8 round-table discussions with environmental groups and regional public organizations as well as two site trips to our upstream subsidiaries.

## Taxes

Timely tax payments are a prime indicator of socially responsible behavior. In 2010, TNK-BP paid over USD 22 billion in taxes in Russia and Ukraine. The aggregate tax payments in seven years amounted to USD 131 billion.

Taxes paid to federal and regional budgets of Russia and Ukraine, bn USD



USD 131 bn  
paid in taxes  
in 2004–2010

## Government relations

Our company is an active participant in industry discussions with the government to facilitate further development of Russia's resources. In 2010, we contributed to the development of the following concepts:

- The development of the Russian oil industry until 2020
- Development of hydrocarbon deposits in the Yamalo-Nenets Autonomous District and the north of the Krasnoyarsk region
- Oil industry taxation

The dialogue between business and the government is carried out through working groups under the auspices of relevant ministries and government commissions. TNK-BP is a member of the Russian Union of Entrepreneurs and Industrialists (RSPP), a public organisation which works together with the authorities.

USD 538 mln  
spent on external social  
programs in 2005–2010

## Social programs

In 2010, we spent USD 49 million on external social programs. The aggregate social spending in 2005–2010 amounted to USD 538 million.

Our social activities fall into three main groups:

- Supporting disadvantaged people
- Health and sports
- Culture, education and the preservation of cultural and historic heritage.

In 2010, we supported important federal social programs including the Skolkovo management school, the Gorchakov boarding school and the program of restoration of architectural and cultural monuments in St. Petersburg as well as supporting Russian sportsmen. We also responded to the extraordinarily hot summer of 2010, by allocating an extra USD 0.5 million to help extinguish fires in a number of regions throughout Russia.

TNK-BP lends support to social activities in the regions where it operates within the framework of bilateral agreements with local government. In 2010, we concluded 14 agreements with regional administrations and 43 agreements with municipal authorities.

In 2010, we carried out the following significant social initiatives in the regions:

- Generation – 2020 – support for educational institutions, search and assistance for young talent
- TNK-BP family: love, care and support – support for underprivileged and physically disadvantaged children, the elderly and other socially vulnerable groups
- Our health is our success – support for regional healthcare institutions, help for people with poor health and campaigning for healthy lifestyles
- Green program – organising environmental events and ecological educational programs for children and young people

More information on our social contributions can be found in the TNK-BP Sustainability report.

## Environmental protection

We realise that oil production can have a significant impact on the environment, and that oil companies have a responsibility to society to ensure their activities have a minimal environmental footprint. In 2010, TNK-BP's environmental activities included measures to clean up contaminated land inherited by the company, utilise waste, increase the level of associated gas utilisation, while reducing greenhouse gas emissions, as well as steps to ensure the integrity of the company's pipelines. Over the course of the year, the company succeeded in reducing its environmental footprint relative to the previous year.

TNK-BP applies HSE guidelines that are enshrined in its Code of Business Practices, and which state the following goals:

- No injuries at work
- No accidents at work
- Care for the environment

We also make every effort to prevent situations that pose a threat to the environment and people's lives. As part of these efforts, regular training is provided at TNK-BP subsidiaries covering ways to prevent various types of emergency.

We understand that the safe operation of industrial facilities depends not only on the integrity of our equipment, but also on the qualifications of our staff and unconditional compliance with the corporate HSE rules, sanitary norms and safe working practices.

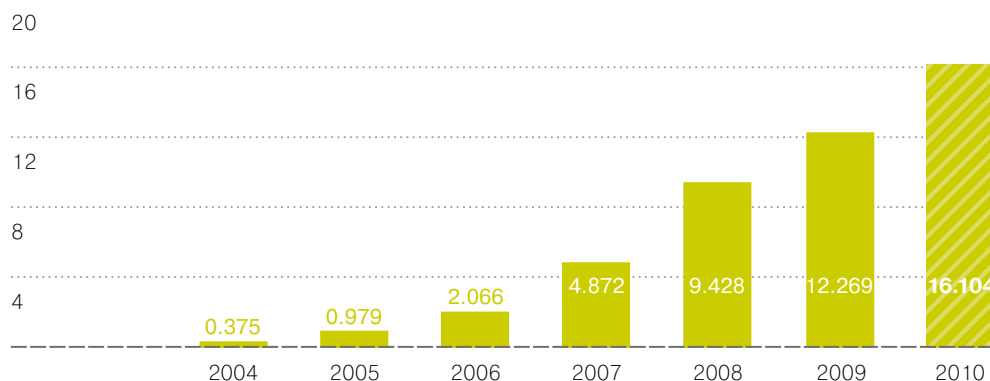
### Investment in environmental protection

TNK-BP's investment in environmental protection measures include environmental monitoring, training, support for research, investment in new waste treatment and water purification technologies, and land remediation. In 2004-2010, the total amount spent on environmental protection reached almost RUR 32 billion.

**32** bn roubles  
spent on environmental  
protection in 2004-2010

#### Investment in environmental protection, bn RUR

In 2010, capital investment in environmental protection increased by 35% to 3.8 bn RUR. In 2004-2010, the total amount spent on capital investment exceeded 16.1 bn RUR.





Remediated land

## Land remediation

One of TNK-BP's environmental priorities is to improve the condition of land inherited from its predecessor companies. This program has been underway since 2005, with more than 2,800 hectares having been treated and handed over to the relevant government agencies, including 327 hectares of contaminated land and 59 cutting pits during 2010.

Land remediation work in 2010 was mainly carried out using in-house resources. A new approach was adopted to treating land, which involves stripping the contaminated soil and decontaminating it in heaps. As a result, contaminated soil does not need to be transported to a separate location for treatment, and can be decontaminated in the immediate vicinity of the site subject to regeneration.

## Pipeline integrity

TNK-BP's transportation system comprises around 23,000 km of pipelines. Ensuring their integrity is vital to the accident-free transportation of hydrocarbons and minimisation of any potential environmental impacts.

Since 2004, TNK-BP has been working on a pipeline integrity program aimed at replacing worn-out sections and using inhibitors to protect pipelines against corrosion. As part of this program, in 2010, a total of USD 522 mln was spent on ensuring the integrity of the company's operating facilities. Approximately USD 254 mln was targeted towards maintaining the quality of the transportation system by protecting pipelines against corrosion and ensuring the integrity of site facilities.

1,059 km of pipeline was treated with inhibitors and 317 km of worn-out pipe was replaced last year. As a result, the total number of oil spills fell by 17% compared to 2009. TNK-BP is continuing to develop new inhibition technologies and diagnostic techniques to build on the results achieved over the past year.

approx.

2,800 ha

of remediated land  
handed over to the state  
since 2005

74%

spills reduction  
since 2005

## Health and safety

**TNK-BP's health program, which was launched in 2009, is aimed at reducing the risks of death and injury in the workplace, decrease the levels of occupational illnesses and improve working conditions. The company spends around RUR 500–600 mln per year on health protection.**

**In 2007–2010, our spending on employee health protection amounted to approximately 2.4 bn roubles (over USD 80 mln).**

The company completed all of the main health protection measures planned for 2010, with special attention devoted to the prevention of cardiovascular diseases, awareness programs and training in the field of health protection. Improvements have also been made to our medical screening system and first-aid rooms.

The company continued to work on its corporate program for the prevention of cardiovascular diseases. The active phase of the program will run for three years, and will define disease risk factors, identify groups of employees in need of continuous observation, and provide preventive treatment.

The company is also in the course of implementing an emergency medical assistance program, providing for the modernisation of first-aid rooms at its operating sites, purchases of new medical equipment and first-aid training for our people.

Over the past year, our reporting has become more transparent. TNK-BP safety metrics are now comparable with the OGP average indicators. OGP, or the Association of Oil and Gas Producers, is an international organisation which collates industry safety data from the majority of the world's leading oil and gas companies and provides an international platform for safety performance benchmarking. OGP has been home to the world's largest industrial safety database since 1985. In 2006, TNK-BP became the first Russian company to provide annual data to OGP.

# 14%

reduction in days  
away from work  
cases vs. 2009

## Industrial safety

One of TNK-BP's main priorities is to further develop its safe working culture. With this in mind, in 2010, we focused on the following initiatives:

- Introduction of new road safety standards, including the installation of monitoring devices in vehicles and the 2010 Road Safety Month.
- Reinforcing the organisational capacity of the company's HSE services, including optimisation of the HSE management system and assessment of HSE staff competencies.
- Development of leadership potential through forums of the general directors of subsidiaries and HSE directors, along with training workshops as part of the Perspektiva training program for newly promoted managers in eight of the regions where we operate.
- The production and incorporation into training programs of in-house video materials, including an animated film entitled The Golden Rules of Safe Operations at TNK-BP along with the videos We Know Exactly Why We Were Saved, and Burns.
- Ensuring fully accurate reporting on safety issues, including all OHSE reportable data.

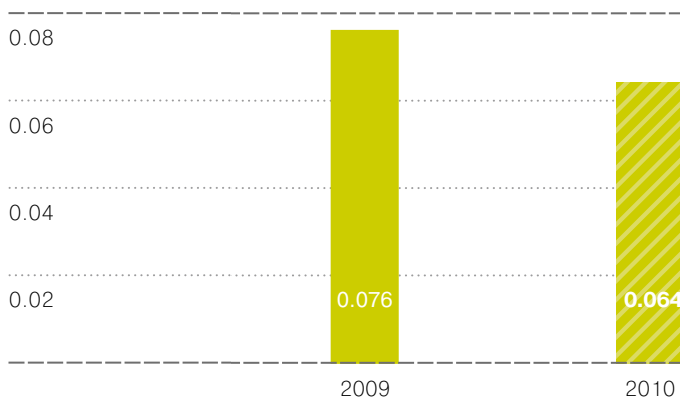
The company's statistics serve as confirmation of TNK-BP's success in the area of HSE. In 2010, days away from work cases fell by 14%. In 2011, we aim to maintain the rate of improvement in our safety performance, while simultaneously expanding our operations.

As road safety remains one of TNK-BP's most high-risk areas of activity, the company has enforced tighter compliance with its defensive driving training program, set higher qualification criteria for transportation service providers, and made the installation of vehicle tracking systems mandatory.

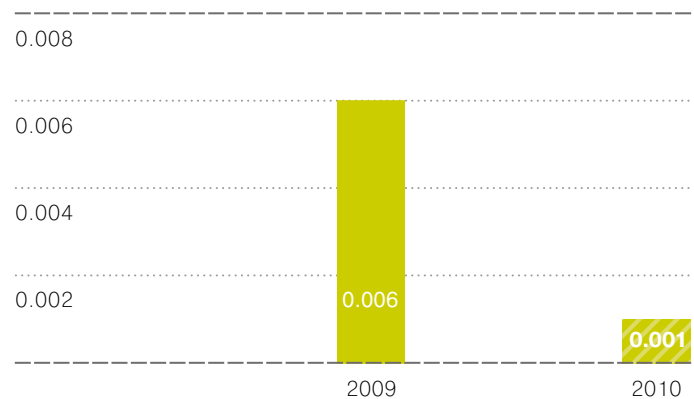
These measures have helped to improve road safety performance, resulting in an 83% drop in the number of major road accidents from 2009 to 2010. Over the same period, the frequency of significant accidents fell from four major vehicle accidents in 2009 to one major vehicle accident in 2010.

The Golden Rules of Safe Operations implemented across all subsidiaries and contractors working at TNK-BP sites

**Total vehicle accident rate (per 1 million km driven)**



**Major vehicle accident rate (per 1 million km driven)**



## Investing in our people

A professional and committed team is a critical element in attaining our strategic goal – transforming TNK-BP into an international oil and gas company. In 2010, we achieved a number of important milestones in bringing our people together and strengthening their involvement in building a new future for our company. We adopted TNK-BP's corporate values, revised our remuneration system with an emphasis on team contribution, and introduced a mobility program which gives our people a chance to work at different locations and in different departments within the company and gain new experience and skills.

TNK-BP employs approximately 50 thousand people in Russia, Ukraine and Belarus. 91% of our employees are permanently employed by the company and work in our upstream and downstream business.

In 2010, our overall headcount was stable compared to the previous year. An increased focus on operational efficiency and the introduction of new technologies led to a decrease in staff at our refineries and upstream units. At the same time, we employed more people in the Tyumen petroleum oil centre (TNNTs) and in the centre of expert support and technical development in Nizhnevartovsk, reflecting our emphasis on technology and innovation. We employed more people in our marketing division in line with another strategic priority – expanding our retail business in Russia and Ukraine.

Due to the nature of the oil business, most of our employees are male. However, in areas where women are employed, they enjoy equal career development opportunities. The company strictly adheres to the Russian Labour Code and provides a competitive remuneration package as well as multiple opportunities for professional training and growth.

In 2010, the company spent USD 9.7 mln on training and career development for our people; 339 employees were promoted and 333 university graduates joined our company.

We are a truly multinational company with people of 23 nationalities with work experience in many countries.

“It is critical that the formulation of corporate values was not just about ticking a box on a “to do” list. They affect the way things are done in our company. As a result, our corporate culture will become an effective instrument in developing our organization and implementing our strategy,” – Maxim Barskiy, Deputy Chairman of the Management Board.

### Corporate values

In 2010 we formulated our corporate values which reflect the spirit of the TNK-BP team and which we expect our people to uphold and aspire to. It is important that these corporate values were selected with the broad involvement of our people and that they are now being cascaded across the organisation.

**Leadership** – an ability to set clear ambitious goals and drive their implementation

**Performance** – continuous implementation of targets and goals in the most effective way

**Safety** – carrying out our business without injury or damage to the environment

**Integrity** – an honest and responsible attitude to work, colleagues, society and the environment

## Payment and remuneration

We use an effective system of payment and remuneration which was drawn up in line with international best practices. This allows us to attract high quality people and retain our top talent.

Our remuneration package includes

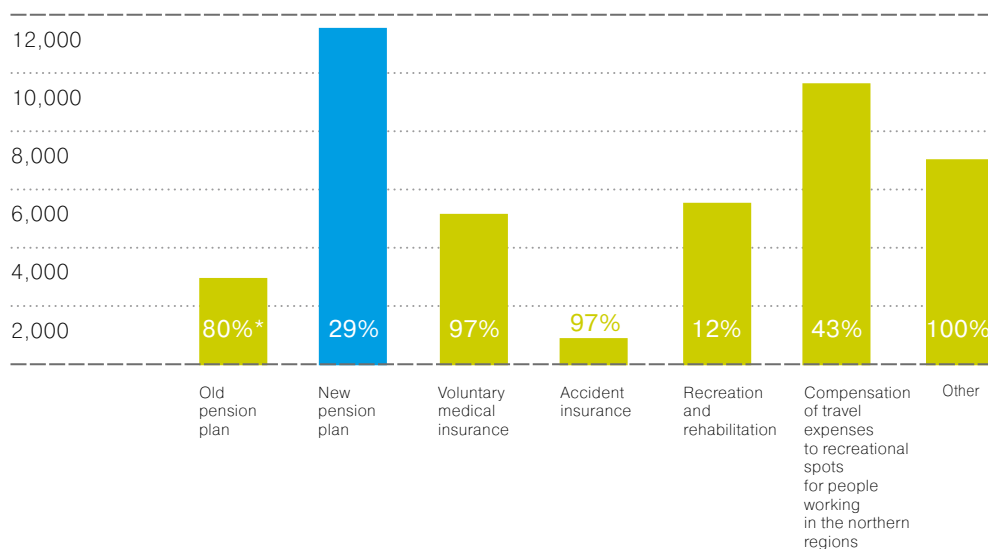
- Base salary.
- Short-term and long-term incentive program.
- Spot bonuses for outstanding achievements.
- Compensation for travel expenses, holidays, car expenses for office use, etc.
- Social benefits.

The remuneration package depends on the grade of each position. The grade of a position is based on an international appraisal system which takes into account the level of required skills and competences as well as the scope and complexity of responsibilities.

Each grade has a three-tier salary range and a determined level and criteria for calculating bonuses. This approach makes the remuneration system transparent and clear for each employee.

### Payments and benefits to full-time employees at our subsidiaries, RUR/employee per year

In 2010, corporate spending on core social benefits for employees at subsidiaries and members of their families increased in 2009, inclan 18% increase on medical insurance, a 36% increase on recreation and rehabilitation and a 19% increase on the housing program.



\* Percentages indicate employee participation

## Employee motivation

Each year we hold two company-wide competitions for our people. One competition assesses team excellence, individual performance and project implementation with awards presented on Oilman's Day.

The second competition is called The Chairman Awards and targets outstanding achievements in our priority areas – technology application and HSE performance.

In 2010, 80% of our subsidiaries and at least 30% of employees working at those subsidiaries took part in the competitions. The winners and their achievements were promoted in our company as best practices.

Business streams have their own competitions for employees and contractors as an effective way of knowledge-sharing and improving performance standards.

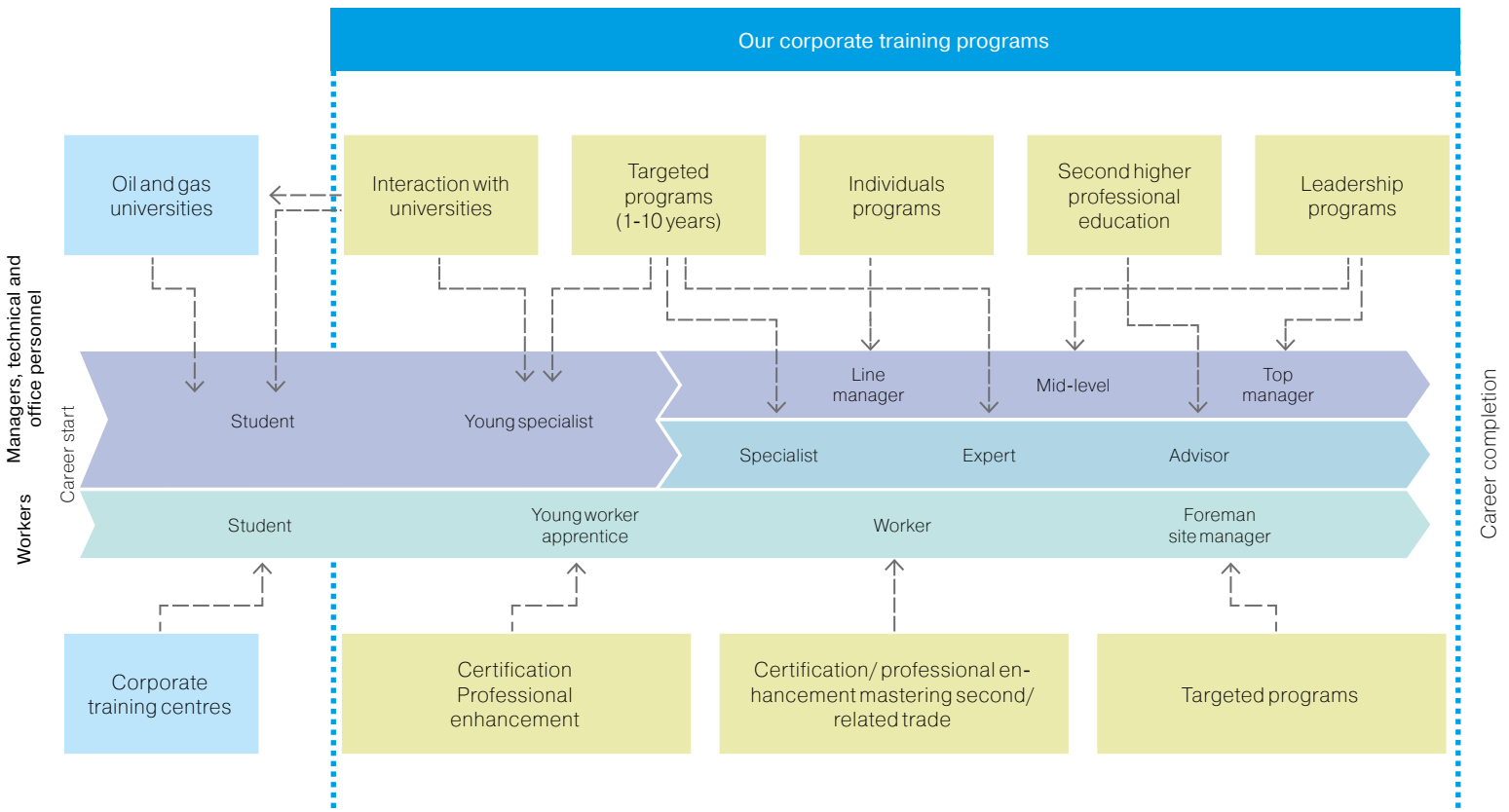
## Mobility program

In 2010, we launched the Mobility Program which manages employee rotation between jobs and across the regions where we operate to meet the challenges of expansion, diversification and the complexity of our business. The ultimate goal of the Mobility program is to ensure effective succession training, job mobility within the

company and professional development of our staff. The program aims to create an organisational framework allowing a growing number of people to change jobs within the company. Rotation provides employees with new skills and experience as well as an understanding

of the scope and scale of our business. It acts as a powerful tool for career transformation and increases our people's commitment to the company's strategic goals. The Mobility Program has already involved 78 employees since it began in June 2010.

## Our corporate training programs



## Training and development

Training and professional development is an inherent part of our corporate culture. We have education programs for all our people.

In 2010, over 23 thousand people participated in various training courses, both external and in-house, amounting to a total of about 840,000 man hours.

There are two categories of corporate training programs. One is aimed at developing leadership skills and the second aims to improve professional skills.

Qualified blue-collar personnel are crucial for the success of our business. In 2010, the company drew up and introduced a coaching and mentoring program for our people and developed a set of corporate professional standards for blue-collar jobs. As a result, our project "Improving the training of TNK-BP's employees at regional learning centres" won the award PEOPLE INVESTOR 2010 presented by the Russian Association of Managers.

## Supporting young talent

We strive to make work in the oil industry and our company in particular attractive for young people. Our involvement combines financial support while encouraging the study of disciplines and skills which are required by the industry today.

Our company established TNK-BP's inter-university centre which unites five major Russian universities. In 2010, the results of several TNK-BP studies related to geology, geophysics, drilling and field development were introduced to courses at our partner universities.

In 2010, we launched the Start undergraduate program that teaches future young specialists key business and technical skills required at our company.

We begin building awareness of the oil and gas industry at school. TNK-BP initiated a sponsorship program for university applicants. We hold educational courses for senior schoolchildren and send the best to study at our partner universities. We also provide guaranteed employment at our company upon graduation. In 2010, 41 school graduates were enrolled at universities with our support.

We are pleased that our work with young adults and education institutions has received public recognition. In 2010, TNK-BP became the leader of Business and Education 2009 which was initiated by the Russian University Rectors' Union.

More information on our employee relations can be found in the Sustainability report.

# 840,000

man hours of training  
and education programs  
in 2010

TNK-BP – winner  
of the award "PEOPLE  
INVESTOR: companies  
investing in people"  
in 2010



# Our financial performance

Samotlor oil field

# 2010 Financial Highlights

In 2010, we delivered a robust set of results supported by an improving market environment, continued production growth and rigorous cost management. TNK-BP reported the record net income and operating cashflow underpinned by strong financial discipline and effective debt portfolio management.

<b>5.8 bn USD</b>  record net income, 17% up on 2009	<b>9.7 bn USD</b>  strong operating cashflow, 47% up on 2009	<b>10.4 bn USD</b>  EBITDA, 15% up on 2009
<b>26.3%</b>  ROACE, 8% up on 2009	Investment grade ratings with stable outlook	<b>1 bn USD</b>  in Eurobonds at competitive prices

## Our financial performance

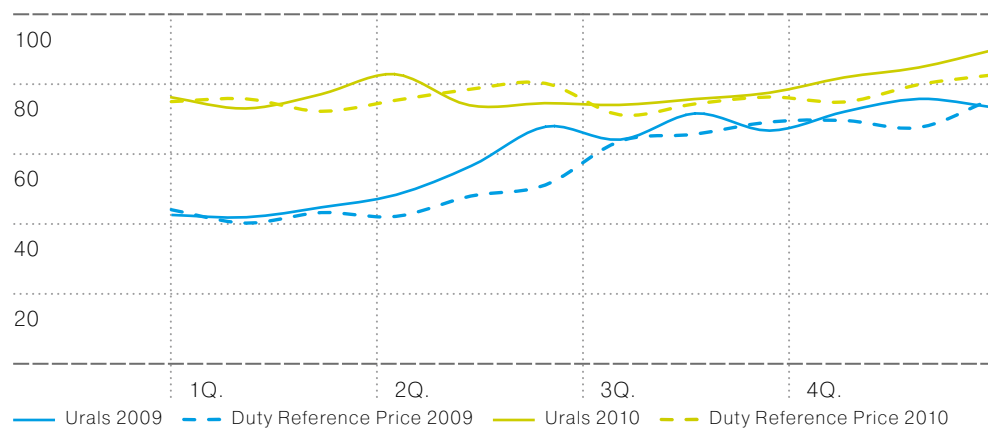
2010 underlying financial results and operating cash flow are the highest in TNK-BP's history.

- Both EBITDA and Net income are at a record high level since TNK-BP's inception adjusted for divestments
- Cash flow from operations reached a historic high
- Total organic investments of \$4.1 billion
- Major international expansion underway
- Strong liquidity throughout the year with net debt decreased by 22% to USD 4.7 billion and gearing below the lower end of the target band
- Significantly improved debt portfolio characteristics supported by a number of new successful transactions both on bond and bank loan markets and optimization of existing facilities
- Investment grade credit ratings with stable outlook maintained

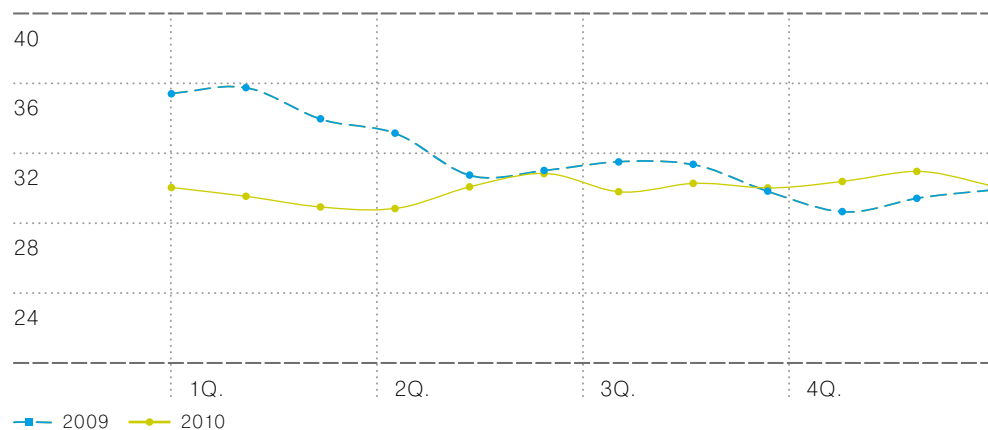
## Environment

In 2010, we saw substantially stronger crude oil markets than in 2009. The average Urals price was 28% higher year-on-year (USD 78/bbl in 2010 compared to USD 61/bbl in 2009), with domestic crude oil and petroleum product prices following the Urals trend. Another important external factor, the ruble exchange rate, has been relatively stable during 2010 with the average rate being 4% higher in 2010 compared to 2009 (RUR 30.4 and 31.7 to 1 USD respectively).

### Price, USD/bbl



### Exchange rates, RUR/USD



## Overview of financial results

These macroeconomic conditions had a substantial impact on our financial results. Although we were affected by a negative forex effect due to a stronger rouble, we benefited from the increase in oil prices, as well as improvements in operational efficiency.

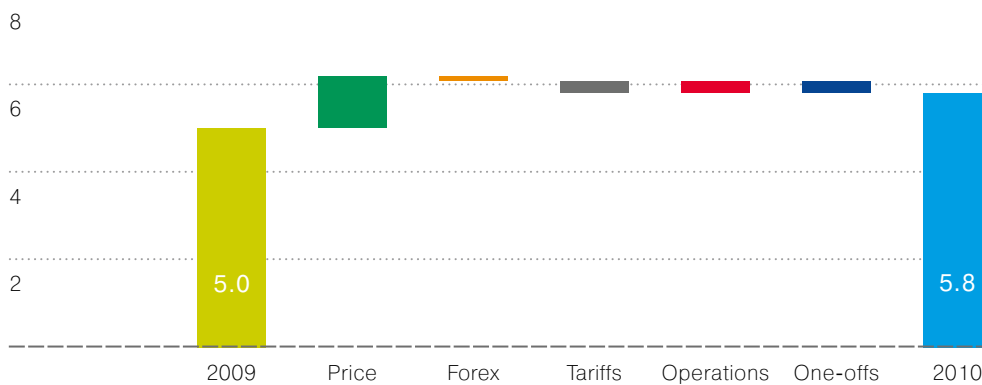
Our revenues increased by 28% in line with an increase of average realisations by 25% supported by a higher oil and gas production and a change in the sales mix in favor of products due to debottlenecking of our refineries in Russia.

On the cost side, we continued to experience inflationary pressure due to the rouble strengthening by 4% and tariff increases. Overall operating, transportation, and selling, general and administrative expenses increased by USD 1.3 billion, or 15%. That was driven primarily by the increase of transportation and energy tariffs by 15% and 27%, respectively. That inflationary pressure was partly curbed by efficiency improvement initiatives, in particular, energy savings and wellwork optimisation, resulting in USD 0.2 billion benefit.

Other important positive factors were export duty and mineral extraction tax (MET) allowances we received in respect of the Verkhnechonskoye field in East Siberia and lower MET rates for highly depleted fields in the Orenburg region.

As usual, there were a number of one-off transactions in 2010 and 2009 which on a comparative basis had a negative effect of USD 0.4 billion – primarily the benefits of a tax provision release and a gain on divestment of oil field services recorded in 2009.

### Key drivers behind net income changes, 2010 vs 2009, USD bn



## Cash flows and liquidity

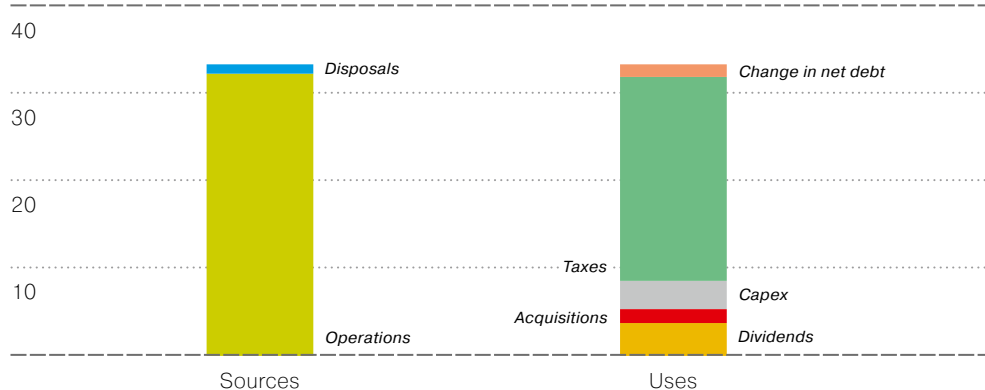
In terms of cash flows, we beat another record in 2010, by generating a pre-tax operating cash flow of USD 31.7 bn for the year. As usual, the largest outflow was tax and duty payments at USD 22 bn.

In addition to the organic Capex of USD 3.6 bn, we spent USD 1.4 bn on acquisitions, the most significant of which was a USD 1 bn deposit pre-paid to BP for its Vietnam and Venezuela assets.

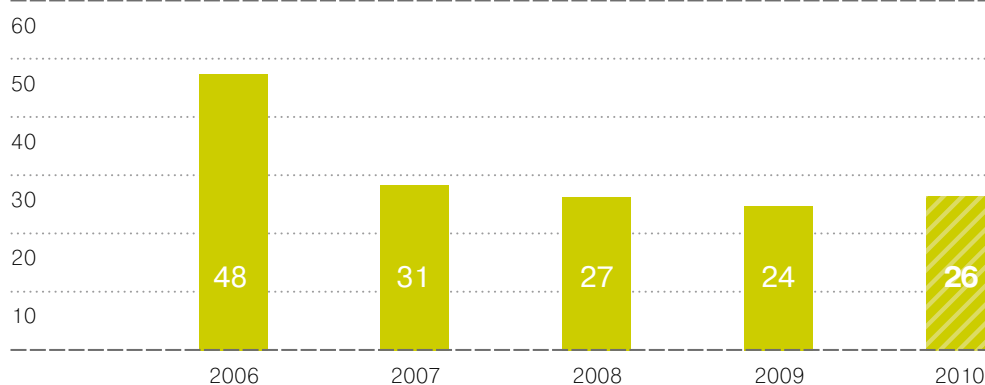
We received approximately USD 0.5 bn for the sale of the remaining Weatherford shares, drawing a final line under the oil field services business divestment.

Our liquidity remained strong throughout the year, enabling us to reduce our net debt by USD 1.3 bn and pay USD 3.9 bn in dividends to shareholders.

### Cash flows in 2010, USD bn



### Return on average capital employed, %



## Debt portfolio and credit ratings

In 2010, we significantly improved the characteristics of the company's debt portfolio. This was achieved by carrying out a number of new successful transactions as well as by optimizing of the existing debt portfolio. In 2010, our main achievements were as follows:

- Strong liquidity throughout the year with net debt decreased by 22% to USD 4.7 billion and gearing below the lower end of the target band;
- Significantly improved debt portfolio characteristics supported by a number of new successful transactions both on bond and bank loan markets and optimization of existing facilities;
- Complete withdrawal of secured debt from the portfolio by full repayment of our secured pre-export finance loan facility prior to its maturity;
- Prepayment of more than USD 500 million of short-term debt in order to reduce negative carry;
- Continued access to debt capital markets by issuing 5-year and 10-year Eurobonds for the total amount of USD 1 billion in February. The transaction was hugely oversubscribed and very competitively priced. It received the Emerging Europe Deal of the Year award by Credit Magazine;
- Strong support received from banks under a 3-year USD 2 billion dual tranche bank club loan facility signed in October. The first USD 1 billion tranche was utilised for general corporate purposes and the second USD 1 billion committed tranche was subsequently cancelled due to lack of any additional financing needs. The deal won our second financial award for the year and was named the Best Russian Loan by Euroweek Awards;
- Portfolio of undrawn committed bank lines maintained in excess of USD 500 million from a number of Russian and international banks;
- Average portfolio life increased by 4% to 4.15 years – gearing decreased in 2010 from 28% to 21%.

In 2010 we continued to maintain investment grade ratings with Standard and Poor's (BBB-), Moody's (Baa2) and Fitch (BBB-), all with a stable outlook. Our credit ratings reflect the strong financial metrics consistently demonstrated by TNK-BP.

For more detailed information on factors affecting our financial results please refer to the Management's Discussion and Analysis section on our website by following this link: <http://www.tnk-bp.com/en/investors/reports/financial/international/>

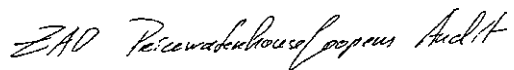


# Report of Independent Auditors

## To the Board of Directors and Shareholders of TNK-BP International Limited:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheets of TNK-BP International Limited and its subsidiaries as at 31 December 2010 and 2009, and the related consolidated statements of income, of cash flows and of changes in equity for the years then ended (not presented herein); and in our report dated 1 March 2011 we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.



Moscow, Russian Federation

1 March 2011



White Square Office Center  
10 Butyrsky Val  
Moscow, Russia, 125047  
Telephone: +7 (495) 967 6000  
Fax: +7 (495) 967 6001  
[www.pwc.ru](http://www.pwc.ru)

# Condensed Consolidated Balance Sheets

(expressed in USD millions, except as indicated)

	31 December 2010	31 December 2009
<b>ASSETS</b>		
Cash and cash equivalents	1,844	890
Restricted cash	8	11
Bank deposits with maturity of more than 3 months	600	150
Short-term investments	-	413
Trade and other receivables, net	3,464	3,966
Inventories	1,295	950
Assets held for sale	-	682
Other current assets	790	168
<b>Total current assets</b>	<b>8,001</b>	<b>7,230</b>
Long-term investments	3,665	2,786
Property, plant and equipment, net	19,712	17,800
Goodwill and intangible assets	896	877
Other long-term assets	852	755
<b>Total assets</b>	<b>33,126</b>	<b>29,448</b>
<b>LIABILITIES AND EQUITY</b>		
Short-term debt and current portion of long-term debt	1,051	1,425
Trade accounts and notes payable	1,956	1,707
Other accounts payable and accrued expenses	1,215	1,120
Taxes payable	1,228	830
Liabilities associated with assets held for sale	-	21
<b>Total current liabilities</b>	<b>5,450</b>	<b>5,103</b>
Long-term debt	6,078	5,593
Asset retirement obligations	374	347
Deferred income tax liabilities	2,049	1,669
Other long-term liabilities	312	305
<b>Total liabilities</b>	<b>14,263</b>	<b>13,017</b>
Commitments and contingencies	-	-
Ordinary share capital (authorised and issued – 54,000 shares, USD 1 par value)	-	-
Additional paid-in capital	2,940	2,901
Retained earnings	14,747	12,492
Accumulated other comprehensive loss	(82)	(80)
<b>Total Group shareholders' equity</b>	<b>17,605</b>	<b>15,313</b>
Non-controlling interest	1,258	1,118
<b>Total equity</b>	<b>18,863</b>	<b>16,431</b>
<b>Total liabilities and equity</b>	<b>33,126</b>	<b>29,448</b>

# Condensed Consolidated Statements of Income

(expressed in USD millions)

	Year ended 31 December 2010	Year ended 31 December 2009
<b>REVENUES</b>		
Sales and other operating revenues	44,646	34,753
<b>Total revenues</b>	<b>44,646</b>	<b>34,753</b>
<b>COSTS AND OTHER DEDUCTIONS</b>		
Export duties	12,236	8,360
Taxes other than income tax	8,169	6,043
Operating expenses	4,774	4,142
Transportation expenses	3,955	3,115
Cost of purchased products	3,672	2,993
Depreciation, depletion and amortization	1,891	1,803
Selling, general and administrative expenses	1,364	1,268
Loss on disposals and impairment of assets	244	144
Exploration expenses	77	58
<b>Total costs and other deductions</b>	<b>36,382</b>	<b>27,926</b>
<b>OTHER INCOME AND EXPENSES</b>		
Earnings from equity investments	(12)	26
Gain on disposals of subsidiaries	21	212
Interest income and net other income/(expense)	199	180
Exchange loss, net	(44)	(180)
Interest expense	(241)	(261)
<b>Total other income and expenses</b>	<b>(77)</b>	<b>(23)</b>
<b>Income before income taxes</b>	<b>8,187</b>	<b>6,804</b>
<b>INCOME TAXES</b>		
Current tax expense	1,644	1,434
Deferred tax expense/(benefit)	274	100
<b>Total income tax expense</b>	<b>1,918</b>	<b>1,534</b>
<b>Net income</b>	<b>6,269</b>	<b>5,270</b>
Less: net income attributable to non-controlling interest	454	297
<b>Net income attributable to Group shareholders</b>	<b>5,815</b>	<b>4,973</b>

# Condensed Consolidated Statements of Cash Flows

(expressed in USD millions)

	Year ended 31 December 2010	Year ended 31 December 2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	6,269	5,270
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortisation	1,891	1,803
Deferred tax expense/(benefit)	274	100
Loss on disposals and impairment of assets	244	144
Gain on disposals of subsidiaries	(21)	(212)
(Earnings)/loss from equity investments less dividends received	144	70
Dry hole expenses	13	24
Other non-cash adjustments, net	27	31
Changes in operational working capital, excluding cash and cash equivalents:		
Restricted cash	3	(5)
Trade and other receivables, net	605	(472)
Inventories	(342)	(226)
Accounts and notes payable and accrued expenses	171	(85)
Taxes payable	392	68
Other	12	71
<b>Net cash provided by operating activities</b>	<b>9,682</b>	<b>6,581</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(3,529)	(2,524)
Grants used for capital expenditures	(357)	(407)
Grants received	357	445
Purchase of intangible assets	(70)	(14)
Proceeds from disposals of non-current assets	12	17
Acquisition of subsidiaries, non-controlling interest and joint ventures	(1,418)	(357)
Cash flows from sales of subsidiaries and joint ventures	119	(12)
Proceeds from sales of short-term investments	450	27
Bank deposits with maturity more than 3 months	(450)	(150)
Loans issued	(51)	-
Loans repaid	19	-
<b>Net cash used for investing activities</b>	<b>(4,918)</b>	<b>(2,975)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of long-term debt	1,987	1,208
Cost associated with the issuance of debt	(11)	(12)
Repayment of long-term debt	(1,554)	(1,659)
Proceeds from issuance of short-term debt	235	574
Repayment of short-term debt	(559)	(1,092)
Issue of shares in subsidiaries to non-controlling interest shareholders	-	13
Dividends paid to non-controlling interest shareholders	(338)	(157)
Dividends paid to Group shareholders	(3,560)	(3,312)
<b>Net cash used for financing activities</b>	<b>(3,800)</b>	<b>(4,437)</b>
Effect of exchange rate changes on cash and cash equivalents	(10)	(26)
Cash and cash equivalents reclassified to assets held for sale	-	2
<b>Net change in cash and cash equivalents</b>	<b>954</b>	<b>(855)</b>
Cash and cash equivalents at beginning of period	890	1,745
<b>Cash and cash equivalents at end of period</b>	<b>1,844</b>	<b>890</b>

# Notes to the condensed consolidated financial statements

## Summary Accounting Policies

TNK-BP International Limited and its subsidiaries (jointly referred to as "the Group") conduct exploration and development activities and produce oil and gas primarily in the Russian Federation, operate petroleum refineries and market oil and petroleum products in the Russian Federation, Ukraine and internationally.

In preparing the consolidated financial statements in conformity with US GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from such estimates.

The US dollar (USD) is the reporting currency for the purposes of financial reporting under US GAAP.

The consolidated financial statements include the operations of all entities in which the Group directly or indirectly owns or controls more than 50% of the voting stock and variable interest entities in which the Group is the primary beneficiary. Joint ventures and investments in which the Group has voting ownership interests between 20% and 50% and where the Group exerts significant influence are accounted for using the equity method. Investments in other companies are accounted for at cost and subject to regular tests for potential impairment.

The Group follows the successful efforts method of accounting for its oil and gas properties whereby property acquisitions, successful exploratory wells, all development costs (including development dry holes), and support equipment and facilities are capitalised. Depreciation, depletion and amortization of capitalised costs of proved oil and gas properties and equipment is calculated using the unit-of-production method for each field based on proved reserves for property acquisitions and proved developed reserves for exploration and development costs. In both cases, the proved reserves data used is estimated on a life-of-field basis as management believes it will continue to be successful in the renewal of its oil and gas licenses.

Proved oil and gas properties and long-lived assets are assessed for possible impairment. Long-lived assets with recorded values that are not expected to be recovered through future cash flows are written down to current fair value. Fair value is generally determined by estimating discounted future net cash flows to be generated by the assets.

The Group incurs retirement obligations for its upstream assets. The fair values of these obligations are recorded as liabilities on a discounted basis, which is typically at the time the assets are installed. The costs associated with these liabilities are capitalized as part of the related assets and depleted as the reserves are produced. Over time, the liabilities are accreted for the change in present value. Asset retirement obligations are not recorded for downstream facilities, because such potential obligations cannot be measured since it is not possible to estimate the settlement dates.

Liabilities for environmental remediation are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. Environmental remediation liabilities are recorded on an undiscounted basis unless the aggregate amount of the obligation and the amount and timing of the cash payments are fixed or reliably determinable. Environmental expenditures that have future benefit are capitalized.

Revenues from the production and sale of crude oil and petroleum products are recognized when title has transferred and collectability is reasonably assured. Purchases and sales of inventory with the same counterparty that are entered into in contemplation of one another are combined, considered as a single arrangement and netted against each other on the consolidated statements of income. When companies of the Group act as an agent for purchases and sales of inventory, they are also reported on a net basis.

A variety of claims have been made against certain subsidiaries of the Group in a number of pending lawsuits and tax disputes. For further information on contingencies see Note 22 to the Consolidated Financial Statements in the Financial Reporting section of the company's website [www.tnk-bp.com](http://www.tnk-bp.com). Further information on the Group's accounting policies can also be found here.

## EBITDA Reconciliation

EBITDA for the year ended 31 December 2010 and 31 December 2009 is reconciled to income before income taxes as follows:

	Year ended 31 December 2010	Year ended 31 December 2009
EBITDA	10,391	9,007
Depreciation, depletion and amortisation	(1,891)	(1,803)
Interest expense	(241)	(261)
Exchange loss, net	(44)	(180)
Other differences	(28)	41
<b>Income before income taxes</b>	<b>8,187</b>	<b>6,804</b>

## Segment Information by Geographical Area

	As of and for the year ended 31 December 2010		As of and for the year ended 31 December 2009	
	Revenues	Long-lived assets excluding deferred tax assets	Revenues	Long-lived assets excluding deferred tax assets
Russian Federation	42,418	24,404	32,464	21,830
Ukraine	2,228	558	2,289	296
<b>Consolidated</b>	<b>44,646</b>	<b>24,962</b>	<b>34,753</b>	<b>22,126</b>

## Summary Consolidated Balance Sheet for the Last Five Years

USD millions	2010	2009	2008	2007	2006
<b>ASSETS</b>					
Cash and cash equivalents	1,852	901	1,751	3,230	1,753
Bank deposits with maturity more than 3 months	600	150	-	-	-
Trade and other receivables	3,464	3,966	3,553	5,520	5,938
Other current assets	2,085	2,213	1,693	2,366	1,067
<b>Total current assets</b>	<b>8,001</b>	<b>7,230</b>	<b>6,997</b>	<b>11,116</b>	<b>8,758</b>
Property, plant and equipment	19,712	17,800	17,188	14,678	12,339
Other long-term assets	5,413	4,418	4,522	3,545	2,671
<b>Total assets</b>	<b>33,126</b>	<b>29,448</b>	<b>28,707</b>	<b>29,339</b>	<b>23,768</b>
<b>LIABILITIES AND EQUITY</b>					
Short-term debt	1,051	1,425	1,898	1,624	2,093
Other current liabilities	4,399	3,678	3,657	4,634	4,142
<b>Total current liabilities</b>	<b>5,450</b>	<b>5,103</b>	<b>5,555</b>	<b>6,258</b>	<b>6,235</b>
Long-term debt	6,078	5,593	6,094	6,924	4,841
Other long-term liabilities	2,735	2,321	2,269	2,298	1,735
<b>Total liabilities</b>	<b>14,263</b>	<b>13,017</b>	<b>13,918</b>	<b>15,480</b>	<b>12,811</b>
Group shareholders' equity	17,605	15,313	13,683	12,803	10,106
Noncontrolling interest	1,258	1,118	1,106	1,056	851
<b>Total equity</b>	<b>18,863</b>	<b>16,431</b>	<b>14,789</b>	<b>13,859</b>	<b>10,957</b>
<b>Total liabilities and equity</b>	<b>33,126</b>	<b>29,448</b>	<b>28,707</b>	<b>29,339</b>	<b>23,768</b>

## Summary Consolidated Income Statement for the Last Five Years

USD millions	2010	2009	2008	2007	2006
<b>Revenues</b>	<b>44,646</b>	<b>34,753</b>	<b>51,886</b>	<b>38,926</b>	<b>35,725</b>
Export duties	(12,236)	(8,360)	(15,974)	(10,196)	(10,087)
Taxes other than income tax	(8,169)	(6,043)	(11,182)	(7,821)	(7,461)
Operating expenses and other costs	(14,086)	(11,720)	(14,792)	(11,788)	(10,350)
Depreciation, depletion and amortisation	(1,891)	(1,803)	(1,564)	(1,414)	(1,249)
<b>Total costs and other deductions</b>	<b>(36,382)</b>	<b>(27,926)</b>	<b>(43,512)</b>	<b>(31,219)</b>	<b>(29,147)</b>
Earnings/(loss) from equity investments	(12)	26	278	309	507
Interest expense	(241)	(261)	(500)	(546)	(350)
Gain on disposal of subsidiaries	21	212	60	135	2,921
Other income and expenses	155	-	(244)	140	171
<b>Income before income taxes</b>	<b>8,187</b>	<b>6,804</b>	<b>7,968</b>	<b>7,745</b>	<b>9,827</b>
Income taxes	(1,918)	(1,534)	(2,323)	(1,993)	(2,722)
<b>Net income</b>	<b>6,269</b>	<b>5,270</b>	<b>5,645</b>	<b>5,752</b>	<b>7,105</b>
Less: net income attributable to noncontrolling interest	(454)	(297)	(361)	(410)	(427)
<b>Net income attributable to Group shareholders</b>	<b>5,815</b>	<b>4,973</b>	<b>5,284</b>	<b>5,342</b>	<b>6,678</b>

## Subsequent events

Please see below a brief outline of events that took place after the reporting period, but which add to the understanding of TNK-BP's performance.



## January

- The Saratov refinery (SNPZ) started producing diesel compliant with Euro 4 standards. In doing so, SNPZ joined the Ryazan Refinery (RNPK) and the Lisichansk Refinery (LINIK), both of which already produce diesel that meets Euro 4 requirements.

## February

- TNK-BP and the Mongolian state petroleum agency signed a Memorandum of Understanding providing for the delivery of oil products to Mongolian enterprises.

## March

- BP Ultimate Diesel was launched and sales commenced in Moscow and the Moscow region. BP Ultimate Diesel is a premium fuel offering improved cleaning properties and fuel efficiency.
- LLC TNK-Sheremetyevo, a joint venture with participation of TNK-BP Holding (share of TNK-BP Holding – 50%), completed a deal to acquire a 74.9% share in JSC TZK

Sheremetyevo Refuelling Company.

- TNK-BP introduced a unified system of long-term prequalification for contractors and suppliers, providing for the creation of a centralized database of prequalified contractors and suppliers, thereby improving transparency and quality, and eliminating inappropriate practices.
- Assets of RUSIA Petroleum, a subsidiary of the parent company TNK-BP Limited and the licence-holder to the Kovykta gas condensate field, were sold at an auction for 22.3 bn roubles following bankruptcy proceedings initiated by RUSIA Petroleum management in 2010.

## April

- TNK-BP, BP, PetroVietnam and ONGC signed agreements confirming the purchase of BP's share in Offshore Gas Block 06.1 off the coast of Vietnam. We signed transfer documents and received partner confirmation for TNK-BP's operatorship role the block. The agreements are now subject to approval by Vietnam's Ministry of Industry & Trade.

# Glossary

**2D seismic** – a seismic survey which produces a two-dimensional image of the subsurface

**3D seismic** – a seismic survey which produces a three-dimensional image of the subsurface

**3P reserves** – proved, probable and possible reserves

**Associated petroleum gas (APG)** – a natural gas found with oil, either dissolved into it or as a cap of free gas above it. APG contains significant quantities of ethane, propane, butane and other saturated hydrocarbons. APG can be utilised in two areas: a) energy – to produce power for oilfield purposes; b) petrochemistry – refined to produce dry gas (supplied to main pipeline), natural gasoline, natural gas liquids and liquefied gas for domestic consumption.

**bbl** – barrel (1 bbl = 0.134 metric tons)

**boe** – barrels of oil equivalent. Boe is a measurement of gas by its thermal equivalent in barrels of crude oil.

**Condensate** – light hydrocarbons produced with natural gas. Condensate condenses into a liquid at normal temperatures and pressures.

**EBITDA** – earnings before interest, taxes, depreciation and amortisation

**ESP** – electric submersible pump

**Inhibition** – the action of treating pipelines with chemicals (inhibitors) to slow down metal corrosion

**Inorganic capital expenditure** – capital expenditure on acquisitions

**Lost time injuries rate** is calculated in accordance with the OSHA (Occupational Safety and Health Administration) regulations as the total number of injuries (including fatalities) relative to the total time worked, multiplied by 200,000.

**Net debt** – long-term and short-term debt less cash and cash equivalents

**Organic capital expenditure** - capital expenditure excluding acquisitions

**Possible reserves** – reserves that may exist but are less well-defined by well control than probable reserves. Possible reserves include:

a) reserves based on log interpretation and other evidence of hydrocarbon saturation in zones behind the pipe in existing wells;

b) possible extensions to proven and probable reserve areas where indicated by geophysical and geological studies;

c) those to be recovered by enhanced recovery methods where data is insufficient to classify the reserves as proven or probable.

**Probable reserves** – reserves that are based on reasonable evidence of producible hydrocarbons within the limits of a structure or reservoir above known or inferred fluid contacts. They have been defined to a lesser degree of certainty than proven reserves because of limited well control and/or the lack of definitive production tests.

**Proved reserves** – estimated quantities of crude oil, and/or natural gas which, based on geological and engineering data, with reasonable certainty, can be recovered in the future from known reservoirs under existing economic and operating conditions.

**PRMS** – Petroleum Resources Management System, formerly Society of Petroleum Engineers (SPE); a methodology that provides a reflection of the total resources available to be managed over the whole life of a field. PRMS guidelines rely to a large extent on continuity of reservoir geology rather than production.

**Remediation** – the action of removing pollution or contaminants from soil, groundwater, sediment or surface water to protect public health and the environment or from a brownfield site intended for redevelopment

**Reserve replacement ratio** - ratio of total proven reserves added in a given year to that year's production

**ROACE** - return on average capital employed. This is calculated as the ratio of net income to average capital employed; average capital employed is calculated as the average sum of total shareholder equity, minority interest, long-term and short-term debt at the beginning and end of a period.

**SEC** – the U.S. Securities and Exchange Commission. The standard for proven reserves requires that continuity of production be demonstrated.

**SEC LOF (life of field)** – our total proved reserves are quoted according to SEC criteria taken to the economic life of the field rather than licence expiration

# Abbreviations

## Abbreviations

**2P (reserves)** – proved and probable (reserves)

**3P (reserves)** – proved, probable and possible (reserves)

**HSE** – health, safety and environment

**APG** – associated petroleum gas

**OGP** – The International Association of Oil and Gas Producers

**PRMS** – Petroleum Resources Management System

**SEC** – US Securities and Exchange Commission

## Units

**bbl** – barrel (1 bbl = 0.134 metric tons)

**boe** – barrel of oil equivalent

**b/d** – barrels per day

**mb/d** – thousand barrels per day

**mboe/d** – thousand barrels of oil equivalent per day

**mmb/d** – mln barrels per day

**mmboe/d** – mln barrels of oil equivalent per day

**tons/d** – tons per day

**th.** – thousand

**mln** – million

**bn** – billion

**km** – kilometre

**sq. km** – square kilometer

**cub. m** – cubic metres

**ha** – hectare

**USD** – US dollar

**RUR** – rouble



# Notes

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