



# Nature of progress



Sustainability and corporate  
social responsibility report  
of JSOC Bashneft

**2012**

SHORT CONTENTS

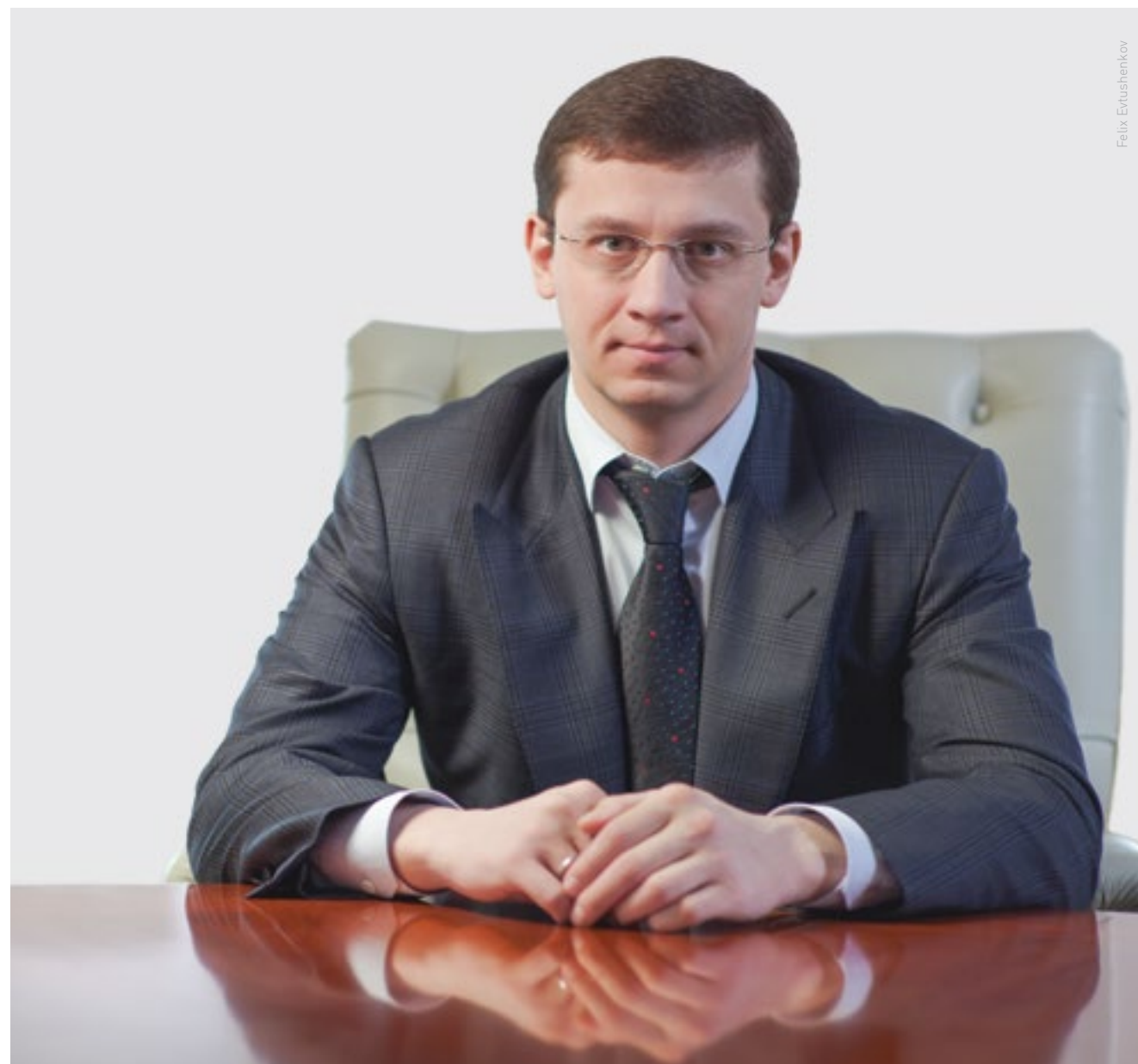
4	Address by the Chairman of the Board of Directors and the President
6	Sustainable development principles: key results
14	About the Group
30	Corporate governance
40	Human resources and corporate social programmes
48	Occupational and industrial safety
58	Environment
66	Research and innovation
72	Social and charitable programmes
76	Appendices

# Contents

<b>ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE PRESIDENT</b>	<b>4</b>
<b>I. SUSTAINABLE DEVELOPMENT PRINCIPLES: KEY RESULTS</b>	<b>6</b>
1. Responsible corporate citizen	9
2. Responsible subsoil user	11
3. Responsible employer	12
<b>II. ABOUT THE GROUP</b>	<b>14</b>
1. History of the Group	15
2. The Group's structure	16
3. Share capital	16
4. Position in the industry	17
5. Geographical footprint	18
6. Overview of operating results for 2012	19
a. Exploration and production	19
b. Refining	21
c. Marketing	23
d. Financial results	24
7. Stakeholders	24
a. Shareholders and investors	26
b. The influence of shareholders on the decision-making process	26
c. Employees	26
d. Government bodies	26
e. Local communities	27
f. Consumers of the Group's products and services, suppliers	27
g. Key issues	28
<b>III. CORPORATE GOVERNANCE</b>	<b>30</b>
1. Governing bodies of JSOC Bashneft	33
2. Remuneration and compensations	34
3. Prevention of conflicts of interest	34
4. Corporate governance quality audit	36
5. Self-assessment of the Board of Directors	37
6. Regulatory bodies, internal control and risk management system	38
<b>IV. HUMAN RESOURCES AND CORPORATE SOCIAL PROGRAMMES</b>	<b>40</b>
1. Principles and priorities of Bashneft's HR policy	41
2. Personnel size and structure	41
3. Employee age distribution	42
4. Incentives and remuneration	43
5. Social benefits and guarantees	44
6. Corporate social programmes	44
7. Developing corporate culture and forming corporate traditions	45

<b>V. OCCUPATIONAL AND INDUSTRIAL SAFETY</b>	<b>48</b>
1. Health, safety and environment management structure	49
2. Occupational safety	52
3. Protecting employees in case of emergency (Civil Defence and Emergency measures)	55
4. Process safety	56
<b>VI. ENVIRONMENT</b>	<b>58</b>
1. Protection of the atmosphere	59
2. Protection of water resources	62
3. Land conservation	63
4. Energy efficiency	63
<b>VII. RESEARCH AND INNOVATION</b>	<b>66</b>
1. The Group's innovation management system	68
2. Implementation of innovative technologies	68
3. Use of geologic modelling	68
4. New technologies in the areas of well construction and reconstruction	70
5. Laboratory research	70
6. New gas utilization technologies	70
7. Innovations in petrochemical production and oil refining	70
<b>VIII. SOCIAL AND CHARITABLE PROGRAMMES</b>	<b>72</b>
1. Participation in the life of the communities	73
2. Agreements with authorities	73
3. Target areas for participation in the life of local communities	74
<b>IX. APPENDICES</b>	<b>76</b>
1. Glossary of terms and abbreviations	76
2. Compliance with the GRI-3.1 (OGSS) Guidelines	76
3. Legal information on the Report	87
4. Contacts	88

## Address by the Chairman of the Board of Directors and the President



### **Dear colleagues and partners!**

We would like to present JSOC Bashneft's fourth sustainability and corporate social responsibility report, which contains key information on our achievements in 2012.

The underlying theme of our report, 'The Nature of Progress', incorporates the key components of sustainable development: stability, innovation and environmental friendliness.

We aim to create a company which will be attractive to investors, while taking into account that business efficiency and social responsibility are closely linked. The Group's major priorities include the professional development and social support of employees, minimization of the environmental impact of its operations and involvement in the social and economic development of its operating regions.

Our strategic goal is leadership among Russian energy companies and compliance with international regulations in the sphere of environmental protection, corporate governance and relations with the public.

In 2012 Bashneft introduced advanced technical solutions which enabled it to increase its oil production by 2.2% to 15.4 million tonnes. We continued upgrading our refining complex and completed four projects aimed at renovating various existing units and constructing new ones at Bashneft-Ufaneftkhim and Bashneft-Novoil Branches. The implementation of the upgrade programme helps to reduce the negative environmental impact by improving the quality of produced fuels, increasing refining depth and using secondary energy sources. We considerably increased the output of Euro 4 and Euro 5 engine fuels. Starting from 2012, we sell only Euro 5 engine fuels via our own retail network. Overall, in 2012 our expenditure on environmental programmes totalled 2.4 billion roubles.

Bashneft places great importance on the safety of its employees. In 2012, almost 3 billion roubles were allocated for measures ensuring occupational and process safety. Besides, to maintain the health of its employees, the Group provides them with a number of social benefits and guarantees, which include private health insurance, resort treatment and vacations.



Bashneft has a transparent remuneration system, and salaries are consistently above the regional average. We actively invest in the training and development of our personnel. In 2012 the relevant investments totalled 188 million roubles.

In 2012 the Group continued to improve corporate governance. More independent directors were included in the Board of Directors. The Board also established a Health, Safety, Environment and Social Responsibility Committee.

In 2012 a successful reorganization and consolidation of assets enabled us not only to improve Bashneft's management system and transparency, but also to lay a foundation for long-term stability, efficiency and investment attractiveness. During the reorganization, we gave serious consideration to the interests of minority shareholders.

Bashneft is actively involved in the social development of the Republic of Bashkortostan. In 2012, under an Agreement with the Republic, the Group allocated 1.3 billion roubles for financing construction, renovation and major repairs

of 76 social facilities. Within four years after signing the Cooperation Agreement, Bashneft allocated over 5.1 billion roubles for developing social infrastructure in Bashkortostan.

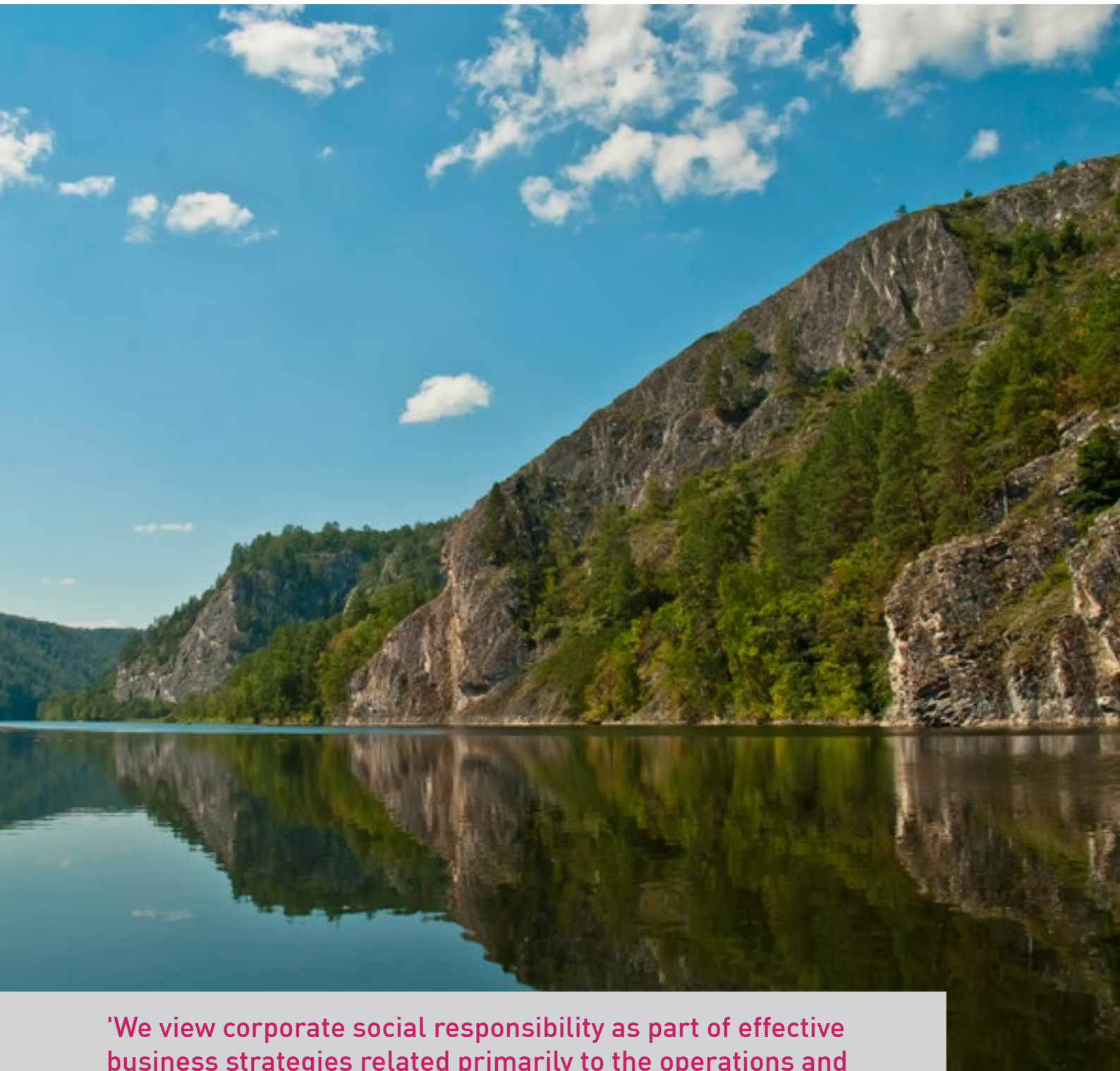
To sum up, Bashneft's performance in 2012 provides convincing evidence that the principles of social responsibility and sustainable development form an integral part of its corporate culture. At the same time, we will continue to make efforts to promote the welfare of all our stakeholders: shareholders, investors, employees and residents of all of Bashneft's operating regions.

**FELIX EVTUSHENKOV,**  
Chairman of the Board of Directors

**ALEXANDER KORSIK,**  
President

Two handwritten signatures in blue ink. The top signature is of Felix Evtushenkov and the bottom signature is of Alexander Korsik.





**'We view corporate social responsibility as part of effective business strategies related primarily to the operations and development objectives of every company.'**

*The Social Charter of Russian Business*

## Sustainable development principles: key results

JSOC Bashneft consistently pursues a policy aimed at applying sustainable development principles to its day-to-day operations and ensuring that our performance may be measured using a transparent performance evaluation system which is constantly being improved and is based on key performance indicators in the following areas: corporate governance, health, safety and environment.

We see the basis of sustainable development in an efficient and comprehensive planning of the Group's operations which takes into account the following factors:

- ✓ uninterrupted supply of high-quality products to consumers;
- ✓ using mineral resources in a responsible way, conserving and building up the country's natural resources for future generations;
- ✓ efficiently developing our resource base by upgrading our production facilities, methods of production and refining, and developing resource saving technologies;
- ✓ introducing state-of-the-art technologies in production in order to increase our competitiveness;
- ✓ actively promoting the development of social and economic infrastructure in the Group's operating regions;
- ✓ improving Bashneft's corporate governance structure;
- ✓ reducing the environmental impact.

Bashneft's sustainable development activities are aimed at supporting and promoting the implementation of the Group's strategic goal, of becoming one of the largest energy companies, ranking among the industry leaders in terms of operating and financial results and, at the same time, ensuring strict compliance with high standards in the spheres of HSE, social responsibility and corporate governance.

**T**he key principles and approaches to sustainable development are set out in Bashneft's main internal documents, including:

- ✓ the Code of Ethics;
- ✓ the Code of Corporate Conduct;
- ✓ the Policy on Corporate Social Responsibility;
- ✓ the Policy on Charity;
- ✓ the Anti-corruption Policy;
- ✓ the Functional HSE Strategy.

To reach this goal, we implement a number of projects; the three largest projects implemented in 2012 and 2013 are as follows:

1. The R. Trebs and A. Titov field development project is aimed at increasing oil production and maintaining its strong growth in the medium term.

**R**ecoverable reserves at the fields are estimated at 140.2 million tonnes ( $C_1+C_2$ ) and 59.3 million tonnes ( $C_3$ ) under the Russian ABC1 classification. Currently, Bashneft is conducting geological exploration and constructing field facilities and transport infrastructure at the fields in accordance with the approved schedule. The Group plans to start oil production as early as in 2013 and achieve the maximum level of production by 2018.

2. The refinery upgrade project implemented in the Republic of Bashkortostan is aimed at enhancing our technological advantage. The implementation of the upgrade programme will promote the sustainable development of our business and will help to reduce both direct and indirect environmental impact.

**T**he refinery upgrade project in the Republic of Bashkortostan covers two areas: first, improving the quality of engine fuels and completely switching over to producing Euro 5 fuels by 2015, and second, increasing refining depth and the share of light products. Projects completed in 2012 enabled Bashneft to increase its Nelson Index from 8.33 to 8.55.

3. To improve corporate governance and HSE activities, Bashneft has implemented a project aimed at forming the Group's organizational structure in a way which is optimal for its further efficient development; this involves the gradual adoption and implementation of best corporate practices, including an increase in the number of independent directors on Bashneft's Board.

**In 2012 the number of independent directors on Bashneft's Board of Directors increased considerably, and independent directors joined most of the Board Committees.**

The modernization of the Group's management system contributes to the effective implementation of sustainable development principles. In 2012 the formation of a vertically integrated company on the basis of JSOC Bashneft was completed. Undoubtedly, reorganization involving exchanging the shares of Bashneft's main subsidiaries for those of the parent company determines the development of the fuel and energy sector in the Republic of Bashkortostan in general and marks the beginning of a new stage in Bashneft's history and sustainable development, namely a period of extensive changes. Remarkably, this happened on the 80th anniversary of the beginning of field development in the Republic and the development of the oil and gas industry in Bashkortostan.

We support sustainable development in terms of hydrocarbon reserves by replenishing our resources at a rate exceeding their rate of depletion: in 2012 our reserve replacement ratio amounted to 123.4%. We also build up our reserves by actively conducting geological explorations through exploiting the potential of 3D seismic surveys, which provide highly accurate information. In 2012 3D seismic survey totalled 922 sq. km, including 618 sq. km in the Nenets Autonomous District, our new operating region.

In refining, our aim is to use hydrocarbons most efficiently, manufacturing value-added products: in 2012 we considerably increased the share of gasoline and diesel fuel meeting the highest Euro 4 and Euro 5 standards.

We strictly comply with legislation and fulfil other obligations in all spheres of our business, including HSE, environmental and licensing law. For instance, the Group fully meets the requirements of the Technical Regulations and is switching over to producing high-quality and cleaner fuel.

Bashneft strives to implement best international practices as fully as possible and as such meets international standards. The Group's activities in the sphere of sustainable development are based on the ISO / FDIS 26000 International Standard (Guidance on Social Responsibility) and guidelines on human rights, employment relations, environmental protection and anti-corruption measures set out in the UN Global Compact Blueprint for Corporate Sustainability Leadership.

The Group ensures a high level of information transparency in the sphere of sustainable development by integrating the Global Reporting Initiative 3.1 methodology for information disclosure into the preparation of reports since 2009.

In terms of our geographical footprint and social impact, Bashneft's activities in the area of sustainable development take into account social and economic conditions, as well as the nature and culture of its operating regions.

Our approach to business development is based on identifying stakeholders, ensuring that their reasonable expectations and interests are properly considered, and developing harmonious relations with them by means of a continuous and open dialogue. When cooperating with its stakeholders (shareholders, consumers, employees, local communities, public organizations, government agencies), Bashneft acts as a responsible corporate citizen, subsoil user and employer. The Group's performance is evaluated using key indicators in the areas of sustainable development and corporate social responsibility; the evaluation covers three aspects, taking into account economic, environmental and social impact.

### Responsible corporate citizen

Our operations are based on the underlying idea that the long-term sustainable development of JSOC Bashneft is directly related to the high level of its corporate social responsibility. The key principle of our CSR policy is that the Group's contribution to the social development of its operating regions should be consistent, transparent and clear to the public. Only in this case will these efforts promote the sustainable development of Bashneft and meet the reasonable expectations of stakeholders.

**'We do not consider the charitable programmes implemented by Bashneft under the agreement between JSFC Sistema and the Government of the Republic as expenses only. Moreover, we do not consider them as having secondary importance. It is very important for us to support the regions where we operate.'**

*Alexander Korsik,  
President of JSOC Bashneft*

The Republic of Bashkortostan is the Group's key operating region. Bashneft's operations have a major impact on the region's economy, as they form over 60% of gross regional product. JSOC Bashneft is the largest taxpayer in the Republic of Bashkortostan: its tax payments make up over a half of the budget of Ufa and account for 40% of the region's budget. The Group's management intends to continue their policy on maintaining the existing level of tax payments to the region.

We support the sustainable development of our business by taking into account the interests of all stakeholders: shareholders, consumers, employees, local communities, public organizations, government agencies. Bashneft follows the best CSR practices, as well as the principles set out below:

### Key principles of the corporate strategy in the area of CSR:

- ✓ upholding the supremacy of law;
- ✓ ethical business conduct and integrity;
- ✓ respect for the interests of all stakeholders and open cooperation with them;
- ✓ compliance with international standards of conduct;
- ✓ respect for human rights;
- ✓ environmental awareness;
- ✓ ensuring occupational safety and talent development;
- ✓ maintaining a high reputation;
- ✓ following best international corporate governance practices.

As a responsible corporate citizen, JSOC Bashneft follows these principles, which underlie all our operations; the Company thus makes a significant contribution to increasing the competitiveness of the Russian economy, promotes the social and economic development of its operating regions and is a reliable partner of the government and all parties interested in forming a stable and favourable social environment.



Bashneft is actively involved in developing the social sphere of the Republic of Bashkortostan; it finances charitable programmes implemented by the Group under the agreement between JSFC Sistema and the Government of the Republic. In 2012 over a dozen large social facilities, whose construction or renovation was partially financed by Bashneft, were commissioned in Bashkortostan. We will further maintain the amount of investments in the social sphere. At the same time, we make efforts to provide effective and targeted assistance.

### Economic impact:

- ✓ contribution to developing the country's economy;
- ✓ amount of tax payments;
- ✓ contribution to developing related industries;
- ✓ the way the workforce is used;
- ✓ amount of saved resources and energy;
- ✓ compliance with laws, ethical norms and corporate governance standards;
- ✓ contribution to production through upgrades and innovation as a factor in social and economic development and in increasing the region's investment attractiveness;
- ✓ energy security and supply of petroleum products.

### FACTORS IN ECONOMIC IMPACT

- **80 YEARS** of commercial oil production in Bashkortostan
- **MARKET CAPITALIZATION TOTALLING US\$12.6 BILLION** as of the end of 2012
- **7.8%** of TOTAL OIL REFINING in Russia
- **3%** of TOTAL OIL PRODUCTION in Russia
- Tax payments to budgets of various levels totalling **83.1 billion roubles** per year
- **232 LICENCES FOR CORE OPERATIONS**
- **OIL REFINING** totalling **20.8 million tonnes**
- **REFINING CAPACITY EXCEEDING 24 million tonnes per year**
- **OUTPUT OF PETROLEUM PRODUCTS AND PETROCHEMICALS** totalling **18.9 million tonnes per year**
- **OIL PRODUCTION** totalling **15.4 million tonnes per year**
- **747** own and partner filling stations
- **171 FIELDS** IN COMMERCIAL PRODUCTION
- **25 OPERATING REGIONS**, including production, refining and marketing
- **PROVED RESERVES** in accordance with PRMS classification amounting to **2,006.8 MILLION BARRELS**
- **RESERVES TO PRODUCTION RATIO** of **18.3 YEARS**
- **SUSTAINABLE DEVELOPMENT STRATEGY** up to 2022
- In 2012 the Group's **NET INCOME\*** totalled **52.1 BILLION ROUBLES**
- **37,569 SHAREHOLDERS** (INDIVIDUALS) as of the end of 2012
- Ranking **FOURTH AMONG THE WORLD'S 50 FASTEST GROWING** energy companies (Platts Top 250 Global Energy Company Rankings)
- **LEADER IN TERMS OF GROWTH AMONG COMPANIES OF THE EMEA REGION** (Platts Top 250 Global Energy Company Rankings)

\* Net income attributable to shareholders of JSOC Bashneft

For more information, see sections 'About the Group' and 'Corporate Governance'.

### Responsible subsoil user

The Group's efforts to ensure environmental safety are aimed at the efficient use, conservation and restoration of natural and biological resources located in its operating regions regardless of whether these resources are used in production or not. We define efficient use as reducing pollution levels and increasing utilization rates by introducing resource-saving and energy-efficient technologies.

Our production and environmental activities comply with all the norms of environmental legislation and regulatory and technical requirements for environmental and occupational safety; we fulfil all obligations under licences, including their aspects related to the environment and investment; we continuously monitor the technical condition of our property, plant and equipment in order to prevent accidents and reduce technology-related risks.

The Group attaches great importance to the sources and factors of negative environmental impact, and, above all, to reducing the number of failures in the pipeline system and to the storage and treatment of drilling waste. Another priority of the Group's strategy is a reduction in industrial emissions; this involves reducing associated gas flaring and increasing the associated gas utilization rate to the level set by the Government, as well as improving wastewater treatment at petrochemical plants. Another equally important task consists in reducing losses of hydrocarbons and cutting CO<sub>2</sub> emissions.

We are interested in environmentally friendly production methods, namely innovations in the sphere of environmental protection, developed both by Bashneft's research centre and by third parties. We also pay close attention to saving resources and increasing energy efficiency at all stages of production and business operations.

While carrying out our production activities, we strive to continually improve our HSE management system, and intend to improve the efficiency of our industrial environmental control and internal audit in accordance with the requirements of environmental legislation and the international OHSAS 18001 and ISO 14001 standards.

JSOC Bashneft's Environmental Policy adopted in April 2012 forms the basis for building an efficient and robust environmental management system which complies with international practices and standards.

### Key principles of Bashneft's environmental policy:

- ✓ respecting the constitutional human right to a healthy environment;
- ✓ recognizing the primary importance of environmental safety as part of the national policy;
- ✓ ensuring industrial environmental control during all types of operations;
- ✓ reducing the negative environmental impact at all stages of production;
- ✓ giving priority to preventative measures over those for mitigating the negative environmental impact of the Group's operations.

### Key types of environmental impact

- ✓ air pollution;
- ✓ water pollution;
- ✓ impact on soil;
- ✓ potential impact on biological diversity.

### KEY FACTORS IN ENVIRONMENTAL IMPACT

- **41.6 billion roubles** allocated for HSE programmes for 2013-2016
- **EXPENDITURE ON ENVIRONMENTAL PROTECTION** totalling **2.4 billion roubles** in 2012
- **ASSOCIATED GAS UTILIZATION RATE** amounting to **75.2%** in 2012
- **12.5 billion roubles INVESTED IN REFINERY UPGRADES** in 2012
- **SHARE OF EURO 4 AND EURO 5 GASOLINE** totalling **75.1%** in 2012
- **54.7 thousand tonnes of OIL SLUDGE PROCESSED** in 2012
- **83.0 kilometres of PIPELINES RENOVATED AND REPAIRED** in 2012
- **ENERGY SAVINGS TOTALLING 93.6 million roubles**

For more information on Bashneft's initiatives in the sphere of environmental protection see the 'Environment' section.

## Responsible employer

At present, over 57 thousand people work for Bashneft, which amounts to around 3% of the total workforce in the region.

'Bashneft's employees form a large team and closely cooperate with each other. Our priority is to create safe and comfortable working conditions.'

*Alexander Korsik,  
President of JSOC Bashneft*

### Key principles of our corporate strategy on cooperating with personnel

- ✓ ensuring occupational safety and protecting the health of all employees;
- ✓ formalizing employment relations through collective labour agreements, which are transparent and clear tools for ensuring the rights and duties of employees;
- ✓ competitive salaries;
- ✓ investing in human capital: developing the competence, skills and proficiency of employees;
- ✓ complying with the key requirements of the state policy in the sphere of labour law and occupational safety; observing laws and regulations;
- ✓ providing employees with a benefits package which includes non-financial incentives, treatment at health resorts and voluntary health insurance (VHI);
- ✓ encouraging our employees' personal commitment to implementing the HSE management system and remunerating them for active involvement in it;
- ✓ continuously promoting the improvement of the Group's management system.

The Group's management is responsible to Bashneft's staff for creating favourable working conditions, providing opportunities for professional development and ensuring competitive salaries. Social obligations of the Group and its employees are set out in the Collective Agreement.

The professionalism of each employee is a prerequisite for achieving strategic goals in the medium term or tackling current issues related to production. In accordance with the Functional Strategy on HR Management, young professionals are continuously recruited, a talent pool is developed and the share of employees who have undergone additional vocational training is increasing.

The Group organizes educational and vocational training programmes for its employees in various forms ranging from one-time seminars to online education. Bashneft gives priority to improving the social protection of employees and provides them with additional benefit packages, including treatment at health resorts, healthcare, etc.

### Impact on personnel and local communities

- ✓ ensuring occupational safety;
- ✓ complying with social norms as a responsible employer;
- ✓ personnel development;
- ✓ cooperating with stakeholders;
- ✓ developing educational potential in regions, supporting sports and a healthy lifestyle;
- ✓ developing local communities in operating regions, for instance, by investing in the development of social infrastructure;
- ✓ supporting charity and providing local residents, communities and institutions with assistance.

The Group attaches special importance to occupational and process safety issues. The principles which Bashneft follows in this sphere are set out in an internal regulatory document, the Functional Strategy of JSOC Bashneft on Health, Safety and Environment.

In accordance with the Strategy, ensuring occupational safety and a high level of process safety is among the main priorities of JSOC Bashneft's business. This is related not only to the regulatory requirements of government agencies but also to the fact that the Group and its management are fully aware of their responsibility towards society, employees and all stakeholders. We assume responsibility for making our business safe and protecting the people.

JSOC Bashneft's objectives in the sphere of occupational and process safety include preventing accidents at production facilities and creating safe working conditions. We believe that the life and health of our employees is an absolute priority; therefore, Bashneft is committed to providing them with safe working conditions, i.e. such working conditions under which employees are not exposed to harmful and/or dangerous industrial factors or the levels of exposure do not exceed the established norms.

For this purpose, the Group has introduced a system for ensuring occupational and process safety in accordance with government regulations on occupational safety, including the national occupational safety standard GOST R 12.0.007-2009. This system is aimed at meeting the standards set by the existing Labour Code and is:

- ✓ based on a systematic approach, a preliminary analysis of the occupational safety performance of the organization and continuous monitoring of the working environment;
- ✓ integrated into the general management processes of all stages of Bashneft's business operations;
- ✓ aimed at preventing accidents, preparing for them, and emergency response activities;
- ✓ includes the processes of planning and performance evaluation of the HSE management system using key performance indicators, and continuous improvement of the system itself.

### KEY FACTORS INFLUENCING PERSONNEL AND LOCAL COMMUNITIES

- Bashneft Group's workforce totalling **57,329 EMPLOYEES**
- **COLLECTIVE AGREEMENTS** ensuring the social protection of employees
- **1.30 BILLION ROUBLES INVESTED IN COMMUNITIES** in 2012, including charity
- Three **COOPERATION AGREEMENTS** signed with the Group's operating regions: the Republic of Bashkortostan, the Nenets Autonomous District and the Orenburg Region
- Over **5.3 billion roubles** allocated for targeted charitable programmes in the Republic of Bashkortostan in 2009 – 2012
- **648.5 million roubles** allocated for occupational safety measures in 2012
- **188 million roubles** spent on **VOCATIONAL TRAINING** and personnel development in 2012
- **983 million roubles** allocated for **PERSONNEL AND CORPORATE SOCIAL PROGRAMMES**
- **42 SOCIAL FACILITIES** commissioned in the Republic of Bashkortostan in 2012

For more information, see sections 'Human Resources and Corporate Social Programmes', 'Occupational and Process Safety' and 'Social and Charitable Programmes'.





**'We aim to achieve strong economic and social results in the long term by balancing the interests of our shareholders, the state, employees, suppliers and consumers, public institutions and other stakeholders affected by our operations.'**

*The Social Charter of Russian Business*

## About the group

### History of the Group

Bashneft is one of the oldest Russian oil companies. Its business started in 1932, when the Ishimbayskoye oilfield was discovered; this marked the start of commercial production of crude oil in the Republic of Bashkortostan.

During the eighty years of Bashneft's history, the key factor behind broadening the scope of the Group's operations consisted in the discovery of the largest fields in the Republic of Bashkortostan: the Tuimazinskoye (1937), Mancharovskoye (1954), Arlanskoye (1955), Chetyrmanskoye (1964), and Yugomashevskoye (1966) fields.

As Bashneft built up new reserves, refining capacities were developing: thus, in 1938 the Ufimsky refinery plant (currently Bashneft-UNPZ Branch) was commissioned, and in 1951 the Novo-Ufimsky Refinery (Bashneft-Novoil Branch) was put into operation; in 1957 Ufaneftekhim was commissioned. In 1956 the construction of the Ufa Synthetic Spirit Plant (currently Bashneft-Ufaorgsintez Branch) was completed.

The newest stage in Bashneft's history started in March 2009, when OJSC JSFC Sistema acquired controlling stakes in six of Bashkortostan's fuel and energy enterprises.

The Plant became the first petrochemical facility in the Republic of Bashkortostan and one of the biggest facilities in the country specializing in manufacturing organic synthesis products.

On January 13, 1995, Joint-Stock Oil Company (JSOC) Bashneft was established.

In 2012 the formation of a federal-scale vertically integrated oil company on the basis of JSOC Bashneft was completed.

Developing the R. Trebs and A. Titov fields in the Nenets Autonomous District will become the first step towards further development. Bashneft obtained licences for these fields in 2011. OJSC Lukoil became the Group's partner in the T&T project.

**W**e aim to create a modern company which is attractive to investors and views the interests and rights of its shareholders as the main value. At the same time, while developing our business, we take into account the impact of the Group's operations on the economy, society and the environment. In these spheres, our strategic goal is to become the leading Russian energy company while meeting international standards.

In 2012 JSOC Bashneft completed its reorganization through the consolidation of its five subsidiaries (OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt) with the Company. The reorganization was aimed at improving business efficiency and the quality of corporate governance and laid the foundation for future growth.



## The Group's structure

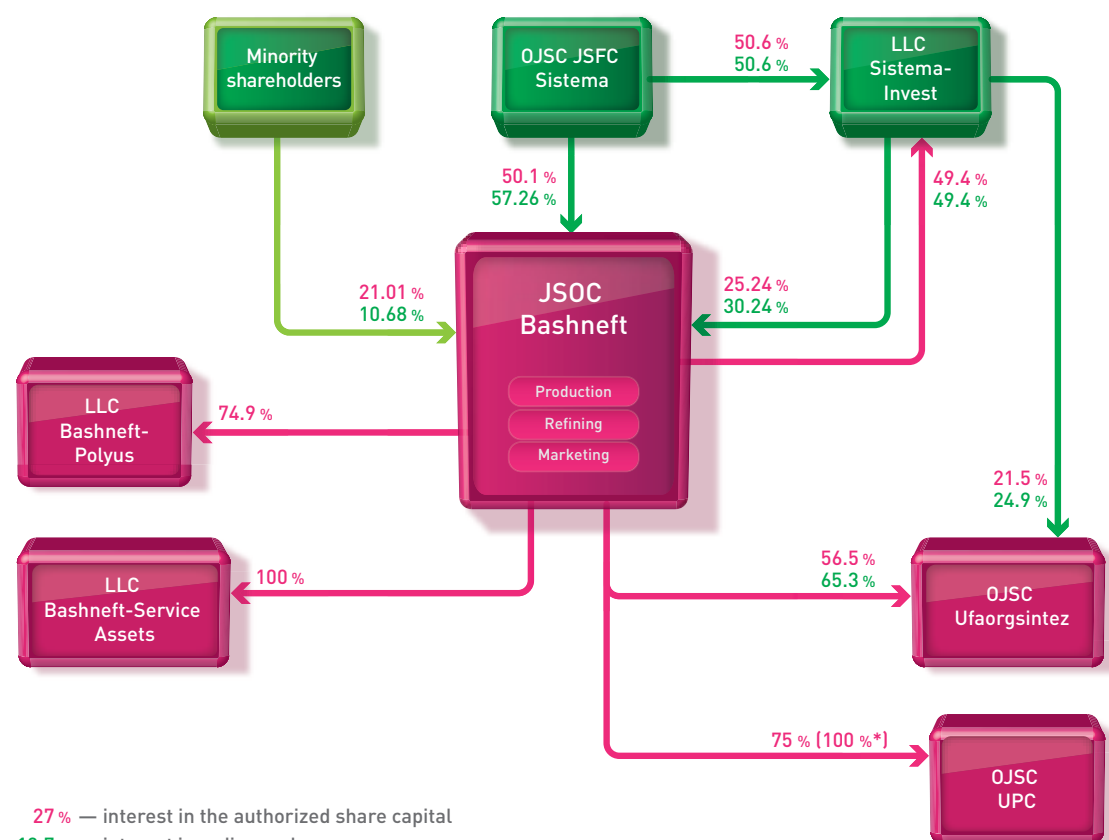
After the reorganization conducted in 2012, the Group includes JSOC Bashneft and its branches, as well as subsidiaries specializing in oil production, refining and marketing.

JSOC Bashneft holds a 74.9% stake in the authorized share capital of LLC Bashneft-Polyus, a joint venture with OJSC Lukoil (25.1%) established for implementing the T&T project.

The Group owns 100% of OJSC UPC, which is a promising company in terms of consolidating Bashneft's petrochemical assets.

Besides, an oilfield service holding company has been established on the basis of the Group's subsidiary, LLC Bashneft-Service Assets. The holding company comprises organizations providing the following types of services: drilling, current and major work-over of wells, manufacture of oilfield and mechanical equipment, transportation and construction. In the future JSOC Bashneft plans to divest the oilfield service holding company.

## The Group's structure as of the end of 2012



\* after the consolidation in January 2013

## Share capital

As a result of the reorganization in 2012, the Company's authorized share capital increased. At present, JSOC Bashneft's authorized share capital totals 227,384,465 roubles and is divided into 188,710,587 ordinary shares and 38,673,878 preferred shares with a par value of 1 rouble per share.

OJSC JSFC Sistema and its affiliates are JSOC Bashneft's main shareholder.

In 2012 the share of other legal entities (including nominees) was reduced from 23.92% to 16.91%. As of December 31, 2012, the number of individual share-

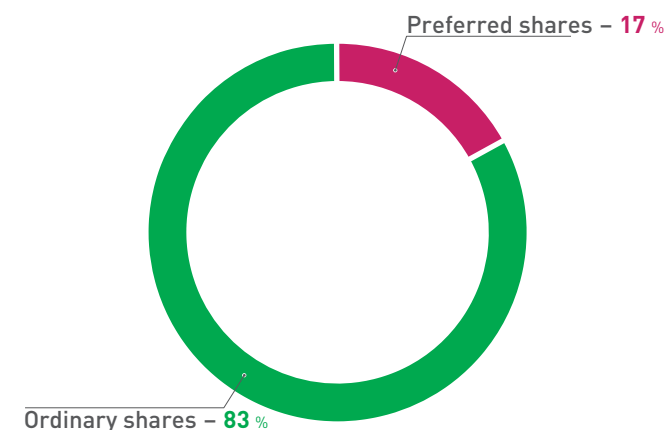
holders in JSOC Bashneft's shareholder register totalled 37,569 (including seven nominees).

JSOC Bashneft's shares are traded on the Moscow Stock Exchange.

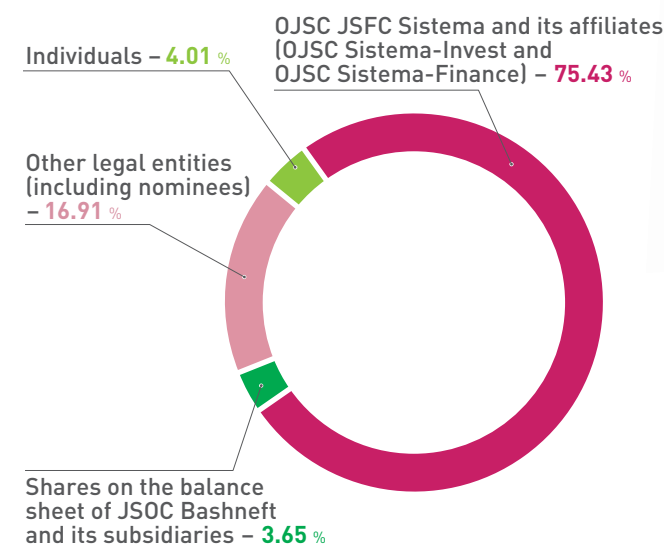
As of the end of 2012, no Company shares were in state or municipal ownership, or in the ownership of federal subjects.

For more information about ordinary and preferred shares, shareholders' rights and state registration numbers of share issues, see the Group's website: [http://www.bashneft.ru/shareholders\\_and\\_investors/capital/securities/](http://www.bashneft.ru/shareholders_and_investors/capital/securities/)

## Authorized share capital structure



## Share capital structure as of December 31, 2012



## Position in the industry

Russia is the world's largest oil producer.\* In 2012 the country produced over 518 million tonnes of oil. Out of this, about 441 million tonnes were produced by the nine largest oil producing companies. In 2012 about 266 million tonnes of oil was supplied to refineries.

Bashneft is a vertically integrated oil holding company. We produce and process oil in Russia and sell crude oil and petroleum products on the domestic and international markets.

Bashneft's main existing and potential rivals include Russian vertically integrated oil companies such as OJSC Rosneft, OJSC Lukoil, OJSC Gazprom Neft, etc.

Bashneft's main competitive advantages include its own resource base, short distance between oil producing regions and the refining complex, the most advanced equipment at the refineries, etc.

In 2012 we ranked eighth in terms of oil production and fifth in terms of crude oil distillation among Russian oil companies.

As for the domestic market of petroleum products, we maintained our share of gasoline sales (12.6%) and considerably increased our share in sales of diesel fuel (to 7.2% in 2012) and fuel oil (to 10.3%).

In 2012 exports of petroleum products totalled 8.6 million tonnes. Moreover, over 70% of these products were exported to countries outside the CIS. Thus, our share in the country's total exports of petroleum products amounted to about 6%, while the share in sales to countries outside the CIS totalled 5%.

\* According to JODI (Joint Organizations Data Initiative)

Bashneft ranked fourth among the world's 50 fastest growing companies in the annual Platts Top 250 Global Energy Company Rankings and became the growth leader among companies in the EMEA region (Europe, Middle East, Africa).

Geographical footprint

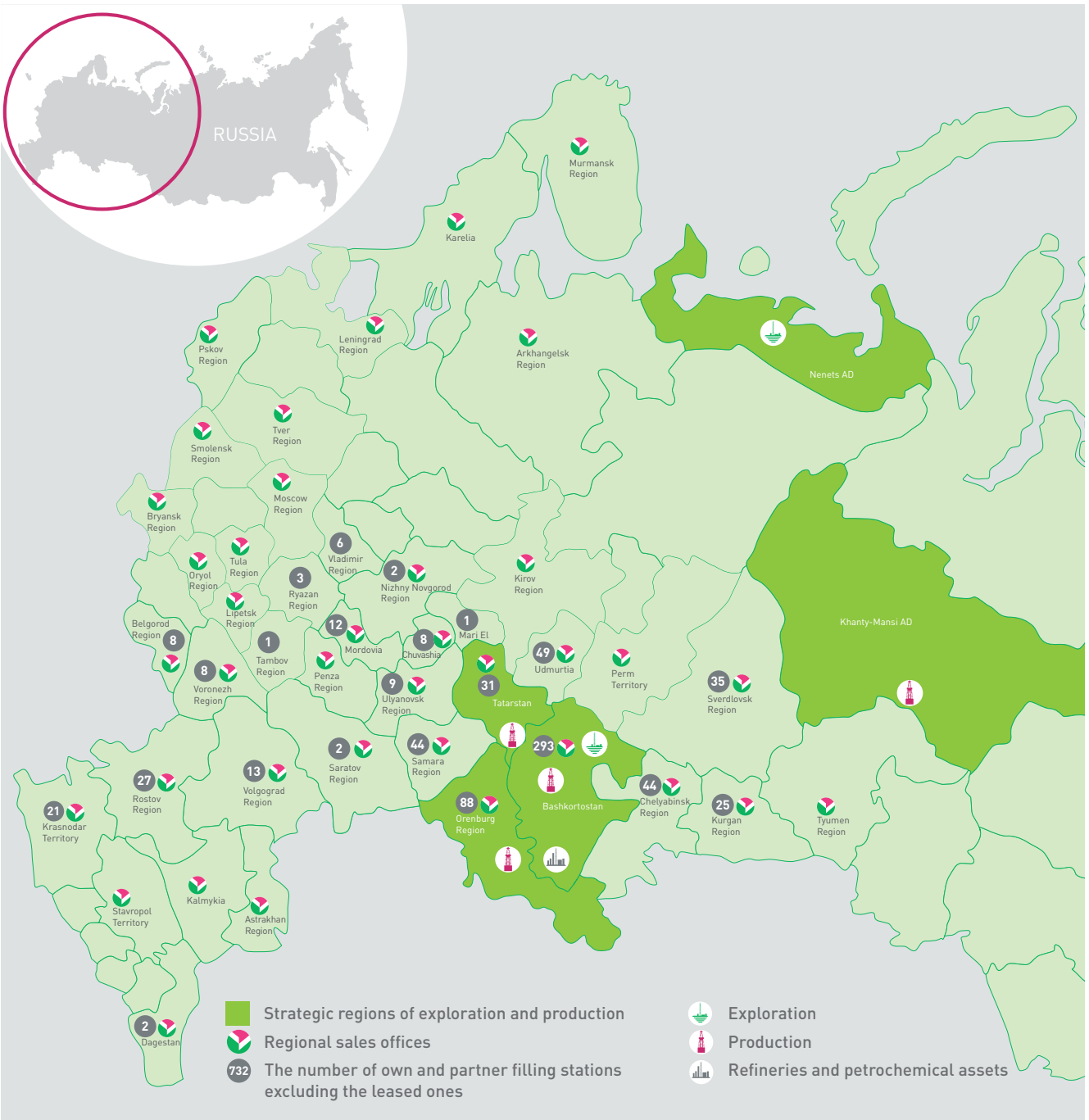
The Republic of Bashkortostan is Bashneft’s main operating region, as the Group’s refineries and petrochemical assets are located there. Bashneft is implementing a large-scale geological exploration programme and continues to produce oil at its licence areas in the Republic.

The Nenets Autonomous District is of strategic importance for Bashneft in terms of development. In this region, the Group holds a development licence for the R. Trebs and A. Titov fields, where it continues its geological exploration and field facility construction. Besides, there are five promising licence areas in the District, and the Group plans to start developing them soon.

Apart from the mentioned regions, Bashneft has licence areas and fields located in the Khanty-Mansi Autonomous District, the Republic of Tatarstan and the Orenburg Region.

The Group’s own retail network of filling stations covers five regions (Bashkortostan, Udmurtia, the Orenburg Region, the Sverdlovsk Region and the Kurgan Region); the network including partner filling stations covers 23 regions of Russia.

Besides, we are the largest taxpayer in the Republic of Bashkortostan.



Overview of operating results for 2012

Exploration and production

The Group’s sustainable development requires tackling the following priority tasks in the upstream segment:

- ✓ expanding the scope of our business to achieve a significantly higher level of oil production;
- ✓ operating wells more efficiently and increasing the recovery factor at the fields in operation;
- ✓ reducing the environmental impact by introducing new technologies.

Key operating results in the upstream segment

	2011	2012	Change 2012/11
Oil production, million tonnes	15.1	15.4	+2.2%
Purchased crude oil and gas, million tonnes	10.7	10.5	-1.1%
Number of licences	309	318	+2.9%
3D seismic survey, sq. km	265	922	+247.9%
Proved reserves, million barrels	1,983.50	2,006.80	+1.2%
Reserve replacement ratio, %	165	123.4	-25.2%
Reserves to production ratio, years	18	18.3	+1.7%
Average production rate of new wells, tonnes per day	13.9	40.6	+192.1%

INCREASING THE RECOVERY FACTOR AT FIELDS IN PRODUCTION

To increase the recovery factor at fields in production, Bashneft actively conducts additional exploration of reserves, develops difficult-to-recover reserves and studies the potential of unconventional reservoirs in the Republic of Bashkortostan as part of a comprehensive geological exploration programme up to 2024. This enables the Group to use the resources of the existing fields most efficiently, as these fields have a good infrastructure and expenditure on logistics is low.

3D seismic surveys (common depth point) form an important part of our geological exploration activities, as they provide highly accurate information, making it possible to place and drill exploration and production wells more successfully and thus reduce spending on drilling.

Extensive use of geological and engineering operations enables us to operate the wells more efficiently.

## EXPANDING THE GEOGRAPHICAL FOOTPRINT TO ENSURE SUSTAINABLE DEVELOPMENT

The development of the R. Trebs and A. Titov fields is Bashneft's key project aimed at expanding the scope of its business. The recoverable reserves of the fields are estimated at 140.2 million tonnes (C<sub>1</sub>+C<sub>2</sub>) and 59.3 million tonnes (C<sub>3</sub>). Lukoil is Bashneft's partner in implementing the T&T project.

The project is being implemented in accordance with the schedule. In 2012 3D seismic surveys totalled 618 sq. km and two exploration wells with a total length of 8,500 metres were drilled; besides, eight wells were reentered. As part of the construction of field facilities, half of a pipeline designed for supplying oil to the Varandey marine terminal has already been built.

Bashneft plans to produce the first 300 thousand tonnes of oil as early as in 2013, while the maximum level of production is to be achieved by 2018.

Commissioning five other subsoil areas in the Nenets Autonomous District is another important project of Bashneft. Although the areas have not been thoroughly explored, the Group's geologists consider them highly promising. In 2013 a 3D seismic survey will start at the areas; during the year, it may total 600 sq. km.

The development of Block 12 in Iraq is Bashneft's first international project. The Group will operate exploration and production at Block 12 in consortium with Premier Oil (Bashneft has a 70% stake in the project, while the stake of Premier Oil amounts to 30%). In 2013 the geological exploration programme will be launched; it includes 2D seismic surveys totalling at least 2,000 linear kilometres and drilling one exploration well.

Besides, in 2012 Bashneft continued to expand its portfolio of licences by obtaining development licences for promising subsoil areas.

## REDUCING ENVIRONMENTAL IMPACT BY INTRODUCING NEW TECHNOLOGIES

Achieving progress in this sphere is a priority in the sustainable development of the upstream segment.

For instance, the Group is actively introducing a method for horizontal drilling which will enable us to make production highly efficient while reducing its environmental impact.

Bashneft uses the technique and technology for cluster construction of uncased multilateral wells in the carbonate formations at fields in Bashkortostan, which enables us to reduce the use of land and the number of potential hazardous facilities while reducing capital expenditures and improving the economic efficiency of development.

Besides, in 2012 the Group conducted bench tests of innovative perforating techniques during well construction and workover.

## Refining

Our sustainable development objectives in the refining segment include the following:

- ✓ installation of advanced high-performance, environmentally friendly equipment;
- ✓ efficient use of raw materials;
- ✓ production of considerably cleaner fuel;
- ✓ increasing energy efficiency and reducing refining costs;
- ✓ increasing operational readiness.

## Key operating results in the refining segment

	2011	2012	Change, 2012/11, %
Crude oil distillation, million tonnes	21.1	20.8	-1.4%
Output of petroleum products, million tonnes	19.2	18.9	-1.6%
Refining depth	85.9%	84.9%	-1 p.p
Share of light products	59.9%	59.7%	-0.2 p.p.
Share of Euro 4 and Euro 5 gasoline	12.8%	75.1%	+62.3 p.p
Nelson Index	8.33	8.55	+2.6%

Bashneft continued implementing its refinery upgrade programme, which allowed it to increase the Group's Nelson Index from 8.33 in 2011 to 8.55 in 2012, enhancing the technological advantage of the Group's refineries and its leading position in the industry. The following projects were implemented in 2012:

- ✓ at the Ufaneftkhim refinery, the capacity of a delayed coker was increased from 1.2 to 1.6 million tonnes per year, and a hydrocracker was renovated, its capacity being increased from 0.9 million tonnes to 1.5 million tonnes per year;
- ✓ at Novoil, sulphuric acid alkylation and sulphuric acid regeneration units were constructed and catalytic gas production facilities were refitted. The units were officially commissioned in 2013.

The implementation of this project will enable Bashneft to use hydrocarbons more efficiently, because the increased capacity will enable the Group to ensure that refining depth at Ufaneftkhim totals at least 95% even if the throughput is considerable, while fuel oil will be produced only to meet consumer demand. Overall, in 2012 Bashneft Group's refining depth remained the highest in the industry and totalled 84.9%, while the industry average in 2012 was 71.5%.

In 2012 Bashneft contributed substantially to the production of cleaner fuel. The share of environmentally friendly Euro 4 and Euro 5 gasoline increased from 12.8% in 2011 to 75.1% in 2012. Besides, the Group increased the share of Euro 5 diesel fuel in its output from 5.1% in 2011 to 13.1% in 2012. Moreover, in full compliance with the Technical Regulations Bashneft Group does not produce engine fuels that do not meet Euro 3 standards.

The Group pays great attention to increasing the energy efficiency of refining in order to reduce refining costs and meet high environmental standards. Bashneft implemented a set of programmes aimed at energy conservation. As a result, in 2012 energy costs decreased by 93.6 million roubles. Overall, production costs and operating expenditure in the refining segment dropped by 5.5% and totalled 23.9 billion roubles. Unit refining costs dropped to 157.3 roubles per barrel, which is 4.2% lower than last year.



## UPGRADE PROGRAMME

The Group's refinery upgrade programme is the key to achieving its long-term sustainable development goals.

Strategic goals of the upgrade programme include:

- ✓ completely switching over to producing Euro 5 engine fuels by 2015;
- ✓ increasing refining depth and the share of light products.

Apart from the project to increase the capacity of the delayed coker from 1.2 to 1.6 million tonnes per year described above, the following projects are being implemented at Bashneft's refineries and are in various stages of completion:

- ✓ construction of a catalytic cracking gasoline hydrotreater with a capacity of 1,300 thousand tonnes per year continues at Bashneft-UNPZ Branch. The hydrotreater is designed for removing sulphides in order to improve the quality of produced gasoline and ensure that it meets the Euro 5 standard;
- ✓ construction of a hydrogen production unit with a rated capacity of 153 thousand tonnes of hydrogen per year at Bashneft-Novoil Branch will enable us to fully satisfy the demand for hydrogen at the Ufa refineries, which produce engine fuels meeting the Euro 4 and Euro 5 standards;
- ✓ besides, construction of a new delayed coker at Bashneft-UNPZ Branch was assessed as a promising project.

In 2012 expenditure on the implementation of the programme totalled 12.5 billion roubles.



## Marketing

The Group's priority in the area of marketing is to fulfil the following objectives:

- ✓ providing consumers with high-quality fuel;
- ✓ cooperating with consumers in the promotion of Euro 4 and Euro 5 fuels on the Russian market, which will help to protect the environment in the region and all over the country;
- ✓ improving the quality of customer service and promoting cooperation with consumers.

### Key operating results in the marketing segment

	2011	2012	Change, 2012/11
Crude oil exports, million tonnes	3.6	4.5	+25.0%
Petroleum product sales via the network of filling stations, million tonnes	1.0	1.4	+33.0%
Number of own and partner filling stations	710	747	+5.2%

In 2012 retail sales of petroleum products increased by 33% and totalled 1.4 million tonnes. Bashneft provides consumers with high-quality fuel by developing its own and partner filling stations, which enables it to expand direct access to consumers. In 2012 Bashneft's retail network expanded from 710 to 747 filling stations. Bashneft's own and partner filling stations are located in 23 regions of Russia.

The key project related to improving the quality of customer service and promoting cooperation with consumers is a programme aimed at rebranding Bashneft's own filling stations. In 2013-2015 we plan to make changes to 243 filling stations, which is nearly 50% of the Group's own retail network. The objectives of the rebranding programme are to improve the quality of services provided to customers by meeting high standards in customer service and fuel quality and improve brand recognition in order to increase our customers' brand loyalty.

To make interaction with consumers more transparent and open, in 2012 the Group set up a hotline and developed a smartphone application helping car drivers to find the nearest filling station.

### EURO 5 STANDARDS

In July 2012, Bashneft's own network completely switched over to selling Euro 5 engine fuels (gasoline and diesel fuel), which was a very important step in promoting Euro 5 fuels.

In Bashneft's opinion, providing consumers with an opportunity to purchase top quality fuel is yet another way to contribute to environmental protection and improve living standards in operating regions.

Dmitry Medvedev, the Prime Minister of Russia, presented S. Lakhin, the General Director of LLC Bashneft-Udmurtia, with a certificate and the Quality Award of the Russian Government in recognition of the company's efforts to consistently maintain high fuel quality.

## Financial results

## Key financial results, million roubles

	2010	2011	2012	Change, 2012/11, %
Revenue	355,523	486,328	532,502	+9.5%
Costs and expenses	-291,156	-410,580	-452,189	+10.1%
Operating income	64,367	75,748	80,313	+6.0%
Labour costs	31,203	32,078	35,564	+10.9%
Accrued dividends	48,284	20,274	5,457	-73.1%
Taxes and export duties				
Mineral Extraction Tax	33,636	51,508	57,183	+11.0%
Social taxes	4,751	6,270	6,938	+10.7%
Property tax	1,751	1,688	1,700	+0.7%
Other	780	836	888	+6.2%
Income tax expense	12,927	15,087	16,414	+8.8%
Export duties on crude oil	26,603	43,062	56,030	+30.1%
Export duties on petroleum products	36,586	52,634	52,698	+0.1%
Excise duties	20,408	28,633	35,579	+24.3%
Payments for licences (payments for the acquisition of exploration assets)	18.216*	301	5.303**	
Investment in communities (supporting charity)	577	896	603	-32.7%
Net income for the period	46,512	53,292	56,570	+6.2%
Income for the period attributable to the shareholders of the parent company	42,960	49,846	52,088	+4.5%

\* - including advance payments for licences for the R. Trebs and A. Titov oilfields.

\*\* - including payments for licences for the Yangareyskiy and Sabriyaginskiy subsoil areas.

## Stakeholders

A responsible attitude towards all stakeholders and respect for their interests is a necessary prerequisite for the sustainable development of our business and achievement of strategic objectives. Bashneft's key stakeholders include the following target groups:

- ✓ shareholders and investors;
- ✓ employees;
- ✓ consumers of the Group's products and services, suppliers;
- ✓ government bodies and local communities;
- ✓ non-governmental and government (non-profit) organizations

Bashneft Group builds its relationships with stakeholders in accordance with corporate social responsibility principles as part of its Policy on Corporate Social Responsibility adopted in 2010.

The Group's socially responsible approach to conducting business involves the following:

- ✓ improving the quality of life of the employees and residents of its operating regions;
- ✓ fully complying with the legislation;
- ✓ conforming to universally accepted moral and ethical norms, respecting human rights;
- ✓ ensuring occupational safety and investing in talent development;

- ✓ protecting the environment, safeguarding the interests of future generations;
- ✓ maintaining a balance of interests of consumers, local communities and government bodies, non-profit organizations, on the one hand, and the Group's shareholders, partners and employees, on the other hand;
- ✓ investing in the development of local communities in the Group's operating regions, including social investment and effective social partnership;
- ✓ integrating CSR into the Group's day-to-day operations and holding a dialogue with a wide range of stakeholders;
- ✓ increasing transparency of information, including creating a system of non-financial reporting.

The Group uses different approaches for cooperating with each group of stakeholders.

## Forms of cooperation with the main groups of stakeholders

<b>SHAREHOLDERS AND INVESTORS</b>	<ul style="list-style-type: none"> <li>✓ regular meetings of the Company's managers with shareholders and investors;</li> <li>✓ discussion of financial performance in the form of presentations and conference calls;</li> <li>✓ Analyst Days and visits to production facilities;</li> <li>✓ general meetings of shareholders;</li> <li>✓ information disclosure in accordance with Russian legislation.</li> </ul>
<b>EMPLOYEES</b>	<ul style="list-style-type: none"> <li>✓ cooperation with the United Employee Representative Body;</li> <li>✓ meetings between the management and employees;</li> <li>✓ anonymous hotlines;</li> <li>✓ the corporate website (intranet) and media;</li> <li>✓ development programmes.</li> </ul>
<b>CONSUMERS OF THE GROUP'S PRODUCTS AND SERVICES, SUPPLIERS</b>	<ul style="list-style-type: none"> <li>✓ hotlines for consumer complaints;</li> <li>✓ regular consumer surveys on their level of satisfaction with product quality;</li> <li>✓ reports on JSOC Bashneft's activities in the sphere of quality assurance;</li> <li>✓ customer service and support and the resolution of claims and disputes;</li> <li>✓ data protection and preserving consumer privacy.</li> </ul>
<b>GOVERNMENT BODIES AND LOCAL COMMUNITIES</b>	<ul style="list-style-type: none"> <li>✓ participation in working groups affiliated with government bodies;</li> <li>✓ meetings and consultations with local authorities;</li> <li>✓ expert and advisory participation in the drafting of laws and regulations;</li> <li>✓ participation in meetings of committees and commissions of legislative bodies and local authorities;</li> <li>✓ signing of agreements on cooperation in the social and economic development of the regions;</li> <li>✓ reports on the Group's operations.</li> </ul>
<b>NON-GOVERNMENTAL AND GOVERNMENT (NON-PROFIT) ORGANIZATIONS</b>	<ul style="list-style-type: none"> <li>✓ presentations;</li> <li>✓ meetings and consultations;</li> <li>✓ support for social initiatives;</li> <li>✓ organization of charitable programmes.</li> </ul>

## Shareholders and investors

The Group follows international best practices in the sphere of cooperation with shareholders and investors. JSOC Bashneft provides a timely and complete disclosure of information about all of the Group's activities, using various means of communication.

The main source of financial and corporate information is the Group's corporate website, [www.bashneft.com](http://www.bashneft.com).

For details on cooperation with shareholders and investors, visit [http://www.bashneft.com/shareholders\\_and\\_investors/](http://www.bashneft.com/shareholders_and_investors/)

## The influence of shareholders on the decision-making process

Shareholders affect the decision-making process primarily by participating in General Meetings of Shareholders. Shareholders are provided with information on all agenda items in sufficient detail and in a timely manner; the information is disclosed in materials prepared for the meeting. All of the Group's shareholders have the right and possibility to choose between attending the shareholder meeting in person and participating by absentee voting, and equal rights for voting in person and absentee voting.

**T**he high quality of information disclosure has been confirmed by the acknowledgment of the quality of Bashneft Group's reports:

JSOC Bashneft's Sustainability and Corporate Social Responsibility Report for 2011 won the federal competition of annual reports.

JSOC Bashneft's Annual Report was ranked third in the 15th Annual Competition of Annual Reports organized by MICEX in the main category 'Best Information Disclosure in an Annual Report of a Company with Capitalization of More Than 100 Billion Roubles'.

## Employees

Bashneft Group continues to hold an open and constructive dialogue with its employees, focusing on compliance with the Group's codes and regulations and organizing open meetings between the management and employees. Bashneft Group attaches great importance to informal meetings when employees address their questions directly to the management.

In 2011 the Group adopted the Code of Ethics and the Code of Corporate Conduct. The main provisions

of these documents stipulate that the Group's management and employees must avoid conduct aimed at discrimination on various grounds; these documents also ensure that employees have equal rights and opportunities in pay and promotion.

The Group does not use child labour, forced or compulsory labour, or other non-standard forms of employment that directly or indirectly reduce the level of social protection of employees.

For details on our employees, see the section 'Human Resources and Corporate Social Programmes'.

## Government bodies

The Group's management regularly cooperates with representatives of government bodies at all levels. Cooperation with local authorities of the Republic of Bashkortostan, the Orenburg Region and the Nenets Autonomous District is based on agreements on the social and economic development of the regions.

For details on agreements with the governments of these regions, see the section 'Social and Charitable Programmes'.

The Group's representatives are members of working groups and advisory boards affiliated with regulatory bodies. The Group's President A.L. Korsik is a member of the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security and the Government Commission on the Fuel and Energy Complex, Reserve Replacement and Improving the Economy's Energy Efficiency.

The Group's representatives participate in specialized working meetings organized by the governments of the regions and are members of working groups of the Ministry of Energy. Our representatives are members of:

1. The working group of the Ministry of Energy on efficient associated gas utilization;
2. The Office for monitoring production and consumption of petroleum products in the Russian Federation;
3. The working group of the Ministry of Energy on the formulation of proposals for designing the tax and customs tariff policy in the oil industry;
4. The Advisory Council on anti-trust legislation, pricing and tariff policy of the State Duma Committee on Economic Policy, Innovative Development and Business;
5. The Advisory Council of the State Duma Committee on Budget and Taxes;
6. The Advisory Council of the State Duma Committee on Energy;
7. The Advisory Council on corporate governance of the FSFR of Russia and other working groups and Advisory Councils.

The Group's representatives take part in meetings of government bodies over all topical issues related to the Group's activity.

## Local communities

When conducting its operations, the Group strives to serve the interests of local communities. As a responsible subsoil user, employer and corporate citizen, Bashneft Group takes into account the needs of local communities, actively participates in the economic and cultural development of its operating regions and protects the environment in order to preserve it for future generations. Bashneft has established a close and mutually beneficial partnership with representatives of local communities. Besides, the Group's executives hold regular meetings and telephone conversations and keep up correspondence to immediately resolve arising issues and determine promising areas of cooperation. Whenever possible, the Group participates in the life of local communities and provides direct assistance (including financial assistance). One of the most frequently used forms of the fundamental partnership between the Group and local communities consists in leasing the land in the areas where Bashneft Group conducts its operations. When doing so, Bashneft compensates for losses from use and environmental damage.

## Consumers of the Group's products and services, suppliers

We believe that the main objective of our cooperation with consumers and suppliers is to achieve the highest service quality and a superior quality of products supplied to consumers. In the course of achieving this goal the Group makes efforts to ensure transparency when cooperating with suppliers and contractors and to keep all stakeholders informed.

We continue holding an active dialogue with our consumers and suppliers.

Bashneft Group is aware of its responsibility towards its customers; therefore, we improve our quality control process. All information about the properties of products may be found on our corporate website, in advertising materials and other public sources of information. Products manufactured at Bashneft Group's facilities undergo certification in accordance with legislation.

In 2012 there were no cases of non-compliance of the quality of our products with regulations and voluntary codes concerning labelling and information about the properties of products and services.

**R**T jet fuel (superior grade) produced by Bashneft-Novoil Branch won the '100 Best Goods of Russia' competition in 2012.

Sergey Lakhin, the General Director of LLC Bashneft-Udmurtia, was presented with a certificate and the Quality Award of the Russian Government.

## Hotline

In order to improve the quality of its products and services, the Group runs a hotline for dealing with consumer complaints. Consumers can give feedback and obtain necessary information on products and related services at our website. We also provide after-sales service for our consumers.

For details about our hotline, visit <http://www.bashneft.com/company/contacts/hotline/>

The Group regularly conducts consumer surveys on their level of satisfaction with product quality. The results of the surveys are used for improving product quality.

**I**n 2012 we launched a new website for car drivers, providing comprehensive information about Bashneft Group's retail assets in all operating regions of the Group. There is a wide range of service applications for our customers' convenience: My Account, Filling Station Finder, Contact Us. Moreover, the Group developed a free smartphone application to provide users with a wide range of navigation capabilities.

To find out more about the operations of our filling stations, visit [www.bashneft-azs.ru](http://www.bashneft-azs.ru)

## Work with suppliers

We take a responsible approach to selecting suppliers (agents, contractors) and providing them with equal opportunities for participating in the tendering process.

Bashneft Group's procurement activities are aimed at selecting the best suppliers (agents, contractors) and the most favourable conditions for supplying goods and rendering services in order to meet the requirements of production and functional departments properly and in a timely manner. Suppliers are selected primarily on the basis of open tendering procedures and competitive bidding, which enables us to minimize the role and impact of subjective opinion in selecting the winning bidder; thus, Bashneft follows the practice of applying objective criteria for giving permission to participate in the tendering process and for assessing participants' bids. Bashneft ensures that the process is transparent by using modern information and telecommunication technology, tools for electronic commerce, electronic document management and automation of the main stages of the procurement process.

In order to increase the efficiency of procurement, the Group has established the Central Procurement Commission and procurement commissions in JSOC



Bashneft and its subsidiaries and affiliates. The largest transactions are handled by the Central Procurement Commission of JSOC Bashneft. The Tendering Department coordinates the activity of procurement commissions in Bashneft's branches, subsidiaries and affiliates. Tendering is conducted mainly by using an open procedure, which involves publishing an invitation to tender on JSOC Bashneft's official website for procurement and sales ([www.zakupki.bashneft.ru](http://www.zakupki.bashneft.ru)) and/or in the B2B-bashneft electronic marketplace.

The savings decreased in 2012 compared to 2011 as the budget for 2012 was planned using prices set during tendering in previous periods.

### Key issues

### Main issues discussed as part of stakeholder engagement

Unit	Issues
	Strategic target indicators
Strategy and Development	The results of the reorganization
	Entering new markets (Iraq)
Capital Construction and Logistics	Investments
	Amount (growth) of CAPEX
Corporate Governance	Engaging experts with experience of working abroad
Geology and Development / Upstream	Level of production
	Putting the R. Trebs and A. Titov oilfields into operation
	Expansion of the resource base
Oil Refining and Petrochemical Production	Establishing an oilfield service holding company
Marketing and Logistics	Exports
	Domestic sales
Economics and Finance	Revenue
	Debt
	Dividend payments
	Tax payments
	Integrated approach to cutting costs
	Cost control

### Savings from procurement procedures, million roubles

	2011	2012
Volume of procurement	64,078	87,908
including electronic procurement	10,165	12,881
Total budget savings from procurement procedures	10,250	7,610

Unit	Issues
Human Resources	Stable employment
	Remuneration
	Competitive salary
	Social benefits
	Medical insurance
	KPI
	Social investments
Information Technologies	Opportunities for professional and career development
	Use of IT
Environment	Minimizing the negative environmental impact
	Associated gas utilization
	Waste management
	Reducing emissions
	Energy efficiency
	Efficient use of water resources
	Transparent disclosure of information on HSE performance





**'We strive for perfection in corporate management to ensure a fair and competitive return on capital for our shareholders, owners and investors.'**

*The Social Charter of Russian Business*

## Corporate governance

We constantly improve our corporate governance system; in accordance with the best Russian and international practices, it is based on the principles of openness and transparency, which is a prerequisite for the growth of the Group's shareholder value.

Respect and protection for the rights and legitimate interests of the participants of corporate relations is the main principle of our activity in the sphere of corporate governance.

The Group follows the principles of informational and financial transparency, consistent and collective decision-making, counteracting corruption, conforming to the norms of business ethics.

Independent and non-executive directors are of great importance to JSOC Bashneft. In 2012 the number of independent directors on the Board of Directors increased to 40% of the total number of Board members. Independent directors serve on most of the Committees of the Board of Directors, including the Health, Safety, Environment and Social Responsibility Committee established in 2012.

Measures taken by Bashneft indicate its commitment to following best practices and applying sustainable development principles in the most important areas of its business.

**In 2012 the Group continued implementing modern management methods. During the year, the Group made major steps towards improving its corporate governance practice, including the following:**

- ✓ the number of independent directors serving on the Board of Directors increased to 40% of the total number of Board members; independent foreign directors were included in the Board of Directors for the first time;
- ✓ Bashneft Group's structure was optimized: the formation of a vertically integrated company (VIC) was completed, the reorganization enabled to improve the corporate structure;
- ✓ the Health, Safety, Environment and Social Responsibility (HSE&SR) Committee of the Board of Directors was established; the Committee includes independent Board members;
- ✓ the Advisory Council of the Board of Directors was established to make policy recommendations on the issues of production and R&D;
- ✓ regulations on corporate governance of subsidiaries were brought into force;
- ✓ the practice of regularly considering risk management reports (twice a year) was introduced;
- ✓ the format of budget execution reports was expanded;
- ✓ a number of measures were taken to settle the potential conflict of interest of members of the Group's governing bodies: members of the Management Board must inform the Board of Directors of a possible conflict of interest in due time; the Company's internal documents stipulate the procedures for controlling and monitoring actions which may indicate a conflict of interest;
- ✓ the Company's Board of Directors considers reports on compliance with the requirements of the Code of Corporate Conduct, the Code of Ethics and the Anti-corruption Policy of the Company twice a year;
- ✓ Bashneft increased its efforts to monitor and ensure compliance with essential requirements for related-party transactions.

The Group's corporate governance practice is based on the recommendations of the Russian Code of Corporate Conduct and the international best practice. The Group's corporate governance system ensures the shareholders' and investors' rights and provides for the equal treatment of all shareholders.

EVOLUTION OF THE MEMBERSHIP AND STRUCTURE OF THE BOARD OF DIRECTORS IN RELATION TO SUSTAINABLE DEVELOPMENT

Bashneft aims to follow best practices related to environmental policy, environmental protection, industrial safety, preserving the life and health of employees.

In October 2012, the Health, Safety, Environment and Social Responsibility (HSE&SR) Committee of the Board of Directors was established.

Issues considered by the Committee in 2012 include:

- ✓ development of the Functional Strategy on Health, Safety and Environment;
- ✓ preparation for external audit in the sphere of HSE;
- ✓ organization of HSE activities;
- ✓ KPIs in the sphere of HSE for the Company's executives.

Principles of Bashneft Group's corporate governance:

- ✓ respect for the rights and legitimate interests of the participants of corporate relations;
- ✓ ensuring informational and financial transparency;
- ✓ an active and competent Board of Directors;
- ✓ consistent and collective decision-making;
- ✓ counteracting corruption;
- ✓ conforming to the norms of business ethics;
- ✓ corporate social responsibility.

The Group's effective corporate governance system enables it not only to balance the interests of shareholders and the management, but also to ensure that the cooperation between them is based on trust, a strong business culture and ethical norms.

In 2012, after three new independent directors of Bashneft, V.G. Artyukhov, Ch. Watson and R. Gossen, were elected, the number of independent directors on the Board of Directors increased to 40% of the total number of Board members in compliance with best corporate governance practices. It is the first time that foreign independent directors having extensive experience in oil production and refining became members of the Board of Directors.

Independent and non-executive directors play an important role in the Company, taking part in the work of all committees of the Board of Directors.

Governing bodies of JSOC Bashneft:

GENERAL MEETING OF SHAREHOLDERS (GMS)	<p>The procedure for holding the GMS fully ensures the rights of all shareholders.</p> <p>The procedure for preparing, convening, holding and announcing the outcome of the GMS of JSOC Bashneft is stipulated by the Regulations on the General Meeting of Shareholders.</p>
BOARD OF DIRECTORS	<p>The main functions of the Board of Directors include ensuring the rights of shareholders, developing and analysing the corporate strategy, monitoring its implementation, establishing effective internal control over the Group's financial and business operations, creating a risk management system, ensuring the timely and complete disclosure of comprehensive and reliable information on the Group's operations.</p> <p>The procedure for forming the Board of Directors, its status, membership, functions, aims and objectives, its powers, the procedure for its work and cooperation with other regulatory bodies of the Company are stipulated in the Regulations on the Board of Directors. A new version of the Regulations was approved by the General Meeting of Shareholders on June 29, 2012.</p> <p>As of December 31, 2012, the Board of Directors of JSOC Bashneft included the Chairman (a non-executive director), an executive director, four non-executive directors and four independent directors.</p> <p>The Chairman of the Board of Directors is not a member of the collective executive body (Management Board) of JSOC Bashneft.</p> <p>The Regulations on the Board of Directors contain recommendations on the education, age, experience of candidates nominated to the Board of Directors, which shall be considered when forming the Board of Directors of the Company.</p> <p>Board members have the expertise necessary for formulating the Company's strategy.</p> <p>The Board of Directors quarterly considers reports, including information on labour protection, key events and projects; based on the results of the analysis of these reports, relevant management decisions are made.</p> <p>The activities of the relevant committees of the Board of Directors contribute to the most effective management of the Company's environmental and social performance.</p> <p>The HSE&amp;SR Committee of the Board of Directors of JSOC Bashneft has been established.</p>
MANAGEMENT BOARD	<p>The Management Board ensures the implementation of business plans and investment programmes, settlement of financial and legal issues; it is also responsible for economic and information security, carries out preliminary consideration of large-scale innovation and investment projects, and coordinates cooperation with the subsidiaries and affiliates.</p> <p>As a rule, meetings of the Management Board are held once a week. The Management Board is chaired by the Company's President.</p> <p>The Management Board complies with the existing legislation, the Company's Charter and the Regulations on the Management Board in its activity.</p>
PRESIDENT	<p>The President acts within his competence and is accountable to the Board of Directors and the General Meeting of Shareholders of the Company.</p>

For more details on members of the Committees and issues considered in 2012, see the 'Corporate governance' section of the Annual Report of JSOC Bashneft for 2012.

For more details on the structure and members of Bashneft's corporate governing bodies, see the 'Corporate governance' section of the Annual Report of JSOC Bashneft for 2012.





### Remuneration and compensations

The total amount of remuneration to Board members of JSOC Bashneft paid in 2012 was 18,507 thousand roubles. Besides, Board members were reimbursed for expenses related to serving on the Group's Board of Directors; the reimbursement totalled 4,932 thousand roubles. Remuneration is paid only to independent Board members for serving on the Board of Directors and committees of the Company.

The remuneration of Board members consists of base pay and a variable part. The size of the variable part of remuneration depends on the Company's share price at the beginning and the end of the corporate year (determined based on independent valuation).

The total amount of remuneration to members of the Management Board of JSOC Bashneft paid in 2012 was 758,128 thousand roubles.

The remuneration of members of JSOC Bashneft's Management Board consists of a monthly salary, bonuses and additional rewards in accordance with the Regulations on the programme of long-term financial incentives. The size of rewards depends on the fulfilment of the Group's financial and functional KPIs.

For more details on the KPI system, see the 'About the Group' section of the Annual Report of JSOC Bashneft for 2012.

### Prevention of conflicts of interest

In accordance with applicable legislation, the Charter and internal regulations of JSOC Bashneft, the following processes and procedures designed to prevent conflicts of interest are in place in the Group:

- ✓ a special procedure for approving related-party transactions;
- ✓ an obligation to provide information on facts which can indicate a conflict of interest in a timely manner; the obligation is stipulated in Bashneft's regulations;
- ✓ disclosure of information on facts which can indicate a conflict of interest (share ownership, membership of governing bodies of other organizations, etc.).

The Group has also adopted the Code of Corporate Conduct, the Code of Ethics and the Regulations on Insider Information. These documents are available on the corporate website: [http://www.bashneft.ru/shareholders\\_and\\_investors/charter/](http://www.bashneft.ru/shareholders_and_investors/charter/)

### ANTI-CORRUPTION PROCEDURES

JSOC Bashneft has developed, introduced and successfully uses a set of anti-corruption procedures, principles and standards which are included in our internal regulations, such as:

- ✓ Policy on Business Gifts
- ✓ Anti-corruption Policy
- ✓ Code of Ethics
- ✓ Code of Corporate Conduct
- ✓ Anti-Fraud Policy
- ✓ Policy on Procurement
- ✓ Regulations on Contractual Work
- ✓ Regulations on the whistleblower program 'Employees Raise Concerns'
- ✓ Regulations on Monitoring IT Security Events
- ✓ Procedure for Conducting Due Diligence
- ✓ Procedure for Approving and Concluding Contracts
- ✓ Procedure for Organizing Procurement of Goods, Works, Services at JSOC Bashneft
- ✓ Procedure for Coordinating the Licensing Activity of the Company in the Sphere of Subsoil Use: Managing Mineral Rights
- ✓ Procedure for Allocating Spare Cash
- ✓ Procedure for Conducting Official Inspections
- ✓ Procedure for Organizing Receptions for Foreign Delegations and Individuals at JSOC Bashneft
- ✓ Procedure for Selection and Recruitment of Employees
- ✓ Procedure for Keeping Personnel Records
- ✓ Procedure for Approving and Concluding Contracts
- ✓ Procedure for Organizing GR Communications at JSOC Bashneft, etc.



The Company identifies and regularly updates the indicators of corruption risks characteristic for its operations and potentially vulnerable business processes. Besides, we view the following measures as part of our anti-corruption efforts:

- ✓ the Group openly and widely declares its zero tolerance for corruption;
- ✓ anti-corruption clauses are included into contracts with the Company’s counterparties.

The Company strengthens its anti-corruption culture by informing and training its employees. New employees get acquainted with the relevant internal documents, undergo introductory training concerning the provisions of the Anti-corruption Policy and the applicable anti-corruption legislation.

All employees of the Company sign a statement of compliance with anti-corruption legislation.

Apart from JSOC Bashneft, in 2012 anti-corruption policies and the Code of Ethics were adopted in 14 affiliates and subsidiaries of the Group.

Bashneft’s employees and management undergo continuous corporate training in anti-corruption policy and procedures. As of the end of 2012, almost 100% of JSOC Bashneft’s employees and top and middle managers of its subsidiaries and affiliates received the necessary training.

No cases of corruption were identified in the Group in 2012.

The Group has set up a hotline ‘Employees Raise Concerns’

Corporate governance quality audit

The Group annually conducts a corporate governance quality audit, which covers the following three components of our corporate governance practice:

- ✓ shareholders’ rights and relations with other stakeholders;
- ✓ the membership and performance of regulatory and supervisory bodies;
- ✓ information disclosure.

The corporate governance quality audit is conducted both by the Company using specially tailored methods and by external auditors. The results of the corporate governance audit conducted in 2012 confirmed that the Group has a well-developed corporate governance practice.

For more details on the results of the corporate governance quality audit conducted in 2012, see the ‘Corporate governance’ section of the Annual Report of JSOC Bashneft for 2012.

Self-assessment of the Board of Directors

The Company has established a procedure for annual performance evaluation of the Board of Directors in the form of ‘180 degrees’ self-assessment and assessment based on questionnaires. The results of the assessment are considered at the meeting of the Corporate Conduct Committee and communicated to the Board members.

The self-assessment of the Board of Directors allows to promptly identify the areas requiring special attention, and to organize the work of governing bodies in the most effective way.

Following the performance evaluation of the Board of Directors in 2011, the following measures were suggested and implemented in 2012

Suggested in 2011	Implemented in 2012
To organize regular preparation and distribution of information materials among the Board members, including market overviews and reports on media coverage.	Regular preparation and distribution of information materials, including weekly stock market reports and reports on media coverage, among the Board members was organized.
To interview Board members about key issues which need to be additionally covered.	The relevant survey of Board members was conducted. Proposals of Board members on improving the Board’s performance and on organizing meetings of collective governing bodies were considered.
To organize visits of Board members to production facilities.	Trips to the Group’s facilities were organized for Board members.
To prepare materials containing information on the Company and documents to be provided to newly elected Board members.	The relevant materials were prepared.  Newly elected Board members are provided with information on the Group, the management, membership of committees and the Board of Directors, as well as key indicators for the last year.
To regularly inform Board members on the meetings of the Board committees, the issues considered and the decisions made.	Before each meeting of the Board of Directors in the form of joint presence, Board members are briefed on the decisions made by the Committees during the periods between the meetings of the Board of Directors.
To include consideration of risk management and internal control issues at least twice in the schedule of meetings of the Board of Directors for 2012.	Consideration of risk management and internal control issues (no less than twice a year) was included in the schedule of meetings of the Board of Directors and the Budget and Audit Committee.

## Regulatory bodies, internal control and risk management system

Bashneft attaches special importance to controlling the activity of its governing bodies and executives, to financial control, and issues of risk identification and analysis.

To exercise relevant control, the Group established the Internal Audit Unit and the Risk Management Department.

For more details on the functioning of the Internal Audit Unit, see the 'Corporate governance' section of the Annual Report of JSOC Bashneft for 2012.

For more details on the risk management system, see the 'About the Group' section of the Annual Report of JSOC Bashneft for 2012.

## REORGANIZATION

To form a fully-fledged vertically integrated company, increase the liquidity of Bashneft Group's shares, protect the rights of minority shareholders and consolidate cash flows in a single centre, in 2012 the Group carried out a reorganization.

Bashneft's reorganization was carried out as transparently as possible, and the interests of all security holders of the Group and the rights of its employees were respected. The successful reorganization of Bashneft will help to improve its performance, investment attractiveness and corporate governance quality, and to reduce the Group's tax risks.

It is important to mention that the principles of reorganization (engaging the services of independent appraisers, involving leading international financial advisors and ensuring the maximum protection of the rights of minority shareholders) allowed us to carry out the reorganization transparently, in full compliance with Russian legislation. The reorganization will enable those shareholders who supported the consolidation to benefit from the financial performance of the entire Group, not only of individual subsidiaries.

Apart from working with shareholders, we made a major effort to inform the Group's employees and explain the essence of the reorganization, its purposes, principles and mechanisms to them. We attached special importance to informing the employees of consolidated companies. The relevant measures included internal distribution of information and newsletters and meetings of top management with employees.

The integration of JSOC Bashneft's subsidiaries will help optimize the Group's structure, which will help to increase the transparency of its operations and the efficiency of its capital investments. JSOC Bashneft became a single centre for making decisions on the Group's operations taking into account the nature of all areas of its business: production, refining, sales of oil and petroleum products.

'We are grateful to our minority shareholders for their confidence in us: as they remained within Bashneft Group and did not sell their securities, they thereby approved our reorganization efforts.'

*K.I. Andreychenko,  
Vice President,*

*Corporate Governance and Legal Issues*

### Dividend policy

We view a reasonable dividend policy as an additional way to ensure the Group's sustainability.

JSOC Bashneft's dividend policy is based on the principles of reasonable profit distribution in order to meet both the interests of shareholders and the Group's need for development. Bashneft makes regular and equal dividend payments on ordinary and preferred shares.

### Accrued dividends (under IFRS)

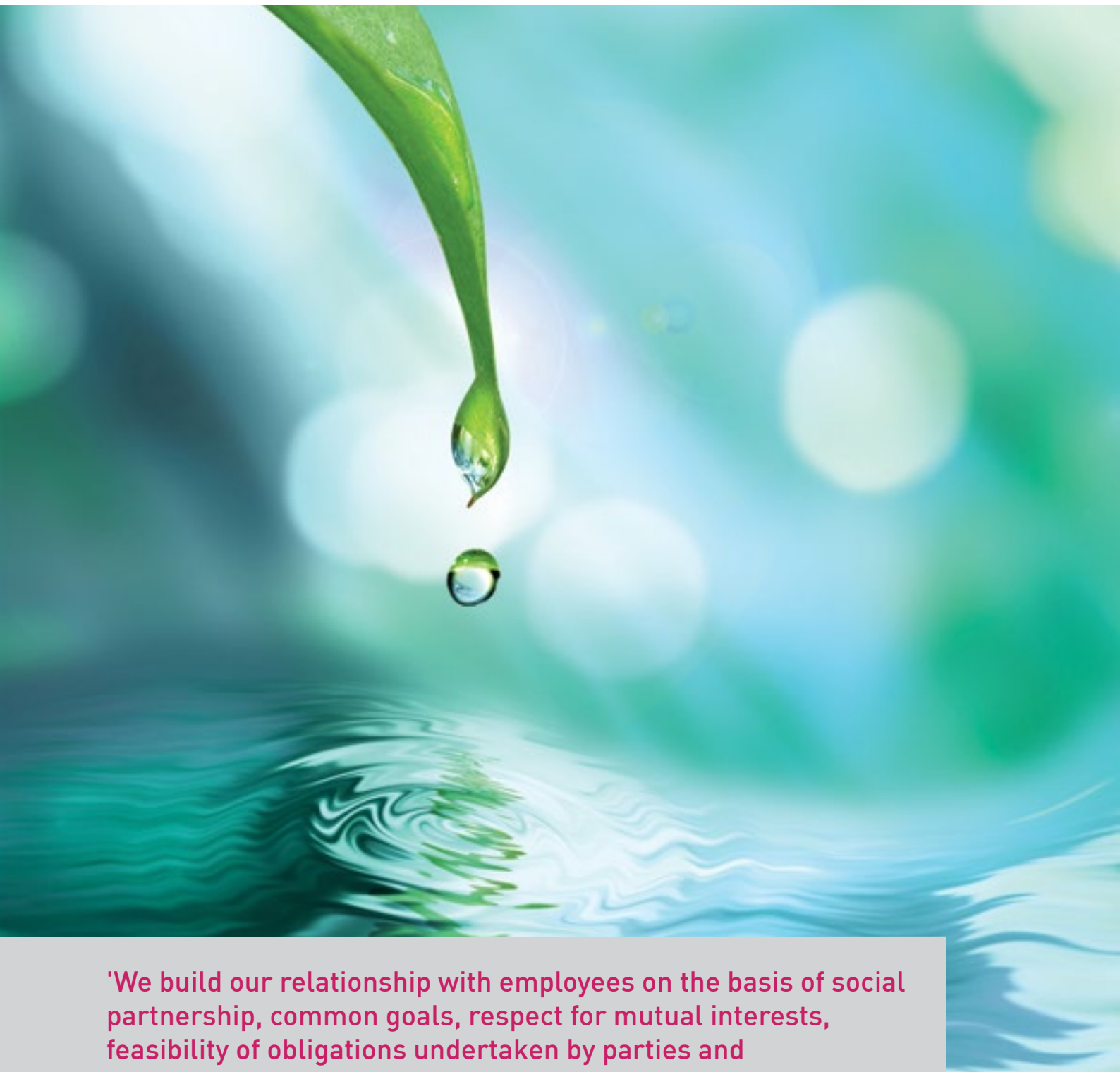
	2011	2012
Dividends per ordinary share, roubles	99	24
Dividends per preferred share, roubles	99	24
Declared dividends, million roubles	20,274	5,457
Consolidated net income under IFRS, million roubles	49,846	52,088
IFRS-based dividend payout ratio, %	40.7	10.5

### Regulations on Dividend Policy

In accordance with the Regulations on Dividend Policy of JSOC Bashneft, the recommended amount of dividend payments should be determined based on the Group's financial results for the quarter and/or the fiscal year; generally it should total at least 10% of the Company's IFRS net income attributable to the shareholders of the parent company for the last financial period.

The amount of dividends per class 'A' preferred share equals 10% of the par value of the share. At the same time, if the amount of dividends paid by the Group on each ordinary share for the last fiscal year exceeds the amount of dividends payable on each preferred share, the dividends on preferred shares should be increased to an amount equal to the dividends paid on ordinary shares.

In accordance with existing legislation and the Charter, the Group pays dividends within 60 (sixty) calendar days from the date on which the General Meeting of Shareholders makes a decision on dividend payment.



'We build our relationship with employees on the basis of social partnership, common goals, respect for mutual interests, feasibility of obligations undertaken by parties and a responsible attitude towards them.'

*The Social Charter of Russian Business*

## Human resources and corporate social programmes

The Group strives to meet the needs of its team: it creates the best workplaces in the regions where it operates and focuses on the professional development of its staff. Apart from financial remuneration, we offer a wide range of corporate social programmes for our employees and their families.

'I am sure that thanks to the great team that has formed in Bashneft we will be able to solve any task.'

*Alexander Korsik,  
President of JSOC Bashneft*

### Principles and priorities of Bashneft's HR policy

The main goal of the Group concerning the sustainable development of its relations with its employees is to safeguard the inalienable human right to work. To achieve this goal, employees are provided with comfortable and safe working conditions, competitive salaries and social benefits.

### Average headcount by business type

	2010	2011	2012
Holding company	854	1,025	1,134
Well drilling	4,489	2,528	1,946
Oil and gas production	7,931	7,202	6,305
Oil refining and petrochemicals	8,173	8,195	9,119
Marketing and logistics	5,659	6,619	6,042
Research	882	914	920
Other	257	271	31,863
<b>TOTAL</b>	<b>28,245</b>	<b>26,754</b>	<b>57,329*</b>

\* The rise in headcount is related to the expansion of Bashneft Group and the inclusion of data on service companies in the basis for calculating the indicator. Within the scope comparable to 2011, the number of the Group's employees totalled 25,403 persons.

The basic principles of the Group's HR policy are:

- ✓ compliance with the norms of Russian and international law;
- ✓ respect for human rights;
- ✓ mutual respect and consideration for opinions of all parties on all issues.

Besides, the Group has taken on voluntary commitments concerning labour relations that complement the applicable legislation.

Bashneft's HR policy is aimed at attracting, developing and retaining qualified and competent employees that form the Group's shareholder value.

In 2012 the Board of Directors approved the Group's updated functional strategy for HR management that involves the continuous recruitment of young employees and the organization of events aimed at HR development and additional training of our staff.

### Personnel size and structure

As of December 2012, the average headcount of Bashneft Group totalled 57,329 employees.



### Employee age distribution

Traditionally, two thirds of our employees are aged between 30 and 50, which ensures an optimal combination of good physical form and professional experience of our staff. As of the end of 2012, the average age of the Group's personnel was 41.6 years. The figure increased as compared to 2011 (40.8 years) as employees of oilfield service companies were included in the basis of calculation.

In 2012 staff turnover amounted to 10.81%. It increased as compared to 2011 (4.28%) as service companies were included in the scope of Bashneft Group.

### COLLECTIVE AGREEMENT

Relations between the Group and the workforce are governed by applicable legislation, the Labour Code of the Russian Federation and the current Collective Agreement.

The collective agreement governs the relations between employees and the employer within the framework of social partnership, determines the mutual responsibilities of the parties, and stipulates that the Group's employees should be provided with additional benefits and guarantees apart from those stipulated by applicable legislation and other regulations. Besides, the Collective Agreement covers issues of protecting the health of employees and ensuring their safety.

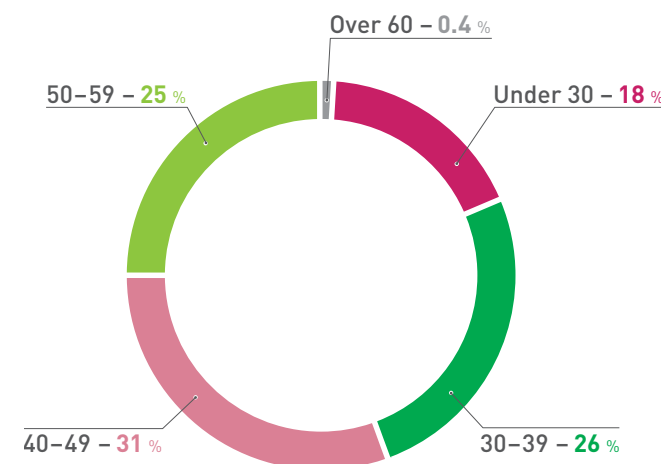
In February 2013 JSOC Bashneft and the Group's employees concluded a new Collective Agreement for 2013-2015. The new agreement was necessary because after five of Bashneft's subsidiaries were merged with JSOC Bashneft and given the status of the Group's branches, their collective agreements became invalid.

The provisions of the Collective Agreement apply to all employees of JSOC Bashneft and its five branches. Besides, all subsidiaries and affiliates have concluded their own collective agreements with the staff.

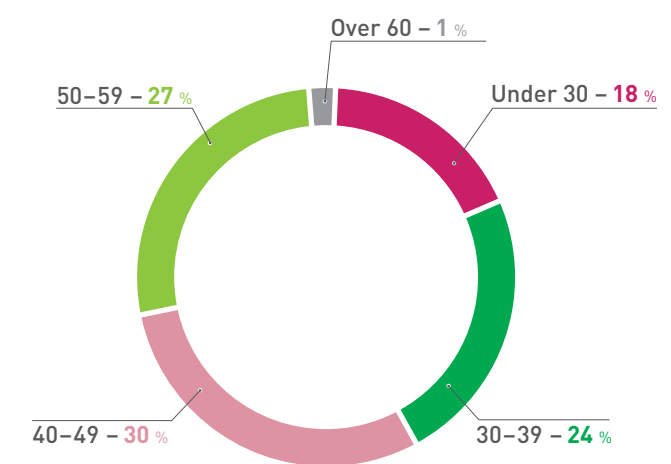
The Collective Agreement is based on comparable documents of the largest Russian oil and gas companies and labour market surveys conducted by leading consulting firms.

The new single agreement confirms all obligations of the parties stipulated by the Collective Agreement of JSOC Bashneft for 2011-2013 as well as the main provisions of collective agreements of its consolidated subsidiaries concerning labour relations, employment protection, working hours and leisure time, work discipline, health, safety and environment, social benefits and guarantees. The new Collective Agreement also provides for additional social benefits aimed at improving the quality of life of employees and their families.

### Employee age distribution in Bashneft Group, December 31, 2011



### Employee age distribution in Bashneft Group, December 31, 2012



### Incentives and remuneration

Under the system of remuneration adopted by the Group, an employee's remuneration consists of a fixed part (including salary, additional payments for health risks and a regional coefficient) and a variable (bonus) part. The latter is calculated on the basis of monthly/quarterly/annual results, depending on whether KPIs have been achieved, and serves as a measure of performance and an incentive to the employee.

The proportion between the fixed part of the salary and the bonus depends on the employee's position. For employees, the fixed part/bonus proportion is 85/15, for top managers this proportion is 50/50.

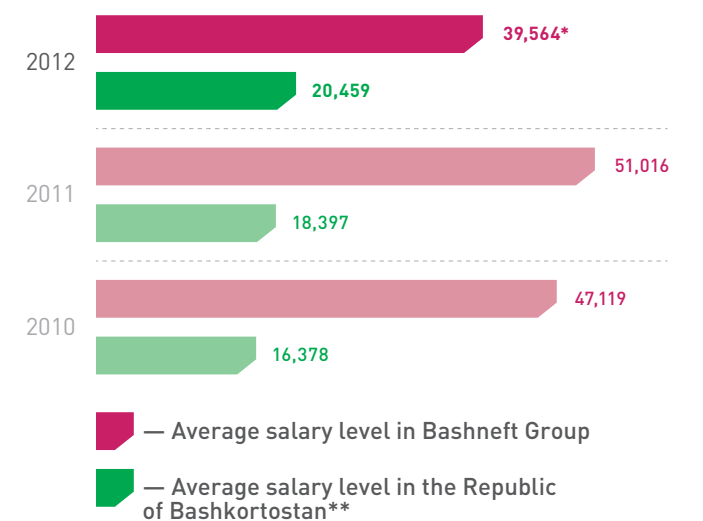
The efficient system of incentives allows Bashneft to attract and retain qualified personnel. For instance, the average salary level in the Group is considerably higher than the average salary level in the Republic of Bashkortostan (39.6 thousand roubles as compared to 20.5 thousand roubles respectively).

The remuneration of Bashneft's employees is based on a system of grades that reflects differences between employees based on their contribution to the business, their level of responsibility, and other factors, and makes it possible to estimate accurately the contribution of each employee to the achievement of the Group's goals.

For the purpose of an additional incentive, in 2012 the best employees were given an additional bonus in exceptional cases. The bonus is paid for accident prevention, emergency response activities at the Group's production facilities and participation in the most important new projects of the Group and does not exceed the employee's salary.

In addition, in 2012 the Group started providing non-financial incentives such as personnel training and development, increasing the competence of employees and their proficiency.

### Average salary level, roubles



Source: the Federal State Statistics Service, the Group's data

\* The decrease in the average salary level in the Group is related to the expansion of Bashneft Group. Within the scope comparable to 2011, in 2012 the average salary amounted to 56,837 roubles.

\*\* Based on the data of the Russian Federal State Statistics Service and the official website of the Republic of Bashkortostan

Social benefits and guarantees

Apart from benefits stipulated by the labour legislation, JSOC Bashneft provides its employees with a package of social benefits, which includes private medical insurance (voluntary health insurance), resort therapy and other social benefits, guarantees and compensation in accordance with the Collective Agreement.

Expenditures on social benefits and guarantees

Expenditures	Total expenditure in 2012, million roubles
Resort treatment and holidays*	167
Expenditures on voluntary health insurance*	158

\* Aggregate data are provided for JSOC Bashneft, its branches and 31 subsidiaries and affiliates. The data for such scope of consolidation are reported for the first time.

The Group’s management considers the health of employees as one of the priorities of its policy and an essential prerequisite for sustainable development, and allocates considerable funds from the Group’s budget for medical care, voluntary health insurance and resort treatment for employees. In addition to compensations and benefits stipulated by the legislation, the Group provides its employees with a package of benefits according to their position.

In February 2013, companies forming part of Bashneft Group concluded accident insurance contracts for their employees with SOGAZ Insurance Group, one of the largest universal insurers in Russia. The contracts are valid from February 1, 2013 to January 31, 2014.

'Bashneft strives to follow the best practices in corporate social responsibility in all areas of its business. Providing employees with corporate accident insurance proves that the Group attaches considerable importance to occupational and industrial safety.'

Denis Stankevich,  
Bashneft’s Vice President  
for Economics and Finance

Besides, the Collective Agreement provides for various types of financial assistance for the Group’s pensioners. The Group finances resort treatment and, if necessary, medical treatment of the Group’s retired employees.

Resort therapy and holidays

Under the Collective Agreement, employees of JSOC Bashneft and its subsidiaries pay only part of the actual cost of holidays at children’s holiday camps, health resorts and recreation centres. The Group subsidizes resort therapy and holidays of its employees from the corporate social programmes’ budget, paying 50% to 85% of the actual cost of resort therapy and the holidays of employees and 90% of the actual cost of holidays at summer camps for its employees’ children. Retired employees of the Group are also entitled to a discount on holidays at health resorts. The recreation facilities available to employees and their families include five children’s holiday camps, seven health resorts and three recreation centres.

Overall, in 2012 Bashneft allocated 167 million roubles for resort therapy and holidays of employees of the Group and its subsidiaries and affiliates.

Corporate social programmes

Bashneft’s corporate social programmes are aimed at the social development and protection of our personnel, including labour relations, HR development, professional training, promotion of a healthy lifestyle and sports and the development of a corporate culture.

Expenditures on corporate social programmes

Expenditures	Total expenditure in 2012, million roubles
Personnel training and development*	188
Corporate events aimed at developing a corporate culture and internal communications and incentivizing employees, including sports activities*	200

\* Aggregate data are provided for JSOC Bashneft, its branches and 31 subsidiaries and affiliates. The data for such scope of consolidation are reported for the first time.

At the level of the holding company, social programmes are managed and coordinated by the Corporate Communications Department and the HR Department.

Personnel training and development

In 2012 the Group continued to implement the Functional Strategy for HR Management, which is aimed at continuous recruitment of young employees and additional personnel training in various forms:

- ✓ short-term training (training seminars / courses/ workshops, up to 72 academic hours);
- ✓ medium-term training (professional development programmes, from 72 to 500 academic hours);
- ✓ long-term training;
- ✓ distance (online) education.

Training is conducted in the following categories:

- ✓ professional training;
- ✓ training aimed at skill development, including management skills;
- ✓ participation in open fairs and conferences;
- ✓ business games and simulations;
- ✓ language courses;
- ✓ training aimed at providing safe working conditions, including training in accordance with the legislation on occupational and industrial safety.

Employees can also undergo development training under corporate programmes implemented in cooperation with the Corporate University of OJSC JSFC Sistema, leading training centres, such as the Russian-Canadian Training Centre for Oil and Gas Technologies, the Higher School of Management and Innovation of Lomonosov Moscow State University, the Graduate School of Management of Saint Petersburg State University, etc., as well as specialized institutes, including the Ufa State Petroleum Technological University and Gubkin Russian State University of Oil and Gas.

In 2012 the Group continued the successful implementation of training programmes for senior and middle managers implemented in cooperation with the Corporate University of OJSC JSFC Sistema since 2010. Active training including workshops and training seminars promotes professional and personal development.

The Group finances management training programmes for its top managers (Bashneft’s DNA of Leadership, School of General Directors, etc.), as well as vocational training for managers and specialists in oil and gas production and refining.

Special importance was given to corporate training. Under the ‘Basics of Oil and Gas Industry’ training programme employees of auxiliary units visited oil and gas production, refining and transportation facilities. At Project Management seminars the Group’s employees learned to apply international principles of project planning and organization by performing real-life tasks.

In 2010-2012 the programme of professional training and development of our staff included training activities aimed at developing professional and management skills. In 2012 the average training time amounted to 42.2 hours per year per employee. The main spheres of training activities include professional development of employees, promotion of corporate standards and principles, training in occupational and industrial safety, vocational training.

The Group has developed and adopted a procedure for annual comprehensive employee evaluation that assesses their level of professional competence, skill development and key performance indicators (KPIs). The results of this annual evaluation form the basis for planning and arranging personnel training, selecting members of the ‘talent pool’, preparing proposals for Bashneft’s management concerning salary reviews of certain employees and making other management decisions.

The system for performance evaluation and professional development applies to all managers of JSOC Bashneft, as well as managers, engineers and technicians at Bashneft’s strategic subsidiaries and affiliates.

Developing corporate culture and forming corporate traditions

Corporate culture determines relationships among employees and influences the working process and performance of the Group. Bashneft’s corporate culture is based on mutual respect of employees irrespective of their positions and is aimed at creating a favourable environment for achieving a common goal. Our efforts to develop a corporate culture are aimed at inspiring corporate loyalty among employees, establishing traditions, norms of cooperation, common ethical and moral values and creating a working environment attractive to employees and providing each employee with equal opportunities for professional development and career advancement.

An important role in this work is played by the internal communications system being introduced across the Group in order to increase our employees’ awareness of current and long-term tasks, achieved results and the management’s expectations.

Our corporate newspaper is Bashkirkaya Neft. It has been published twice a month since 2010. The newspaper informs employees about important events, professional achievements of their colleagues, the Group’s history and its traditions. This channel of communication provides the management with an opportunity to receive feedback from employees and enables employees to participate in competitions, forums and other social events in the Group.

The Group considers acknowledging the achievements of each employee and encouraging them as a powerful incentive for employees.

In 2012 the best employees were traditionally given JSOC Bashneft's corporate award. The Group regularly celebrates Victory Day, Oil Workers' Day, Knowledge Day, and holds New Year family celebrations and corporate KVN (Club of the Cheerful and Sharp-witted) games among the Group's enterprises.

Factors that form the Group's corporate culture also include corporate cultural events aimed at developing a team spirit within the Group, promoting a healthy lifestyle and sports, creating an environment for social dialogue and communication between the management and personnel.

Sporting events are an important part of forming a corporate culture and promoting a healthy lifestyle in the Group.

The Group's sporting events include an annual futsal championship and various other events popular among the employees, such as summer and winter sports festivals (Spartakiads), cross country skiing races, the 'Izhevskaya Lyzhnya' sports festival, the Kandrykul Games, volleyball, football and chess tournaments, snowmobile racing.

In 2012 the Group's allocated 54.1 million roubles for the organization of sporting events.

As sporting events take place in new cities, the number of participants is increasing. Thus, the Group promotes sports and a healthy lifestyle among its employees and their families, allocating substantial funds for these purposes. For example, employees of all oil and gas production departments and their families can visit leased swimming pools and sports centres; employees of the Ufa refineries can visit gyms.

In July 2012, the 10th Summer Spartakiad of OJSC JSFC Sistema was held in Moscow. The participants and spectators of the sports festival included employees of 70 companies forming part of JSFC Sistema Group from various regions of Russia, the CIS countries and India. The competition programme included 17 sports. Bashneft's team won the team prize for the third consecutive year.

Other corporate events which are becoming a tradition include:

- ✓ the annual New Year lottery among the Group's employees;
- ✓ events and competitions for employees' children;
- ✓ talent contests among employees: a photo contest, amateur performances;
- ✓ corporate training seminars for young specialists;
- ✓ the 'Best In the Field' professional competitions;
- ✓ sporting events, including JSOC Bashneft's Futsal Cup for its employees and participation of Bashneft's team in the Spartakiad organized by OJSC JSFC Sistema;
- ✓ meetings between the management and employees;
- ✓ the 'JSOC Bashneft Corporate Award' competition;
- ✓ corporate events forming part of New Year celebrations in Ufa and Moscow.

## THE 80TH ANNIVERSARY OF BASHKIR OIL INDUSTRY

In May 2012, large-scale celebrations commemorating the 80th anniversary of Bashkir oil industry took place in all of Bashneft's oil and gas production departments. On May 16, 1932, the first oil gushed from well No. 702 near Ishimbayevo; this day marked the beginning of commercial oilfield development in Bashkortostan.

During the celebrations, numerous industry awards were presented, including titles of honoured workers of the oil and gas industry, certificates of appreciation from the state, government agencies and the trade union. The management of JSOC Bashneft and representatives of government agencies congratulated and thanked Bashneft's veterans and the best workers of the Group's oil and gas production departments.

The climax of the anniversary celebrations was marked by a great gala concert in Salawat Yulayev Square in Ufa on May 26. Both the Group's employees and Ufa citizens took part in the event. Overall, about 5,000 spectators attended the event. Rustem Khamitov, the President of the Republic of Bashkortostan, attended the concert, congratulated the oil workers on the anniversary and presented honoured workers with government awards.

## HISTORICAL LANDMARKS

First attempts to find oil in Bashkiria were undertaken as early as in the period of the oil boom of the end of the 19th century but were not supported by the government.

In Soviet times large-scale geological exploration in the Urals and Volga Region was started by Ivan Gubkin. On his initiative, an expedition headed by engineer and geologist Alexey Blokhin was sent to Ishimbayevo in July 1929. The research conducted by the team proved that further exploration in the region was highly promising.

As a result, on May 16, 1932, well No. 702 drilled by a team headed by M. I. Korovin near Ishimbayevo started producing oil. The initial production rate of the well was about 11.5 tonnes per day. The discovery of the Ishimbayskoye field marked the beginning of commercial oil production in the Republic of Bashkortostan.

During the pre-war period, oil production in Ishimbayevo reached a level that was quite high by the standards of that time. In 1935, when about 500,000 tonnes of oil were produced, Bashneft was founded as an independent trust tasked with conducting upstream operations in Bashkortostan. In 1937 the famous Tuimazinskoye field was discovered in coal-bearing strata in the west of Bashkortostan.

Due to the rapid growth of oil production in Bashkortostan, organization of oil refining became a crucial issue. 1935 saw the start of the construction of Ufimsky refinery plant, the largest cracking plant of that time designed for refining sour crude oil produced at the Ishimbayskoye field. In the autumn of 1937, the first atmospheric and vacuum distillation unit was tested at Ufimsky refinery plant, and in June 1938, the unit produced its first 117 tonnes of straight-run gasoline from oil extracted at the Ishimbayskoye field.

In 1940 crude oil production in Bashkortostan accounted for 90% of crude oil produced in the Urals and Volga Regions.

During the Second World War, when the German Wehrmacht, in need of oil, occupied oilfields in the North Caucasus and began moving towards Baku, Bashkir oilfields became strategically important. After the beginning of the war Bashkiria as an oil republic became one of the most important regions ensuring supplies to the front. One third of the fuel supplied to the front was produced from Bashkir oil.

The evacuation of the Moscow Institute of Oil to Ufa in 1941 allowed not only to lay the foundation for R&D in the Republic, but also to apply the latest technologies, which assisted the rapid development of the oil industry in Bashkortostan.

The next stage in the history of Bashkir oil industry began in September 1944, when Devonian oil gushed from the 1,700 metre deep exploration well No. 100 at the Tuimazinskoye field; this offered new prospects of crude oil production in the Urals and Volga Regions. This discovery encouraged the country's government to carry out a complete restructuring of the People's Commissariat of Oil Industry of the USSR.

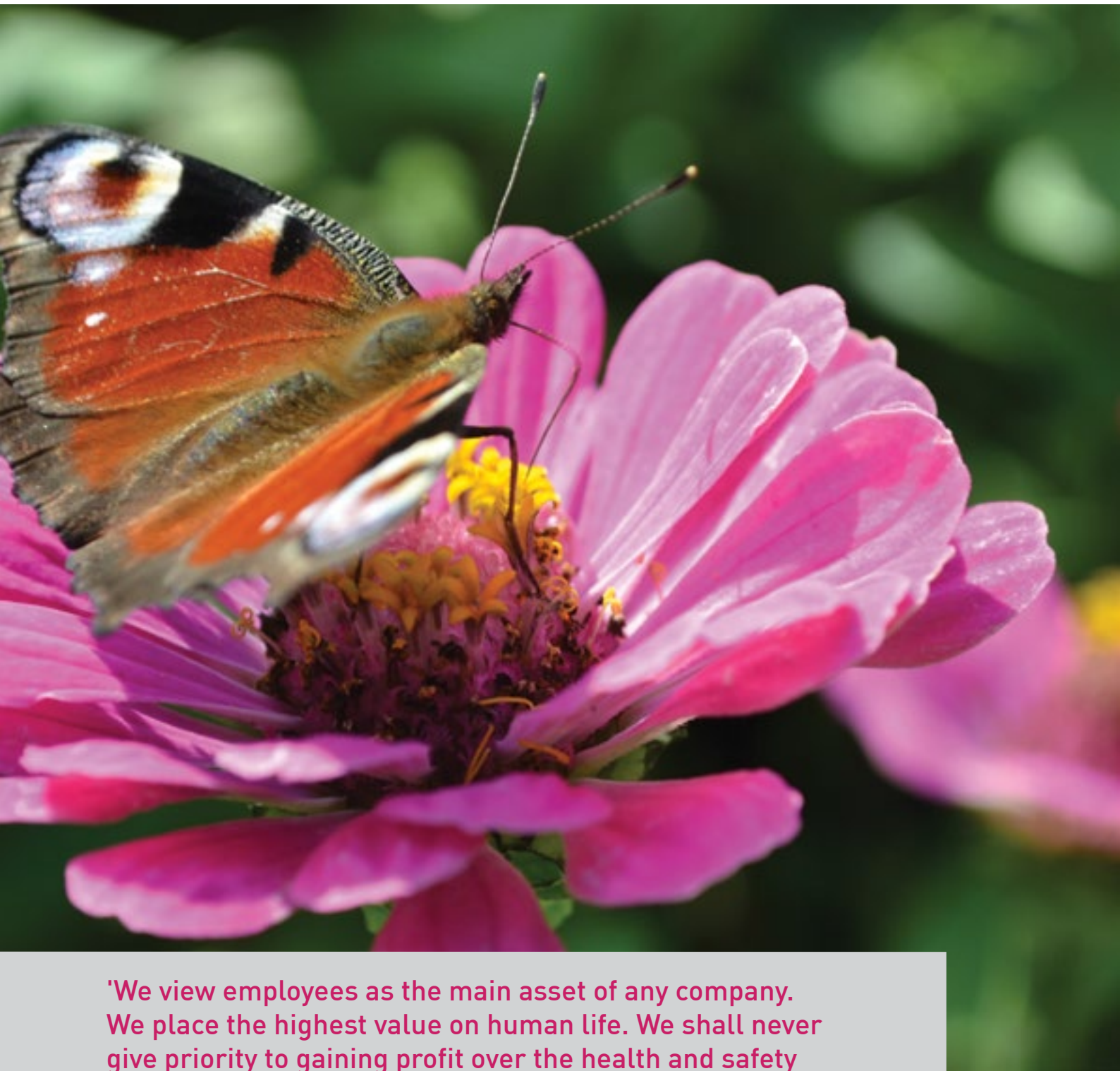
The war seriously damaged the economy of both Bashkortostan and the USSR as a whole. But the oil industry, the leading economic sector of the region, received a strong impetus. By the end of the war Bashkortostan ranked second in terms of crude oil production in the USSR. During the period from June 1941 till May 1945, deep exploration drilling totalled 247 thousand metres (36 thousand metres more than in the previous ten years).

In January 1945, all companies related to oil refining and refinery construction were united into the Bashneftekhimzavody union. Bashneft production association incorporated the Ishimbayneft, Tuimazyneft, Bashnefterazvedka and Bashneftestroy groups of companies; the Krasny Proletary and Ishimbay mechanical engineering plants; Bashnefteproekt and Bashtekhsnabneft.

The period from 1950 till 1955 saw the discovery of a large number of new oilfields and a record growth rate of crude oil production in Bashkortostan. The Konstantinovskoye (1950) and Leonidovskoye (1953) Devonian oilfields and the Shkapovskoye multi-zone field (1953) were discovered in the eastern extension of the Serafimovskaya formation. In 1953 exploration drilling started in the Birskeya saddle, where the Chekmagushevskoye terrigenous Devonian oilfield was discovered in the same year; 1954 saw the discovery of the Mancharovskoye field in sandstone rocks in the coal-bearing strata. In the autumn of 1955, oil gushed from well No. 3 targeting terrigenous deposits of the Mississippian period at the Arlanskoye field. The initial production rate of the well amounted to 150 tonnes per day. This marked the discovery of the Group's largest field, the Arlanskoye field.

In 1955 crude oil production in Bashkortostan exceeded 15 million tonnes of oil; thus, the Republic became the Soviet Union's leader in terms of oil production, outperforming Azerbaijan. In 1967 Bashneft achieved peak production of about 47 million tonnes per year, and in 1980 the billionth tonne of oil was produced in Bashkortostan.





**'We view employees as the main asset of any company. We place the highest value on human life. We shall never give priority to gaining profit over the health and safety of our employees.'**

*The Social Charter of Russian Business*

## Occupational and industrial safety

Maintaining an appropriate level of occupational and industrial safety is one of the key elements of the Group's sustainable development. The main goal in this field is to ensure the safe day-to-day operation of the Group's facilities and thus safeguard the employees' right for safe working conditions.

This objective is achieved by preventing accidents and emergencies by means of equipment upgrades, production of high quality products, creation of safe working conditions, professional development and greater personal responsibility of employees, and improvement of the Group's risk management system.

Maintaining a high level of occupational and process safety is one of Bashneft's key priorities; this is related not only to the requirements of government agencies, but also to the fact that the Group and its management are fully aware of their responsibility towards society, employees, all stakeholders and future generations.

The Group's strategic goal in these fields is to match the HSE performance of the world's leading oil companies.

### Health, safety and environment management structure

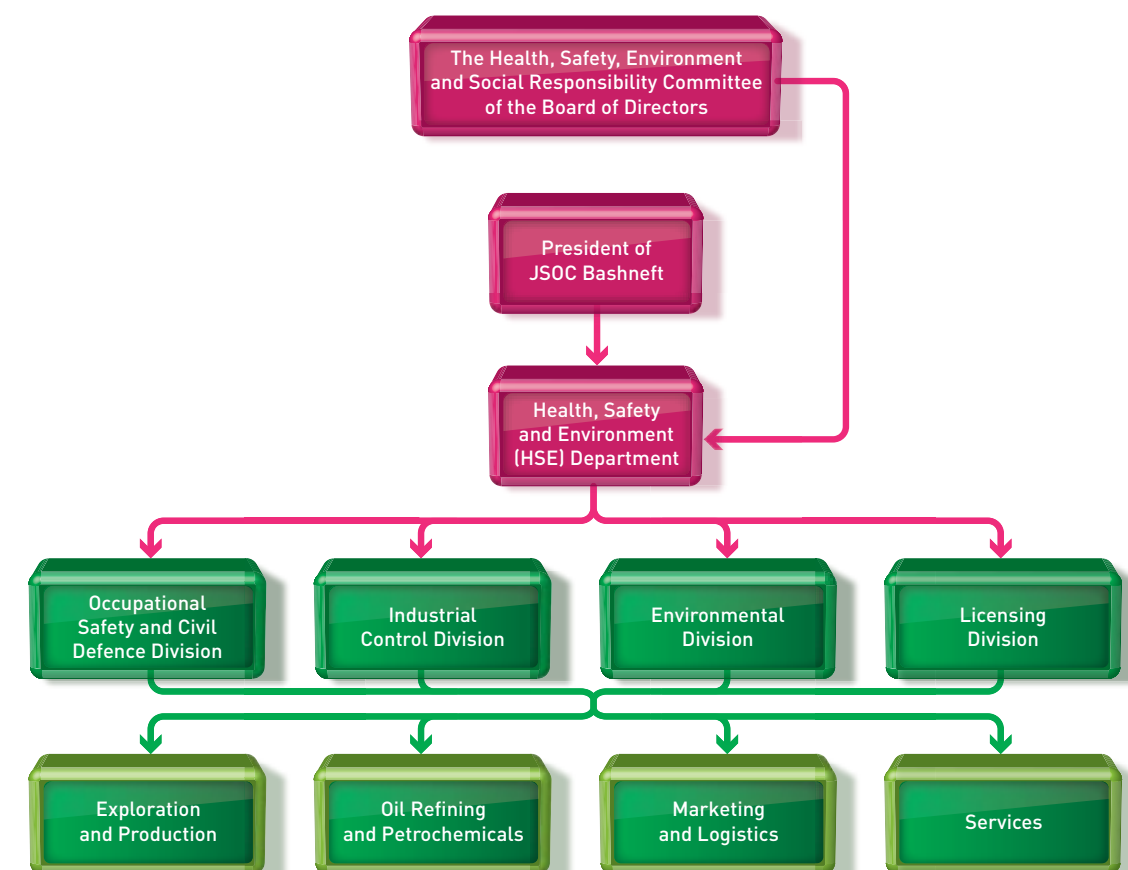
In October 2012, the Board of Directors of JSOC Bashneft made a decision to establish a Health, Safety, Environment and Social Responsibility Committee. The Committee consists of eight members, including four independent directors.

The Committee is tasked with developing recommendations for the Group's Board of Directors on the following issues:

- ✓ the Group's environmental policy and measures;
- ✓ efficient use of natural resources and electricity;
- ✓ prevention of industrial accidents;
- ✓ industrial safety;
- ✓ occupational safety;
- ✓ social responsibility.

The Committee carries out a preliminary examination of issues considered at meetings of the Group's Board of Directors concerning health, safety and environment. The Committee's decisions serve as recommendations for the Group's Board of Directors.

### Health, safety and environment management structure



### Basic documents

The Group's HSE activities are governed by the following basic documents:

#### 1. Functional HSE Strategy of JSOC Bashneft.

The Functional Strategy approved by Bashneft is aimed at maintaining its leadership among oil and gas companies in this field, complying with the key requirements of the government's HSE policy, minimizing the number of accidents and emergencies and the negative environmental impact of the industry.

#### 2. Environmental Policy of JSOC Bashneft.

The policy adopted in April 2012 is the basis for establishing an efficient and robust environmental management system complying with international best practices and standards. In 2011 the corporate Policy on Safety Culture and Occupational Safety was also adopted to create a safe working environment and improve industry standards and production practices.

#### 3. Policy of JSOC Bashneft on Occupational and Industrial Safety.

The policy adopted in September 2012 is a basic document governing the activities of the Group and its subsidiaries and affiliates aimed at minimizing industrial injuries, providing employees involved in the production process with additional protection, reducing the risk of accidents and emergencies at production facilities.

#### 4. Regulations on the HSE Management System.

The Regulations specify the main fields of work on occupational and process safety, including organizational structure, planning of measures, responsibility, resources for achieving the objectives and procedures for evaluating and improving the management system. All of the Group's branches, subsidiaries and affiliates have adopted and are implementing similar internal procedures. Given the importance of certain production facilities and fields with a high degree of risk, in 2011 special work instructions were developed for employees of this category.

### HSE Strategy

The main strategic areas in the field of health, safety and environment are as follows:

- ✓ reducing the number of industrial injuries and the death rate;
- ✓ improving the performance of the HSE management system;
- ✓ ensuring industrial safety at hazardous production facilities;
- ✓ creating an environmentally friendly company;
- ✓ providing employees with protection in case of emergency.

### Tasks in the field of health, safety and environment

Strategic area	Task
Reducing the number of industrial injuries	<ul style="list-style-type: none"> <li>✓ raising awareness; initiatives;</li> <li>✓ training, incentives;</li> <li>✓ transport safety;</li> <li>✓ measures for health protection;</li> <li>✓ providing employees with high-quality personal protective equipment.</li> </ul>
Providing employees with protection in case of emergency	<ul style="list-style-type: none"> <li>✓ maintaining constant readiness of civil defence shelters;</li> <li>✓ improving the sustainability of potentially hazardous facilities;</li> <li>✓ taking measures for maintaining employees' readiness to act properly in emergency situations.</li> </ul>
Ensuring industrial safety at hazardous production facilities	<ul style="list-style-type: none"> <li>✓ ensuring the reliability of flowlines of the Upstream unit;</li> <li>✓ ensuring industrial safety at hazardous production facilities of the Refining and Petrochemicals unit;</li> <li>✓ ensuring industrial safety at hazardous production facilities of the Marketing and Logistics unit.</li> </ul>
Minimizing the negative environmental impact	<ul style="list-style-type: none"> <li>✓ increasing the associated gas utilization rate to 95% and higher;</li> <li>✓ constructing own oil sludge treatment facilities;</li> <li>✓ conducting a feasibility study for upgrading the integrated biological treatment facilities at Bashneft-Ufaneftekhim Branch.</li> </ul>

### Key performance indicators

To evaluate its HSE performance, the Group applies a system of key performance indicators (KPIs).

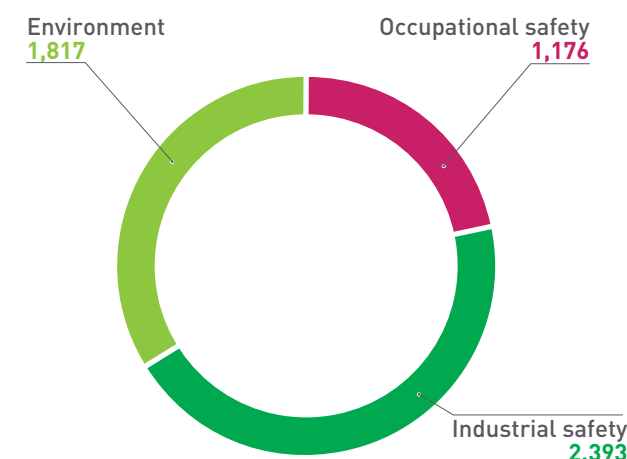
#### Key performance indicators

KPI	2012 (actual)
Industrial injury rate	0.001015
Pipeline failure rate, unit/km	0.041
Associated gas utilization rate, %	75.2

### Budget of HSE programmes

The total budget for implementing measures under the HSE Strategy for the period from 2013 to 2016 amounts to 41.6 billion roubles. In 2012 expenditures on implementing measures under the Strategy totalled 5.3 billion roubles.

### Allocation of the HSE Strategy budget for 2013, million roubles



### Actual expenditures on implementation of HSE programmes, million roubles

2012	648.5	2,255	2,405.1	5,308.6
2011	448.8	2,270.3	2,147.5	4,866.6
2010	347.9	3,280.1	1,936.3	5,564.3

- occupational safety\*
- industrial safety
- environment

\* Including expenditures on mandatory training in subsidiaries and affiliates and current expenditures on occupational safety measures.

Measures for achieving the objectives of sustainable development include:

- ✓ HSE training;
- ✓ a programme to incentivize HSE performance;
- ✓ development and implementation of a plan to raise awareness in the sphere of occupational safety;
- ✓ occupational safety initiatives (development and implementation of standards in Risk Assessment, Operational Control, Office Safety, etc.);
- ✓ measures based on lessons learnt from accidents;
- ✓ ensuring transport safety;
- ✓ measures for health protection;
- ✓ providing employees with personal protective equipment.

The Group also continues to include its subsidiaries, affiliates and service organizations in the scope of HSE monitoring, to take measures aimed at forming a corporate safety culture, improving our occupational safety culture and ensuring that permits required for facility operation are received in due time.

### Implementation and certification of the Integrated HSE Management System

In 2012 Bashneft continued to implement measures aimed at improving the performance of the HSE management system.

The Group is upgrading the HSE management system to ensure that it complies with all the requirements of the international ISO 14001:2004 and OHSAS 18001:2007 standards. Certification of the Integrated HSE management system by an authoritative international certification agency is scheduled for the autumn of 2013.

To prepare for certification the Group took the following measures:

- ✓ international consultants conducted a diagnostic audit and analysis of the existing HSE management system;
- ✓ plans of measures and documenting processes within the HSE management system were developed and approved;
- ✓ 224 employees of the holding company, the Upstream, Refining and Marketing units underwent training in Internal Audit of ISO 14001 and OHSAS 18001 Integrated Management Systems.

At the moment the Group continues to develop corporate documents related to the HSE management system and has put out certification services to tender in order to select among big authoritative international certification agencies.

ISO 14001 and OHSAS 18001 certificates issued by a competent certification agency demonstrate to all stakeholders that the Group constantly monitors, examines and improves the levels and fac-



tors of environmental, operational and occupational risks, ensures the safety of employees and environmental protection in the course of its operations without incurring excessive expenditure. These certificates also confirm that the Group evaluates hazards and analyses risks, taking into account all factors that can possibly cause emergency situations before operations and in case of any changes. This enables the timely development and implementation of preventive measures aimed at safe operations.

The Group's integrated HSE management system enables it to accomplish the task of reducing the number of industrial injuries, protecting the health of each employee and reducing losses related to fines for negative environmental impact.

### ABOUT THE OHSAS 18001 STANDARD

OHSAS 18001 is compatible with ISO 9000 and ISO 14000 and is universal for all industries and the service sector. In Russia this standard corresponds to GOST 12.0.230-2007 'OSSS. Occupational Safety Management Systems. General Requirements'.

### ABOUT THE ISO 14001 STANDARD

The key concept of the ISO 14000 series is the concept of an environmental management system in an organization; therefore, the central document of the standard is ISO 14001 'Environmental Management Systems – Requirements with guidance for use'.

Unlike other documents, all its requirements are subject to audit: it is expected that a company will annually confirm that its environmental management system functions as efficiently as it did at the time of the certification. It is the compliance with ISO 14001 that is subject to formal certification. If the Group is awarded the relevant certificate, this demonstrates that it closely monitors compliance with all the requirements of this standard. In Russia its counterpart is GOST R ISO 14001-2007 'Environmental Management Systems – Requirements with guidance for use'. According to the International Organization for Standardization, about 200,000 organizations in 155 countries of the world confirmed their compliance with this standard.

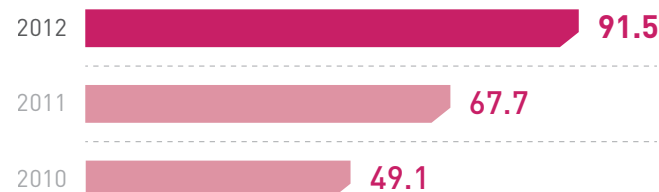
### Personnel training and certification

In accordance with legislation, the Group's employees undergo mandatory training and certification in occupational, industrial and fire safety. The training is provided by large educational centres which have experience and knowledge of the fuel and energy sector.

Every year the Group's employees take part in a republic-wide competition, 'The Best Process Safety Specialist', held by the non-governmental educational institution 'Intersectoral institute' in cooperation with the Ural Department of the Federal Service for Ecological, Technological and Nuclear Supervision (Rostekhnadzor). Training and certification in occupational, industrial and fire safety is mandatory; it is conducted in the Group thoroughly, in accordance with applicable legislation and the established schedule. In 2012 expenditures on mandatory training at the Group's subsidiaries and affiliates totalled 91.5 million roubles as compared to 67.7 million roubles in 2011.

In 2012, 100% of the Group's employees underwent training and certification in various disciplines related to occupational and process safety. The training included four courses: process safety, occupational safety, first aid, fire safety.

### Expenditures on mandatory training, million roubles

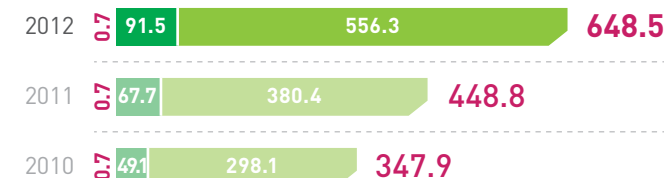


### Occupational safety

The Group's policy on protecting its employees' lives and health is aimed at accomplishing the following tasks:

- ✓ ensuring the right for safe and healthy working conditions in workplaces;
- ✓ developing and implementing measures for eliminating the causes of industrial injuries based on monitoring and analysis;
- ✓ developing and implementing methods and systems for assessing our employees' competence in occupational safety issues;
- ✓ organization of training aimed at increasing competence in occupational safety.

### Expenditures on occupational safety, million roubles



- systematic analysis of causes of industrial injuries, development and implementation of measures for eliminating them
- expenditures on mandatory training in subsidiaries and affiliates
- current expenditures on occupational safety measures

Employee councils and trade unions take an active part in tackling occupational safety issues. The management's obligations to ensure occupational safety and provide employees with personal protective equipment are specified in collective agreements; authorized representatives in charge of occupational safety are elected in departments.

Besides, the subsidiaries have in place a multi-level system of control over working conditions and occupational safety performance at each facility. Joint occupational safety committees represent the employer and employees on a parity basis through authorized representatives in charge of occupational safety. The joint Occupational Safety Committee carries out inspections according to the approved schedule.

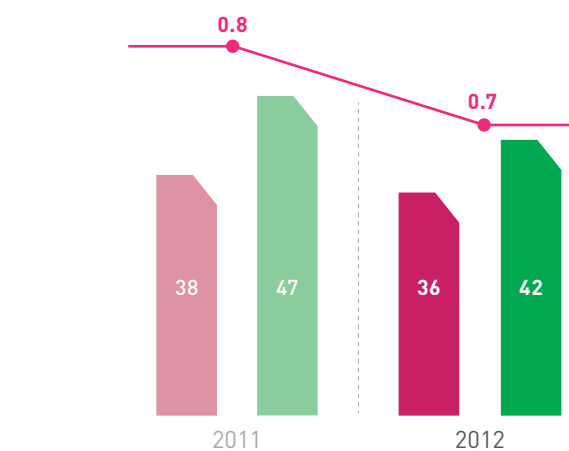
As of the end of 2012, workplaces met safety and sanitary requirements. All of the Group's employees were provided with modern personal protective equipment taking into account the working conditions in each workplace. In 2012, to evaluate the actual levels of hazardous and harmful industrial factors and determine the degree of their negative impact on an employee, all workplaces were assessed in terms of working conditions; the results of this assessment form the basis for the occupational risk management system. Based on the results of the assessment, the Group developed action plans aimed at improving working conditions. The relevant measures are aimed at ensuring the compliance of working conditions in workplaces in each company with state regulations on occupational safety.

In 2012 expenditures on occupational safety and protecting the health of the personnel amounted to about 20,000 roubles per employee of the Group's branch, subsidiary or affiliate compared to 9,500 roubles in 2011.

### Reducing the number of industrial injuries

In 2012 36 industrial accidents occurred at the Group's subsidiaries and affiliates, 42 people were injured (38 accidents and 47 people injured in 2011). Thus, during the reporting year the number of industrial injuries decreased as compared to the previous year, and the accident rate amounted to 0.7 in 2012 compared to 0.8 in the previous year.

### Industrial accidents



- number of accidents
- number of injured people
- accident rate

In 2012 the Group implemented strategic measures for reducing the number of industrial injuries:

- ✓ the Plan for Reducing the Number of Industrial Injuries was developed and implemented in subsidiaries and affiliates;
- ✓ measures for increasing control over hazardous operations were implemented;
- ✓ measures for control over contracting organizations were implemented;
- ✓ the part of the system of incentives related to compliance with HSE requirements was revised. A special coefficient determining the size of an employee's bonus was introduced for all employees of JSOC Bashneft, its subsidiaries and affiliates.

In 2013 the Group's planned budget for key measures aimed at reducing the number of industrial injuries amounts to 1,180 million roubles. The measures will be implemented in three areas: programmes aimed at incentivizing HSE performance and developing personal qualities enabling to ensure safety; measures for raising awareness in the sphere of HSE by means of information resources and corporate means of communication; and training in this field.

### Healthcare

To reduce the impact of harmful industrial factors on employees and prevent occupational diseases, the Group pays special attention to preventive and treatment measures. These include regular medical examinations and, if necessary, hospital treatment of employees and resort therapy financed by the Group.

Thanks to timely preventive measures taken by Bashneft's management and a sufficient amount of funds allocated for measures to prevent occupational diseases, there have been no instances of occupational diseases among employees over the last few years.

**T**o prevent fatal accidents caused by cardiovascular diseases (CVD), the Group has developed and is implementing the Corporate CVD Prevention Programme. The Programme will make it possible to considerably reduce the risk of CVD and other diseases leading to temporary disability, to reduce the occupational death rate and the percentage of employees who retire on disability and to improve the health culture of the Group.

### Reducing the number of workplaces characterized by harmful working conditions

In 2012 the Group saw a 6% decrease in the total number of workplaces characterized by harmful working conditions. In the upstream segment, only about 5% of workplaces are characterized by harmful working conditions. In the refining and petrochemical segment this figure is decreasing: in 2012 the number of workplaces characterized by harmful working conditions decreased by 2.5 percentage points.

### OCCUPATIONAL SAFETY AWARDS

**In 2012 the personnel of LLC Arlanskoye Administration of Maintenance of Site Access Roads won the republic-wide competition 'Best Occupational Safety Performance and Working Conditions.'**

To reduce the risk of accidents and emergencies and to improve working conditions, the Group successfully uses a risk management system, which involves compiling risk registers and classifying workplaces depending on the degree of exposure to harmful and/or hazardous industrial factors. To evaluate the impact of hazardous and harmful industrial factors at specific production facilities, workplaces in all subsidiaries and affiliates were assessed. Based on the results of the assessment, the Group is developing and implementing action plans aimed at creating and improving a healthy working environment. Causes of industrial injuries are analysed systematically and measures are taken to eliminate them or reduce these risks.

In 2012 22,302 thousand roubles were allocated for technical measures aimed at creating and improving a healthy working environment.

### Participation in international professional associations

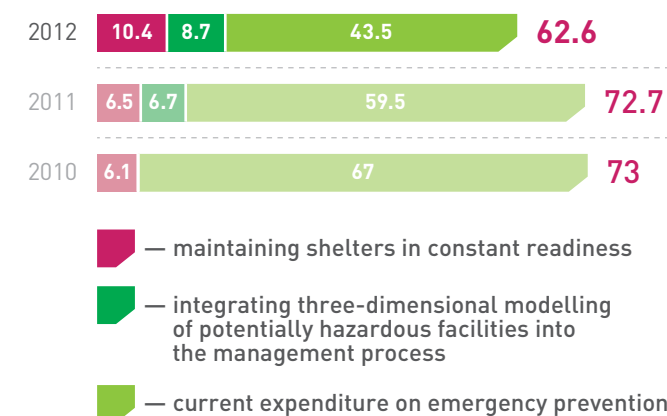
JSOC Bashneft intends to join the International Association of Oil and Gas Producers (OGP) and IPIECA, the global oil and gas industry association for environmental and social issues, to strengthen its reputation and use global best practices of the leading oil and gas companies in the sphere of HSE.

### Protecting employees in case of emergency (Civil Defence and Emergency measures)

Bashneft is aware of its responsibility for protecting its employees in case of emergency and implements a comprehensive programme including the following activities:

- ✓ maintaining shelters in constant readiness;
- ✓ integrating three-dimensional modelling of potentially hazardous facilities into the management process.

### Expenditure on Civil Defence and Emergency measures, million roubles

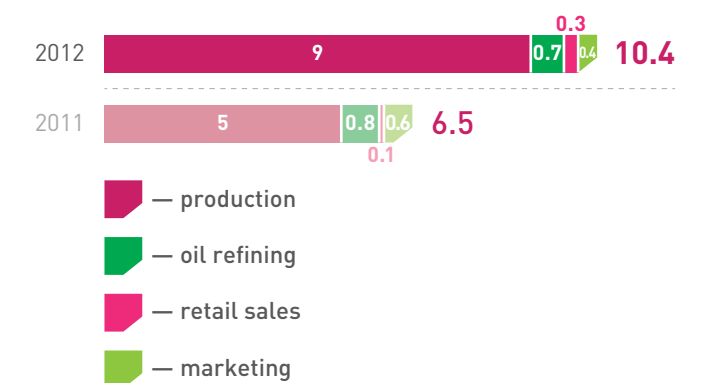


### Maintaining shelters in constant readiness

100% of our civil defence shelters are in constant readiness. The Central Administration of EMERCOM of Russia in the Republic of Bashkortostan constantly monitors the state of the fire safety systems and the readiness of the Group's employees to respond to emergency situations. Checks are run and the personnel and equipment of the Group are involved in republic-wide command and staff training. The teams of the Group's subsidiaries and affiliates regularly participate and take prize-winning places in specialized contests in the Republic of Bashkortostan.

In 2012 expenditure on the maintenance of shelters in constant readiness amounted to 10.4 million roubles, compared to 6.5 million roubles a year earlier.

### Expenditure on the maintenance of the Civil Defence shelters by segment, million roubles



### Improving the sustainability of potentially hazardous facilities

In order to make real-time management decisions on the safe operation of facilities and accident containment, all subsidiaries and affiliates are developing 3D models of potentially hazardous facilities.

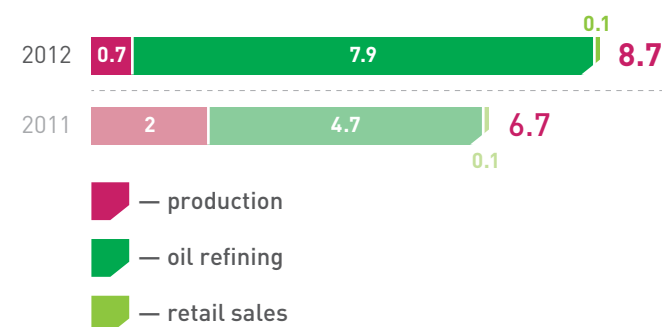
### Maintaining the readiness of the Group's employees to respond to emergency situations

The Group and its subsidiaries and affiliates have in place an emergency prevention and response system. In 2012, in order to maintain the system in constant readiness, 216 exercises in oil spill prevention and response, fire fighting operations and accident containment were conducted. 6,065 employees took part in the training, which is 19% more than in 2011.

To conduct rescue operations and other emergency response activities, the Group's subsidiaries and affiliates have formed 21 emergency response teams comprising 422 persons, 82 of whom are in constant readiness. There are also volunteer emergency response teams totalling 4,199 people, who are provided with special equipment and vehicles.

In 2012 expenditure on Civil Defence and Emergency measures totalled 62.6 million roubles, including 10.4 million roubles allocated for maintaining shelters in constant readiness, and 8.7 million roubles spent on integrating three-dimensional modelling of potentially hazardous facilities into the management process. Current expenditure on emergency prevention amounted to 43.5 million roubles.

### Expenditure on the development of 3D models of potentially hazardous facilities, million roubles



### PROVIDING EMPLOYEES WITH ACCIDENT INSURANCE

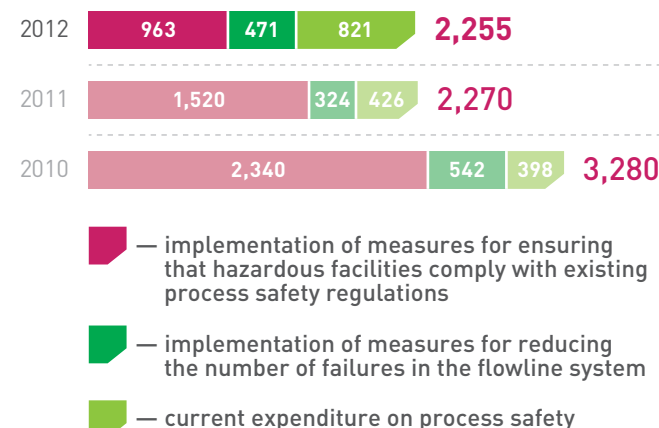
**B**ashneft Group concludes accident insurance contracts for its employees with SOGAZ Insurance Group, one of the biggest universal insurers in Russia. The contracts will be valid from February 1, 2013 to January 31, 2014.

#### Process safety

In order to ensure process safety at hazardous facilities, the Group conducts the following activities:

- ✓ ensuring that hazardous facilities comply with existing process safety regulations;
- ✓ reducing the number of failures in the flowline system.

### Expenditure on process safety, million roubles



### Ensuring the reliability of the flowline system

Preventing environmental damage that might result from pipeline ruptures, caused mainly by corrosion, which is the cause of 85% of failures in the flowline system, is an important part of the Group's efforts to ensure process safety. The Group's production capacities include long pipeline systems for collecting, preparing and transporting oil. The Group's production facilities are also fitted with sophisticated technical equipment, which functions in a harsh environment and is regulated by automated control systems. All these factors make it impossible to completely eliminate industrial accidents; however, the Group makes every effort to minimize the possible risks by meeting the requirements for process safety when implementing complex processes.

Bashneft's subsidiaries and affiliates have adopted target programmes for ensuring compliance of their facilities with process and fire safety regulations; the programmes have been approved by regulatory bodies and include a set of relevant measures that involve renovating and upgrading production facilities, outfitting them with control and emergency shutdown devices.

The efficient process safety management system functioning in the Group and its subsidiaries and affiliates includes industrial control, which is a package of administrative and engineering measures aimed at ensuring process safety at the Group's facilities. The Group's multilevel system of industrial control at hazardous production facilities enables risk management, accident prevention and compliance with all regulatory requirements for process safety.

In 2012 expenditure on the implementation of measures for replacing flowlines amounted to 471 million roubles compared to 324 million roubles in the previous year.

To date, the Group has developed and started implementing a target programme aimed at improving the reliability of pipelines in 2013-2017. The programme implementation is aimed at minimizing the negative environmental impact of oil production, and minimizing product losses by reducing the number of equipment failures and the accident rate in the pipeline transportation system.

This programme involves upgrading more than 1,258 kilometres of pipelines (including the replacement of pipes) and carrying out major repairs to almost 250 kilometres of pipelines within five years. The programme also includes installing cathodic protection systems, scraper traps, corrosion monitoring facilities, chemical feeders, as well as measures for ensuring the use of modern chemicals, corrosion inhibiting protection, in-line inspection, inspection of underwater pipelines, etc.

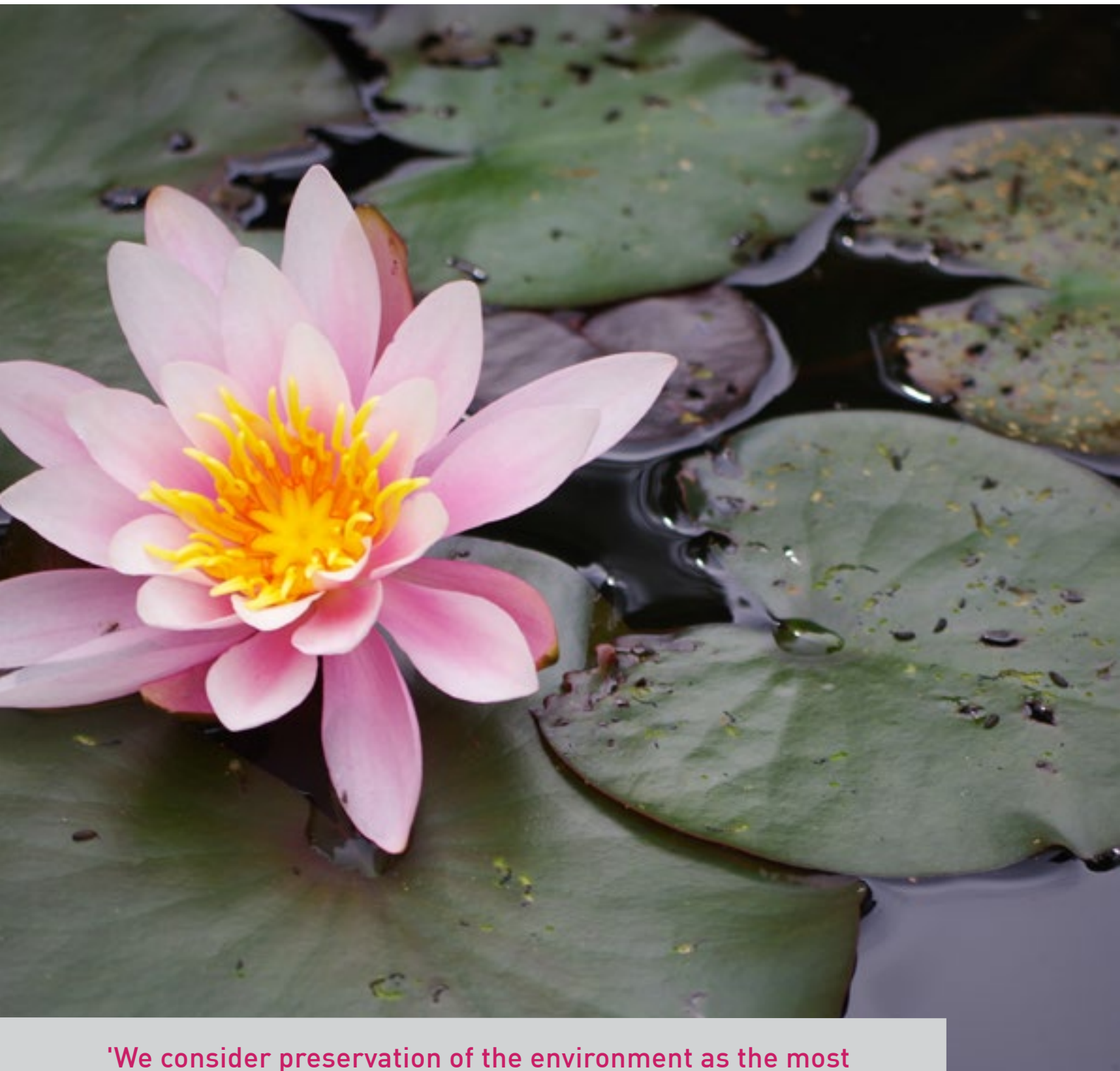
Overall, in 2013-2017, Bashneft plans to allocate 11.1 billion roubles for the implementation of the programme aimed at improving the reliability of the pipeline system. Its successful implementation will enable further reduction of the accident rate; currently, Bashneft has one of the lowest accident rates in the industry.

### Process safety at hazardous oil refining and petrochemical facilities

The Group implements a set of measures aimed at ensuring process safety at hazardous facilities forming part of the Downstream unit, including measures for the reconstruction of process units, a major overhaul of equipment and technological devices. In 2012-2016 more than 10 billion roubles are to be allocated for these measures, which will be implemented in stages, from planning to purchase of equipment and structural works.

To provide additional cover against insurance risks and increases in civil liability for damage from accidents, all potentially hazardous facilities used by the Group in the course of development, production, refining and marketing have been insured for the period from 2012 to 2013 for more than 10 billion roubles; the insurance premium totals about 36 million roubles.





**'We consider preservation of the environment as the most important universal human value.'**

*The Social Charter of Russian Business*

## Environment

Ensuring environmental safety is an important prerequisite for sustainable development of JSOC Bashneft. The main environmental objective is to minimize the negative environmental impact in all areas of the Group's operations, from exploration to marketing. This will help to achieve the global objective of maintaining a balance within natural ecosystems for the future generations.

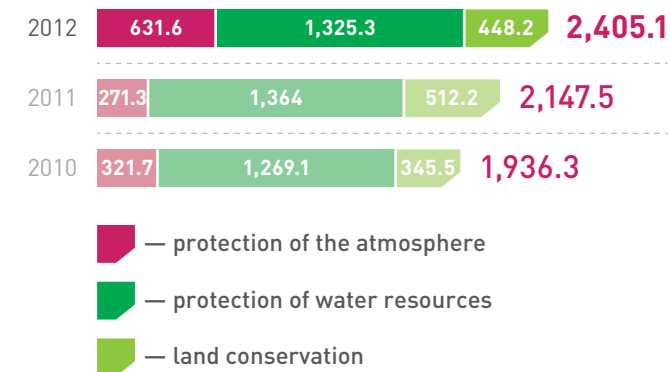
In our operations we follow the principles of environmental friendliness: we introduce high technologies and upgrade equipment, manufacture environmentally friendly products and reduce industrial waste and emissions. We take responsibility for ensuring process safety and protecting people and the environment.

The Group's environmental objectives include:

- ✓ increasing associated gas utilization to 95% and higher;
- ✓ constructing Bashneft's own oil sludge processing and treatment units;
- ✓ conducting feasibility studies for upgrading the integrated biological treatment facilities at Bashneft-Ufaneftekhim Branch.

In 2012-2015, Bashneft plans to allocate more than 11 billion roubles for measures aimed at improving the environment in the Group's operating regions, such as reducing harmful atmospheric emissions, wastewater processing at oil refineries, eliminating sludge pits, associated gas utilization, improving water supply in oil-producing regions in the Republic of Bashkortostan.

### Expenditure on environmental protection, million roubles



### Protection of the atmosphere

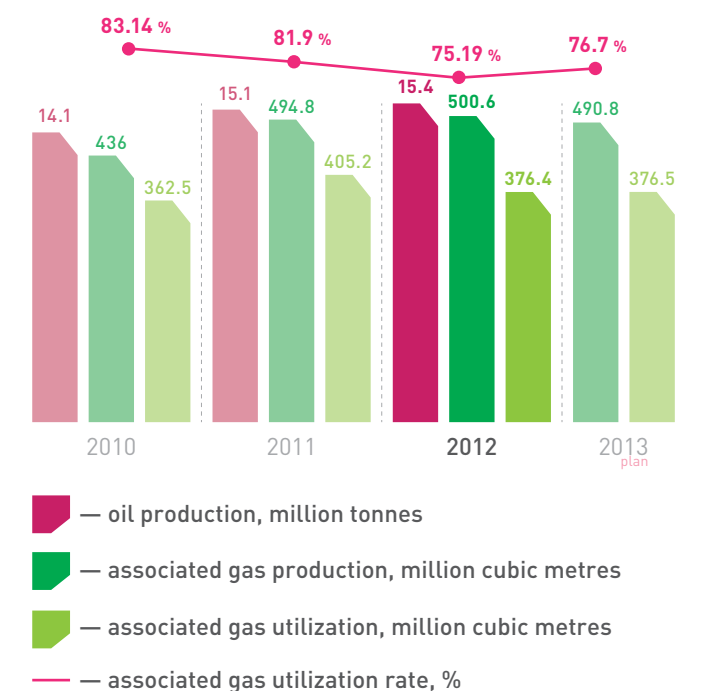
Protection of the atmosphere is one of the main environmental activities of the Group. To reduce the negative impact of its operations on the atmosphere and meet the legal requirements for protecting the atmosphere, the Group implements a number of major projects aimed at reducing harmful atmospheric emissions; these include:

- ✓ further increasing associated gas utilization;
- ✓ upgrading refineries so as to produce Euro 4 and Euro 5 gasoline;
- ✓ monitoring harmful emissions from the Group's refineries.

### Associated gas utilization

The associated gas utilization rate is defined as the ratio of associated gas flared to associated gas produced. In 2012 the rate decreased due to an increase in oil production and, consequently, in associated gas production.

### Associated gas utilization



Besides, until 2011 inclusive, associated gas was metered by calculations based on gas/oil ratios stipulated by project documentation on field development. In accordance with Decree No.7 of the Russian Government as of January 8, 2009, which came into force in 2012, the approach to associated gas metering changed. Since 2012 associated gas has been metered by means of gauging (using associated gas metering stations).

To achieve the target associated gas utilization rate (95%) in accordance with legal requirements and to avoid fines, the Group has developed the Target Gas Programme aimed at enhancing associated gas utilization in compliance with the requirements of the Russian Ministry of Energy.

When the Group launches facilities which form part of the Target Gas Programme (implemented in 2012) and facilities whose launch is scheduled for 2013, the expected associated gas utilization rate will amount to 76.7%.

In May 2013, this programme was submitted to the Russian Ministry of Energy. As part of the programme, facilities will be installed to utilize associated gas and (or) reduce atmospheric emissions from gas flaring.

#### Areas of associated gas utilization

In 2012 associated and natural gas produced by the Group was supplied to the following areas:

- ✓ industry;
- ✓ residents;
- ✓ electricity and heat generation;
- ✓ processing at the Tuimazinskoye and Shkapovskoye gas processing plants (GPPs).

Commissioning of gas condensate fields of the Saratovsko-Berkutovskoye group in the Republic of Bashkortostan is scheduled for 2016. The Group plans to supply the gas produced at the fields via the gas transmission system of OJSC Gazprom, including under direct contracts with consumers.

In 2013 the Group will implement most of the projects forming part of the Target Gas Programme to enhance associated gas utilization; the projects are aimed at increasing gas supply to the enterprises of LLC Bashkir Generation Company. Their implementation will enable a significant increase in the associated gas utilization rate.

Besides, the Target Gas Programme stipulates a wider use of the gas ejection device to reduce harmful atmospheric emissions. It may help to reduce fines for associated gas flaring and make it possible to increase the recovery factor (in case of gas injection). The Group plans to use the gas ejection device at 20 facilities in 2013-2014.

This technology has certain limitations:

- ✓ it cannot be used at the facilities where the amount of injectant is small;
- ✓ geological properties of the facilities.

#### ASSOCIATED GAS UTILIZATION AT THE TUIMAZINSKOYE AND SHKAPOVSKOYE GPPS

In the summer of 2012, Bashneft reactivated, tested and adjusted gas fractionation units at LLC Tuimazinskoye Gas Processing Plant and LLC Shkapovskoye Gas Processing Plant, which process two types of raw materials: natural gas liquids (NGL) and associated gas.

The rated capacity of LLC Shkapovskoye Gas Processing Plant amounts to 60 million cubic metres of associated gas and 168 thousand tonnes of natural gas liquids per year, while the rated capacity of LLC Tuimazinskoye Gas Processing Plant totals 29 million cubic metres of associated gas and 300 thousand tonnes of natural gas liquids per year.

Products manufactured by the GPPs (industrial blends of propane and butane, normal butane, isobutane, hexanes, isopentane and pentanes) are used as household fuel (for fuelling cars and boilers) and as raw materials for petrochemical production. These products are in demand at many Russian enterprises and are exported both to CIS countries and countries outside the CIS.

Moreover, commissioning of previously moth-balled plants has enabled us to increase employment in the region and create about 360 new jobs.

#### Refinery upgrades aimed at producing Euro 4 and Euro 5 fuel

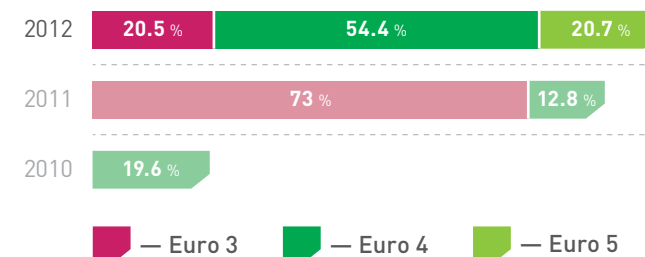
Car exhausts account for over 60% of harmful atmospheric emissions. A changeover from Euro 2 to Euro 4 is beneficial to the environment: it allows a reduction in emissions from gasoline and diesel fuel by a factor of 10.5 and 7.5 respectively.

Bashneft is switching over to producing Euro 4 and Euro 5 engine fuels in accordance with the schedule stipulated by the Technical Regulations. In 2012 investments in the modernization of Bashneft's refineries amounted to 12.5 billion roubles.

In 2012 expenditure on environmental upgrades of process units at Bashneft-Novoil and Bashneft-Ufaneftekhim Branches amounted to about 73 million roubles. This enabled us to reduce harmful atmospheric emissions by 1,200 tonnes per year.

In 2012 Euro 4 and Euro 5 gasoline accounted for 75.1% of our gasoline output (compared to 12.8% in the previous year).

#### Production of gasoline of various grades



The share of Euro 4 diesel fuel in the output of commercial diesel fuel decreased from 16.7% in 2011 to 10.5%, while the share of Euro 5 diesel fuel increased from 5.1% to 13.1%.

#### Production of diesel fuel of various grades

	2010	2011	2012
Euro 3	—	0.5%	0.0%
Euro 4	5.6%	16.7%	10.5%
Euro 5	0.0%	5.1%	13.1%

#### Monitoring harmful emissions from the Group's refineries

In March 2013, Bashneft and the Government of Bashkortostan signed an Agreement on protecting the atmosphere.

The Agreement defines the parties' obligations related to improving the air quality in Ufa. For instance, JSOC Bashneft has assumed the obligation to install automated air pollution sensors at the Group's refineries in Ufa by the end of the year and transmit the readings in real time to the Ministry of Natural Resources and Environment of Bashkortostan and the Ufa Administration. Bashneft will also assist in constructing two automatic air pollution monitoring stations at the border of the northern industrial hub of Ufa before the end of 2014.

**W**e do not want to evade responsibility; we want to demonstrate Bashneft's openness and transparency. If we have problems, they will be revealed. For this purpose, under the Agreement signed by the Group and the Government of Bashkortostan, last year we decided to fit refineries in Ufa with air quality monitors.'

*Alexander Korsik,  
President of JSOC Bashneft*

JSOC Bashneft's Plan on the modernization of production and introduction of advanced technologies for mitigating the adverse impact on the atmosphere forms an integral part of the Agreement. The Plan stipulates the implementation of several projects involving the development and re-fitting of the Group's refining capacities in the next five years.

Currently, all of the Group's refineries have implemented and commissioned flare gas recovery systems for subsequent compression and reuse of the gas at the flares; these systems enable us to reduce harmful atmospheric emissions.



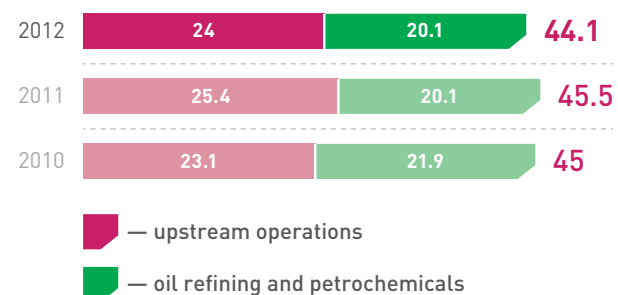
## Protection of water resources

Undoubtedly, the oil-producing industry affects groundwater quality. Production wells and associated equipment have the biggest impact on water quality. Modern drilling methods used by the Group prevent brine from contaminating the aquifers.

The Group attaches great importance to the protection of water resources (surface water and groundwater). The Group implements a policy aimed at the most efficient use of water resources, as water is used at practically all stages of oil production and refining.

### Use of water resources

#### Total water withdrawal, million cubic metres per year



### CURRENT SITUATION

#### Production

Drilling methods that are currently used by JSOC Bashneft ensure that no brine or wastewater that may contain toxic and dangerous chemicals, which are used in production for enhanced oil recovery and for other purposes, contaminates the aquifers.

Water recirculation systems are becoming more widely used at oilfields. Practically all wastewater is used in oil production, so less fresh water is pumped into formation pressure maintenance systems.

Industrial wastewater is utilized by pumping it into producing formations or thief zones. If necessary, water is treated with antiseptics before pumping it into formations; this is done in order to prevent its contamination with sulphate-reducing bacteria that produce hydrogen sulphide in oil and water.

If pipelines cross bodies of water, special inverted siphons are constructed at the areas of high importance using the directional drilling method. These constructions are located under rivers or lakebeds and almost completely eliminate the risk of contaminating water with oil or petroleum products.

### Refining

Currently, wastewater used at the Group's petrochemical enterprises is treated in two stages. The first stage includes mechanical treatment, which enables to reduce the concentration of petroleum products in industrial wastewater from 1,000 mg/l at the inlet to 10 mg/l at the outlet. The second stage includes transporting wastewater to the integrated biological treatment facilities of Bashneft-Ufaneftkhim Branch; subsequently, the concentration of pollutants totals 0.1 mg/l.

About 69.2% of treated water is sent back to the plants and reused.

### Other

The laboratories of Bashneft's subsidiaries and affiliates monitor the environment at the plants. In accordance with the approved single plan of the laboratory of the R&D centre and the schedules of inspections at monitoring wells. Bashneft's environmental monitoring service network consists of 1,269 monitoring wells, 60% of which are used for monitoring surface waters, and 40% for groundwater monitoring.

### PLANNED MEASURES

#### Upgrading the integrated biological treatment facilities

So as to improve the quality of the treatment of water that is discharged into the Belaya River, integrated biological treatment facilities of the Ufa Refinery Group will be upgraded from 2011 to 2015. In 2012 a feasibility study for upgrading the biological treatment facilities was conducted to ensure that the quality of wastewater treatment complies with regulatory requirements.

#### Processing oil sludge

As a result of the Group's operations more than 30 types of industrial and household waste are produced; they are processed by specialized companies under agreements concluded with Bashneft Group.

The main type of waste resulting from the Group's oil production and refining is oil sludge.

In 2012, 54.7 thousand tonnes of oil sludge were processed. Currently, oil sludge is produced at the same rate as it is processed; therefore, it does not present an environmental risk. Overall, within three years 159.6 thousand tonnes of oil sludge were processed.

At present, oil-contaminated waste is processed using the Alfa Laval sludge processing unit, which has already processed more than 130 thousand cubic meters of oil sludge. LLC Bashneft-Dobycha uses a MegaMacs mobile cleaning system (USA) in order to improve cleaning and maintenance of storage facilities and ensure occupational safety when cleaning tanks and reservoirs.

All refineries have mechanical oil sludge dewatering units forming part of mechanical treatment facilities which successfully process newly produced oil sludge. However, there remains a significant amount of old hard sludge which cannot be processed using traditional methods.

To minimize the impact of hazardous waste, Bashneft plans to take the following measures:

- ✓ eliminating sludge pits, oil sludge processing and land restoration at the facilities of subsidiaries and affiliates;
- ✓ constructing sites for biological oil sludge treatment at the facilities of LLC Bashneft-Dobycha;
- ✓ constructing Bashneft's own oil sludge processing and treatment units.

1,610 million roubles are to be invested in the implementation of these measures.

## Land conservation

To use land more efficiently, Bashneft often drills oil wells in clusters. Each cluster consist of 2 to 20 wells located on a single platform, which significantly reduces the territory occupied by drilling rigs and associated equipment, as well as the length of oil and water pipelines.

Improving the reliability of pipelines and equipment is important for minimizing oil contamination of the soil. To prevent leaks and accidental oil spills at oilfields, the Group constantly monitors the condition of its pipelines, repairs and replaces deteriorated pipelines. In 2012 83.0 kilometres of flowlines were upgraded and underwent major repairs (compared to 107.9 kilometres in 2011). In 2012 the accident rate in the pipeline system amounted to 0.041 failures per kilometre.

The Group constantly invests in measures for ensuring high reliability of the pipeline system. For instance, in 2012 expenditure on the replacement of deteriorated pipelines amounted to 471 million roubles.

The Group also monitors soil quality at the oilfields.

	2010	2011	2012
Upgrades and major repairs of pipelines, km	184	107.9	81.1
Length of corrosion proof pipelines, thousand km	9.2	9.54	9.8
Number of corrosion proof pipelines as a percentage	41%	42%	44%

## Energy efficiency

Measures to increase energy efficiency form an important part of the Group's efforts to protect the environment and increase the efficiency of operations through energy savings.

The Energy Efficiency Strategy up to 2015 is a basic document defining the main tasks related to energy efficiency. The Strategy is focused on the following priorities:

- ✓ organizing a highly efficient power consumption management system;
- ✓ updating technical equipment and implementing energy efficient technologies;
- ✓ optimizing heat generation and consumption;
- ✓ developing our own power generation sources, including the use of associated gas.

### Energy consumption within the Group

The Group consumes electricity, heat, natural gas and associated gas in the course of its operations. It may use boiler and furnace fuel, which is less environmentally friendly, as a backup; however, it was not used in 2012.

Electricity consumption increased by 3% compared to 2011, while heat consumption rose by 4.5%. A significant increase in natural gas consumption (+35%) is due to an increase in power generation at the boiler house at Bashneft-UNPZ Branch and temporary replacement of refinery gas consumption, as well as an increase in power generation by a gas-fuelled power plant. Consumption of associated gas as fuel increased by 14% mainly due to an increase in consumption at the Shkapovskoye GPP.

Overall, electricity costs within the Group totalled 11.3 billion roubles, while expenditure on heat amounted to 3.8 billion roubles.

Energy consumption and costs at the parent company, JSOC Bashneft, increased significantly as the Group completed its reorganization; consequently, expenditure of five subsidiaries consolidated with Bashneft, including large refineries, has been recorded as part of the expenditure of JSOC Bashneft since 2012.



## Fuel and energy consumption of Bashneft Group

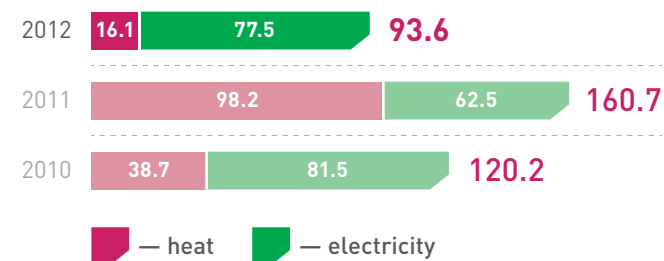
	2011	2012	Change, 2012/2011
Electricity, thousand kWh	5,612,990	5,780,168	+3.0%
Heat, Gcal	7,347,200	7,677,737	+4.5%
Natural gas, thousand cubic metres	210,965	284,685	+34.9%
Associated gas, thousand cubic metres	57,249	65,283	+14.0%

## Energy efficiency improvement measures

In 2012 we completed an energy audit of facilities in the 'Upstream' and 'Refining and Marketing' business segments. Based on the results of the energy audit, we developed a set of measures to be implemented in the Group's departments in order to optimize energy consumption and projects aimed at introducing new energy saving technologies and equipment.

In the reporting year energy costs across the Group decreased by 93.6 million roubles due to the implementation of measures aimed at conserving energy and improving energy efficiency of the Group's operations.

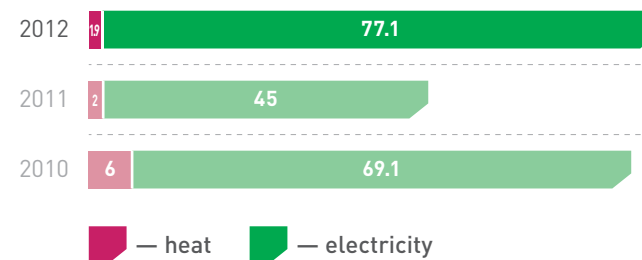
## Reduction in energy costs, million roubles



## Energy efficiency in oil production

In 2012 electricity consumption at oil-producing enterprises increased by 2.3% mainly due to an increase in the volume of produced fluid. In 2012 electricity costs were reduced by 77 million roubles.

## Reduction in energy costs in oil production, million roubles



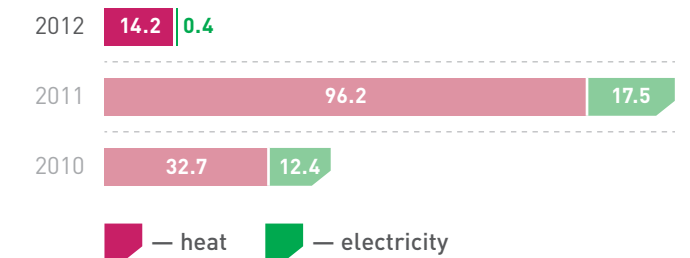
## Energy efficiency in oil production

	2011	2012	Change, 2012/2011
Electricity consumption, thousand kWh	2,821,980	2,886,760	+2.3%
Electricity costs, million roubles	5,326.9	5,705.0	+7.1%
Heat consumption, Gcal	260,002	388,959	+49.6%
Heat costs, million roubles	386.2	609.3	+57.8%

## Energy efficiency in oil refining and petrochemical production

There was no significant change in electricity consumption and costs in oil refining and petrochemical production; the changes amounted to 1-3%. As heat generation at the boiler house at Bashneft-UNPZ Branch increased and heat prices are calculated using a two-part tariff, heat costs decreased by 3.5%, while heat consumption increased by 2.9%. Heat costs were reduced by 14.2 million roubles due to the replacement of existing pipelines and repairs of boiler and pumping equipment.

## Reduction in energy costs in oil refining and petrochemical production, million roubles



## Energy efficiency in oil refining and petrochemical production

	2011	2012	Change, 2012/2011
Electricity consumption, thousand kWh	2,763,933	2,859,139	+3.4%
Electricity costs, million roubles	5,399.1	5,455.8	+1.1%
Heat consumption, Gcal	7,079,658	7,281,820	+2.9%
Heat costs, million roubles	3,330.1	3,214.3	-3.5%

## Energy efficiency in marketing

Expansion of our marketing network resulted in an increase in electricity consumption in the marketing segment: in physical terms it totalled 26.6%, while in monetary terms the increase totalled 38.6%. This was related to changes in tariffs in 2012 which were unfavourable to the Group.

## Energy efficiency in the Group's sales offices

	2011	2012	Change, 2012/2011
Electricity consumption, thousand kWh	27,078	34,269	+26.6%
Electricity costs, million roubles	71.5	99.1	+38.6%
Heat consumption, Gcal	7,540	6,957	-7.7%
Heat costs, million roubles	5.5	5.2	-5.9%



**'We use state-of-the-art technologies, management systems and the latest scientific discoveries to ensure progressive sustainable development.'**

*The Social Charter of Russian Business*

## Research and innovation

Our strategy of responsible use of natural resources and resource conservation is aimed at minimizing the negative environmental impact. The Group implements measures that make the use of natural resources environmentally efficient and that allow minimizing the environmental impact in the operating regions. With this aim in mind Bashneft constantly searches for and implements modern environmentally friendly technologies into production and business processes in combination with environmentally friendly methods of organizing business and other activities ('environmental innovations') which enable:

- ✓ minimization of the consumption of energy and resources, elimination of irrational losses during production and refining;
- ✓ reduction of atmospheric emissions and discharge of pollutants into water bodies;
- ✓ control over generation and disposal of industrial waste;
- ✓ use of recycled resources in production.

Priority is given to innovations in the field of developing cost-effective and environmentally friendly technologies that reduce levels of pollutants across our range of motor fuels and other petroleum products, as well as technologies for carbon capture and disposal of toxic waste (solid and liquid), including hydrocarbons and SO<sub>2</sub>, and cost-effective and environmentally friendly technologies of reclamation, rehabilitation and restoration of the land. These innovations will allow Bashneft to effectively implement programmes aimed at minimizing the environmental impact of past economic activity, as well as in the following areas of our business:

1. Technology that improves the environment and ensures the environmental wellbeing of the population in the Group's operating regions:
  - ✓ in the area of environmentally efficient (clean) technologies;
  - ✓ in the area of environmentally friendly waste management, including the elimination of environmental legacy issues.
2. Technologies for the effective and rational replenishment of mineral resources in the operating regions and, first of all, in Bashkortostan:
  - ✓ in the area of environmentally friendly waste management, including the elimination of environmental legacy issues;
  - ✓ in the area of the efficient use of mineral resources.
3. Modern technologies and systems for monitoring, evaluating and predicting environmental conditions, natural and man-made disasters and adverse impacts of climate change, including innovative instruments for pollution control.
4. Technologies that ensure environmental safety and provide new environmental standards for the human life.

### IMPLEMENTATION OF NEW TECHNOLOGIES IN EXPLORATION AND PRODUCTION

When conducting feasibility studies for drilling new wells and development design, Bashneft uses advanced computer simulation technology to model the reservoir systems which increases the efficiency of new well drilling, sidetracking and geological and engineering operations.

A geological and hydrodynamic model makes it possible to optimize field development as it enables to identify the areas of the highest concentration of residual mobile hydrocarbon reserves.

Thus, modelling of the production facility and optimization of well design on the basis of a three dimensional geological and engineering model enabled the Group to obtain a record inflow of oil totalling 503 tonnes per day (with the potential of 900 tonnes per day) while drilling a well at the Ilishevskoye oilfield in March 2012.



## The Group's innovation management system

The Group's main sustainable development objective in the field of research and innovation is the use of new technology so as to successfully compete on the market, improve the quality of products and the effectiveness of technological processes and minimize the negative environmental impact. In order to successfully adopt, develop and implement new technologies as well as results of scientific research, the Group needs an effective mechanism for innovation management.

JSOC Bashneft attaches great importance to developing its research and technical potential. R&D and exploration are conducted both by the Group itself (through its own R&D institute, LLC BashNIPneft) as well as together with leading Russian scientific institutions. The Group plans to turn LLC BashNIPneft into a R&D centre of regional importance through investing in its modernization and upgrading.

In 2012 a project-based work principle was implemented in LLC BashNIPneft; it involves creating project offices for research, development and exploration. The use of a new principle of organizing work allows Bashneft to benefit from the synergy achieved by engaging experts specializing in a wide range of fields. Bashneft has mastered an important new area, the planning of gas condensate field development. Projects at the Saratovsko-Berkutovskoye group of fields have been completed and reserves have been reevaluated. These projects involve the usage of modern technology in the field of drilling, completion and operation of gas wells.

In 2012 the Group's R&D and innovative activities were conducted in accordance with the 2012 R&D Programme. Investments in this area totalled 30.2 million roubles.

LLC BashNIPneft is the Group's R&D centre providing the scientific support for JSOC Bashneft's production unit. JSOC Bashneft plans to create a regional R&D centre on the basis of BashNIPneft.

We plan to develop the institute in the following areas: ensuring the growth of the Group's resource base, creation of a seismic centre, effective development of the Group's gas assets, improving the qualification of our staff.

## Implementation of innovative technologies

Since 2010, the Group has been using the system for innovative technology implementation (SITI). Its main task is to ensure the rapid advancement of new technologies from the stage of a business proposal to industrial application.

SITI breaks down a project into 4 stages:

1. Analysing existing technologies, selecting technologies for testing.
2. Preparation for testing new technologies.
3. Testing new technologies and analysing the results.
4. Supporting the industrial implementation of technologies; analysis and rollout of the results.

Innovative technologies are implemented primarily in the sphere of enhanced oil recovery and repairs and sealing of wells.

30 technologies based on acidizing and injection of plugging materials and surface active agents (surfactants) have been studied, as well as 10 technologies related to mechanical equipment (packers, metal patches, double-packer systems, thermal implosion, etc.).

As part of SITI, the following measures were taken in 2012:

- ✓ improving the efficiency of hydraulic fracturing;
- ✓ performing matrix treatment;
- ✓ carrying out repairs and sealing.

In 2012, within the framework of the system for implementation of innovative technologies, 111 technologies proposed for implementation at Bashneft's oil fields were tested. Of these, 21 technologies were recommended for pilot projects, 40 technologies are potentially applicable to pilot projects. New technologies are to be implemented at 2,600 wells.

## Use of geologic modelling

A geological and hydrodynamic model is a tool that allows us to carry out a vast number of calculations for various development technologies and to choose the optimal one.

When conducting feasibility studies for drilling new wells and development design Bashneft uses advanced computer simulation technology to model the reservoir systems. While building a model of complex fractured reservoirs we also calculate geomechanical tensions; the construction of such a model is essential for selecting the development system.

## PRIORITY AREAS OF JSOC BASHNEFT'S R&D ACTIVITIES FOR THE YEARS 2012 TO 2020

In 2012 Bashneft adopted a Unified R&D Programme – a list of R&D priorities of the Group for the years 2012 to 2020. In accordance with the List in the near future the Group will continue to actively develop five areas of activity: exploration and production; oil refining and petrochemicals; marketing and logistics; capital construction; organization and management; social responsibility.

Thus, as part of replenishing hydrocarbon resources, Bashneft plans to form and use regional geological models, reprocess and reinterpret geophysical data so as to find missed deposits within existing fields, develop the methodology and technological solutions for the effective prediction of traps in carbonate reservoirs of various age and origin and in terrigenous and unconventional reservoirs.

Bashneft also plans to conduct research into improving the efficiency of geological exploration, optimization of field development processes, development of infrastructure at oil and gas fields, in the areas of drilling and production as well as energy efficiency and energy conservation.

A set of measures related to oil refining and petrochemical production is aimed primarily at creating technological capabilities for producing 100% of engine fuels in accordance with the requirements of the Regulator (Euro 4 and 5 standards), increasing the refining depth along with increasing the throughput, improving the energy efficiency of oil refining and petrochemical production.

The development of marketing and logistics involves creating an integrated database of the Group and introducing a new information management technology, which entails integration with external information systems (IS of OJSC Russian Railways) in order to obtain real-time information on all stages of the transportation process.

Considerable attention is paid to the organizational support of innovations, the informational support of activities, as well as the optimization of HR management.

The Group uses geological modelling for the following purposes:

- ✓ assessing the water cut and the performance of the formation pressure maintenance system using the results of 3D modelling;
- ✓ modelling reservoir systems using new computing technologies, which we regard as the most important area of improving the efficiency of the drilling of new wells and field development planning;
- ✓ creating full-scale geological and hydrodynamic models of oilfields on the basis of modern modelling approaches so as to identify the location of reserves and manage development processes. As part of the Group's new strategy, 15 priority fields were selected where modelling will be implemented.

With the help of mathematical models in 2012 we carried out rapid analysis of the development of problematic areas of fields and searched for prospective targets in the previously drilled wells. Measures to reduce the water cut and increase the output of marginal wells were proposed.

In addition to digital three-dimensional geological and hydrodynamic models we build and use geomechanical models so as to assess the feasibility of well completion techniques and optimize development solutions.

## New technologies in the areas of well construction and reconstruction

The Group is starting to actively implement promising innovative well construction techniques such as horizontal drilling and the construction of multi-lateral wells. These methods were applied in 2012 at the Lemezinskoye, Abdulovskoye, Ilishevskoye, Tuzlukushevskoye and Afanasyev oilfields. At the oilfields in Bashkortostan we also designed and adopted the technique and technologies for cluster construction of multilateral wells. We use equipment that allows selective acidizing of additional side tracks.

The projects for the placement and drilling of wells at these oilfields are based on three-dimensional geological and engineering models. The results of the modelling allowed us to recommend the use of horizontal wells at 22 of Bashneft's oilfields as they maximize the productivity and optimize the field development system.

Geological support of horizontal drilling is provided by specialists of the Group's service for the real-time geological support of drilling and side tracking.

In 2012 Bashneft together with BashNIPIneft took measures to monitor the development of oilfields. The performance of systems for formation pressure maintenance was assessed at over 260 areas of oilfields. The recommendations on the optimization of the maintenance system are based in part on the results of hydrodynamic modelling.

The institute BashNIPIneft developed 58 design and engineering projects and obtained approval from state agencies, which allowed the Group to achieve the target for oil production without facing licensing risks. The new project documentation provides for the use of the most advanced mining technology, which will allow us to reduce the amount of drilling through the optimization of well completion. Cost-effectiveness of projects has increased by a factor of 3.5.

In 2012 Bashneft conducted works aimed at the industrial implementation of dual completion systems. 6 units are currently in use. Due to the introduction of this technology cumulative oil production totalled 0.9 thousand tonnes per well.

## Laboratory research

In 2012 additional modern equipment was purchased for the department of experimental research, which allowed us to implement the entire range of standard petrophysical methods of core analysis. Overall, 8 new research methods were mastered.

Downhole sampling was mastered with the use of differential liberation and a new set of tests involving chromatographic analysis was implemented, which allows us not only to conduct standard research but also to analyse light oil fractions (gasoline) and to obtain geochemical data.

The introduction of new technologies improved the quality and accuracy of the research.

## New gas utilization technologies

In order to increase the associated gas utilization rate, in 2012 LLC BashNIPIneft conducted research aimed at creating a system of low-pressure ejection of associated gas into a formation pressure maintenance system. Pilot operations have been conducted at the Arlanskoye oilfield. The technology has been patented and the start of industrial application at 20 sites is scheduled for 2013. Its introduction does not require large capital investments. This invention has a significant technological, economic and environmental potential enabling the implementation of the Group's Programme aimed at raising the associated gas utilization rate and has a positive effect on the recovery factor.

## Innovations in petrochemical production and oil refining

In the downstream segment we focus on implementing the latest technological solutions in order to increase the refining depth, produce high quality clean engine fuels and other petroleum products and petrochemicals, as well as to minimize the direct impact of our operations on the environment.

To achieve the best results and make the Group more competitive in the area of oil refining, the technological improvement of this unit focuses on the following areas:

- ✓ upgrading and optimizing refining and petrochemical facilities;
- ✓ modernization of refining, creating technological capabilities for producing 100% of engine fuels in accordance with the requirements of the Regulator (Euro 4 and 5 standards);
- ✓ increasing the refining depth along with increasing the throughput;
- ✓ improving energy efficiency of oil refining and petrochemical production;
- ✓ improving processes that minimize the negative environmental impact.

Bashneft engages experts from leading Russian scientific organizations in the fields of oil refining and petrochemicals as well as specialists from foreign companies in research and development.

## INFORMATION TECHNOLOGIES

The Group views the development and wide use of information technologies as one of the most important tools for achieving strategic goals of increasing the quality of management and ensuring operational efficiency.

Ensuring the operational continuity of IT systems and services of the Group is a necessary prerequisite for the success of the Group's production and commercial operations. The increasing integration of information systems in the Group's business processes requires preparing IT staff and the architecture of IT systems to deal with risks of disruption to IT services that may arise due to unpredictable emergencies.

To solve this problem, in 2012 JSOC Bashneft started implementing a project to introduce technological solutions for ensuring the operational continuity of IT systems and services. In 2012 as part of the project measures were taken to examine the Group's IT infrastructure and business processes and a set of documents was developed, including preliminary designs of the future disaster-proof IT infrastructure and related business processes. The implementation of disaster-proof IT solutions is scheduled for 2013 and 2014. The Investment Committee of the Group has approved investments into the project totalling 182 million roubles over 3 years.

The project is expected to reduce risks of unacceptable disruptions to operations through increasing the resiliency of IT services and reducing the recovery time in cases of failures and emergencies.

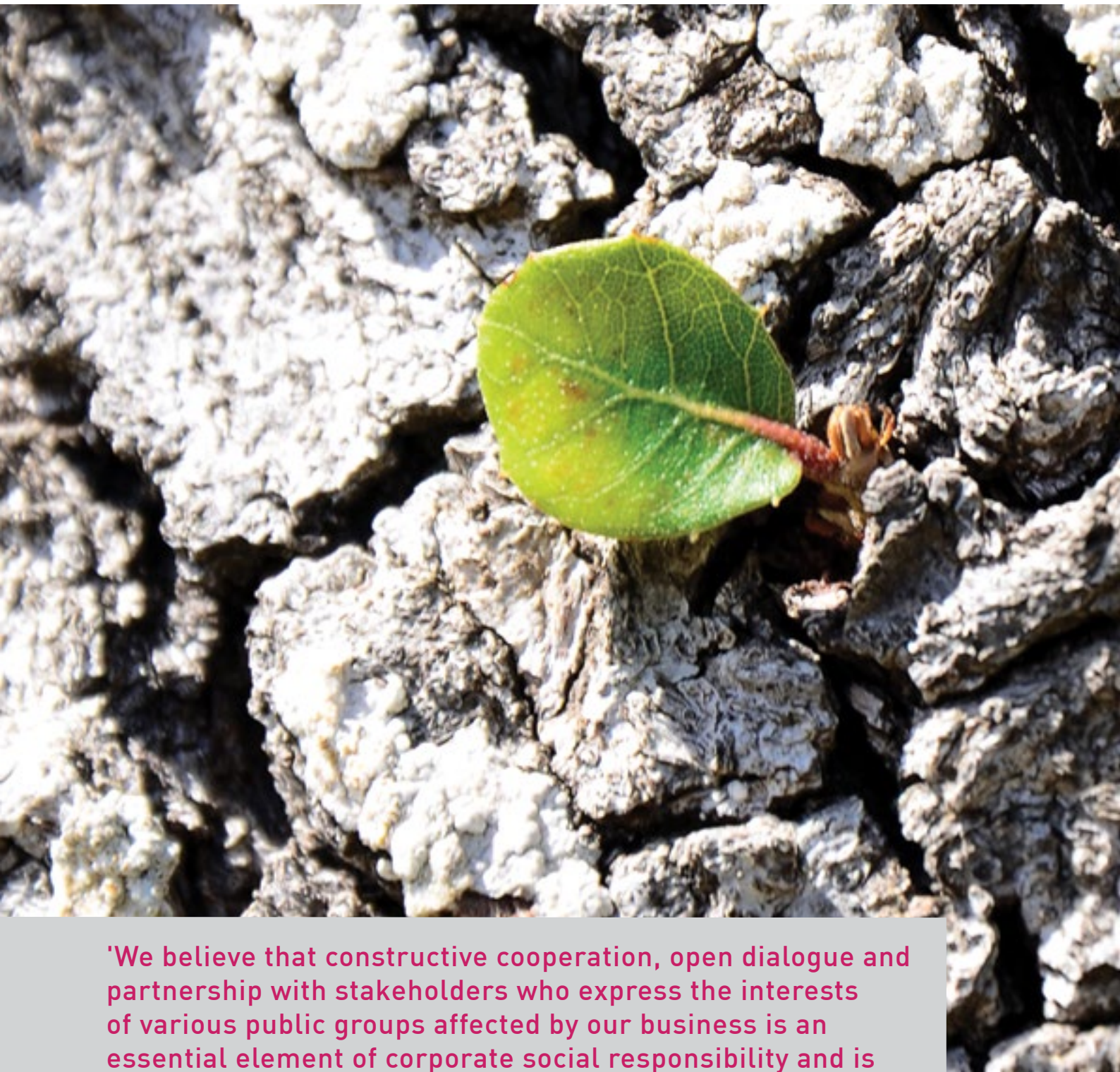
For details on the use of informational technologies at JSOC Bashneft see the section 'Research and Innovation' of the 2012 Annual Report.

## IT LEADER

In April 2013 Bashneft won the annual national IT Leader award for the third time. The Group already received this prestigious award in 2010 and 2011.

The private cloud based on converged infrastructure created at Bashneft has allowed us to provide users with full access to corporate and specialized services both in the head office of the Group and remotely in departments (including via stationary and mobile client devices and 'thin clients').





**'We believe that constructive cooperation, open dialogue and partnership with stakeholders who express the interests of various public groups affected by our business is an essential element of corporate social responsibility and is a factor of its success.'**

*The Social Charter of Russian Business*

## Social and charitable programmes

In 2012 Bashneft Group actively developed and implemented social and charitable programmes in the regions where it conducted its operations. To maximize the impact of these programmes Bashneft coordinates its actions with the governments of the subjects of the Federation. As a rule, the legal framework for such mutually beneficial partnerships is established via an agreement with the regional authorities. The Group supports their various initiatives that are aimed at improving the social wellbeing of the population. Depending on the nature and status of the specific programme Bashneft can act as a major benefactor, sponsor or patron.

The successful implementation of social and charitable programmes in 2012 proves that the Group made the right choice of activities and strategies in this field.

Through participation in the lives of communities we invest in the sustainable development of Bashneft as we create a favourable environment for the co-existence of the local communities and the Group. In 2012, 1.1 billion roubles were allocated for the funding of the most important and urgent social and charitable programmes in the regions of operation.

### Participation in the life of the communities

The key principles and priorities of the management of the relationship between Bashneft Group and the stakeholders whose quality of life is connected with the Group's activities are defined in the Policy on Corporate Social Responsibility of JSOC Bashneft. The fundamental element of the Policy is the Group's recognition that its own long-term sustainable development is linked to basic human values and priorities and that corporate and national development is inter-related. This concept is put into practice through the achievement of Bashneft Group's strategic objectives with due regard for the interests of its stakeholders and respect for their reasonable expectations.

### Agreements with authorities

#### General Cooperation Agreement between JSFC Sistema and the Republic of Bashkortostan

In 2009 the Government of the Republic of Bashkortostan and JSFC Sistema signed a long-term Cooperation Agreement. This document allows Bashneft to align its social activities with the needs of the regions where it operates. Within the four years since the Cooperation Agreement was signed, Bashneft Group spent over 5.1 billion roubles on the development of the social infrastructure of the Republic of Bashkortostan. Between 2009 and 2012 various facilities in 33 regions of Bashkortostan received Bashneft's financial support. These include the Ufa Arena ice complex, skating rinks in Sibay and Tuimazy, the Paralympic Sports Centre in the village of Mishkino, fitness centres in Chishminsky, Ilishevsky and Tatyshlinsky districts. Furthermore, new buildings

for the municipal hospital in Sibay and the Republican Psychiatric Hospital were constructed. The polyclinic affiliated with RCH No. 2 was reopened after renovation. Bashneft Group allocated substantial funds for the renovation of the Church of the Nativity of the Theotokos in the city of Ufa, as well as schools and pre-school institutions in many parts of the Republic.

#### Cooperation Agreement between LLC Bashneft-Polyus and the Administration of the Nenets Autonomous District

In March 2012, our subsidiary LLC Bashneft-Polyus signed a Cooperation Agreement with the Administration of the Nenets Autonomous District on behalf of the Company.

**T**he agreement reflects the mutual commitment of the Company and the Administration of the Nenets Autonomous District to maintaining a stable social and economic situation in the district, creating a favourable investment climate and promoting the welfare of all its residents. I am confident that the implementation of the Group's large-scale project to develop the Trebs and Titov oilfields in the Nenets Autonomous District will significantly contribute to the successful completion of these tasks.'

*Alexander Korsik,  
President of the JSOC Bashneft*

The agreement stipulates that the Group should invest in the development of the social and economic infrastructure of the Nenets Autonomous District, creation of new jobs in the district and implementation of charitable projects. For instance, the Group will build an out-patient clinic with an area of 600 sq. m in the national village of Krasnoye so as to provide high-quality medical services. The Agreement is valid until December 31, 2016.



### Cooperation Agreement between the Orenburg Region and JSOC Bashneft

In March 2013, Bashneft and the Administration of the Orenburg Region signed an agreement on social and economic development until 2016 aimed at creating favourable conditions for the economic and social development of the region.

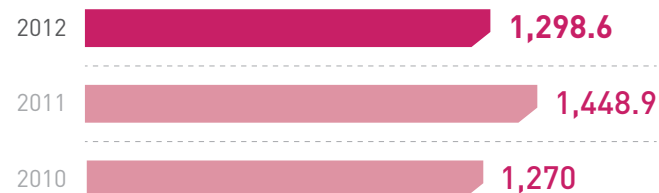
The Group will continue to participate in projects aimed at sustainable social development of the Orenburg Region.

The Group's presence in the Orenburg Region has already produced the first positive results. As OJSC Orenburgnefteprodukt joined JSOC Bashneft in October 2012, the company's tax payments to the regional and municipal budgets of the Orenburg Region more than tripled; last year they amounted to 489.7 million roubles.

### Target areas for participation in the life of local communities

As part of the policy of corporate social responsibility Bashneft implements a number of social programmes in the sphere of education, sports and private donations, actively promotes volunteerism, supports children's social institutions and public health facilities in the Republic of Bashkortostan.

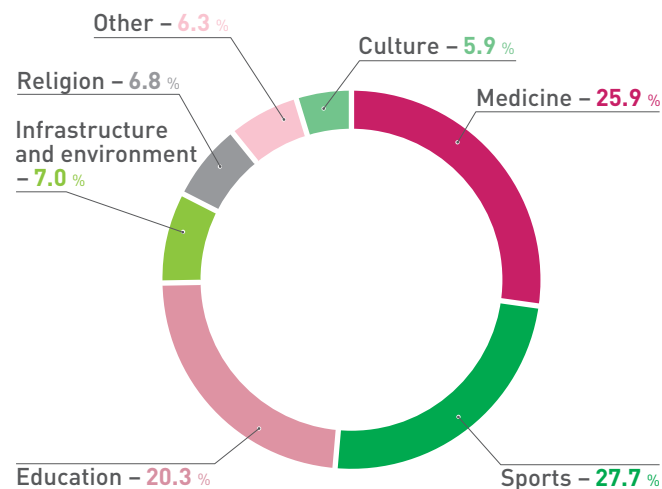
### Charitable financing by type of social facility of the Republic of Bashkortostan, million roubles



The Government of the Republic of Bashkortostan annually approves the list of social facilities in the Republic to be funded through the charitable activity of Bashneft Group. Spending is monitored by the Charity Fund Sistema on behalf of Bashneft and the Target Social Programmes Fund on behalf of the Government of the Republic of Bashkortostan.

The bulk of funding is allocated for constructing, renovating and equipping public health facilities (25.9%), the educational system (20.3%), sports facilities (27.7%) and culture (5.9%). Funds are also allocated for the construction and renovation of buildings of religious organizations (6.8%), the environment and upgrading infrastructure facilities (7.0%).

### Social expenditure in 2009-2012 by segment



The following major projects were completed between 2009 and 2012:

- ✓ renovation of the Sports Palace in Ufa;
- ✓ construction of the second stage of the Ufa Arena sports complex;
- ✓ renovation of the polyclinic affiliated with RCH No. 2;
- ✓ construction of buildings of district hospitals in the villages of Sterlibashevo, Kirgiz-Miyaki, Bizhbulyak, Tolbazy and of the municipal hospital in Sibay;
- ✓ construction of a skating rink in Sibay;
- ✓ construction of a mosque in the city of Ufa;
- ✓ repairs of the water supply systems in a number of municipal districts of Bashkortostan;
- ✓ renovation of the Church of the Nativity of the Theotokos in the city of Ufa.

The Group has spent over 230 million roubles on repairing and constructing schools in the Republic of Bashkortostan.

In 2012, under the Cooperation Agreement between the Republic of Bashkortostan and Bashneft, the Group allocated more than 1 billion roubles for the construction, renovation and repairs of 76 facilities in the Republic of Bashkortostan; financing was provided through the Charity Fund Sistema. During the year, 42 social facilities were commissioned.

As well as funding socially significant regional projects through the Charity Fund Sistema, the Group has created a Charity Commission to deal with direct requests for financial aid. Decisions on providing assistance are taken collectively. In 2012 approximately 8 million roubles were allocated for such requests.

As part of its corporate social responsibility, Bashneft implements a number of social programmes in the

sphere of education, sports and private donations, actively develops volunteerism and supports children's social institutions in the Republic of Bashkortostan.

Bashneft regularly organizes events in support of ill children and social institutions. These events are organized in collaboration with the Markhamat charity fund. In 2012 Bashneft's employees organized and held two major campaigns; 'Prepare Your Child for School' (held in the run-up to Knowledge Day) and 'Letter to Father Christmas'. Both events were organized by the employees themselves at their own expense. As part of these events, Bashneft's employees visited 20 social institutions of the Republic.

### Education programmes

One of Bashneft's most important social projects is an educational project for schoolchildren and students. The education Internet portal 'I Want to Become an Oilman' serves as a medium for interaction with schoolchildren. Since 2012 the project has been carried out together with OJSC Sistema's comprehensive programme 'Lift to the Future'.

The project includes various intellectual contests, competitions for school children, residential schools and workshops. Career guidance is provided to students and a scholarship programme is implemented in cooperation with Ufa State Petroleum Technological University, a leading national university. We believe the educational programme is the most important part of corporate social responsibility as it is primarily aimed at creating a favourable environment for the development of young motivated people. In 2012 Bashneft's social investment in this project amounted to approximately 3 million roubles.

The main goals of the educational project include finding, developing and supporting talented students and schoolchildren, boosting young people's interests in careers in the oil and gas industry, technical professions and in such disciplines as chemistry, physics, mathematics, geography and IT.

In the summer of 2012 winners of the second Interdisciplinary National Competition 'I Want to Become an Oilman' received awards. Two stages of the competition were held online and one was held in classrooms with over a thousand senior school students (year 8 to 11 students) from nearly 30 regions of Russia and abroad participating.

This year the number of participants has increased significantly along with the number of regions where the participants come from. We are pleased that Bashneft's social initiative has received an enthusiastic response from school students and we can confidently state that we will be delighted to see the current winners grow up to become specialists and join our rapidly developing company.'

*Mikhail Stavskiy,  
Bashneft's First Vice President for Upstream*

### Environmental projects

JSOC Bashneft continues to implement the charitable programme aimed at supplying high-quality drinking water to all the districts of the Republic of Bashkortostan. 67 springs in the troubled areas of the Republic are expected to be restored in 2011-2013; JSOC Bashneft will provide financial assistance through a branch of the Charity Fund Sistema. The programme covers 20 districts and 8 cities in Bashkortostan and includes financing the preparation of construction documents and cost estimates, the complete reconstruction and major repairs of existing wells and construction of new water withdrawal facilities, water pipes and pipeline networks, drilling of water wells and construction of water towers.

In 2012 the Group allocated 115.1 million roubles for financing works at facilities included in the water programme. The most significant projects of the programme financed as part of the charitable activity of JSOC Bashneft in 2012 were implemented in the Kaltasinsky and Chishminsky districts of Bashkortostan. Bashneft Group allocated 50 million roubles for the full reconstruction of the water supply systems in Kaltasy and other villages of the district and another 15 million roubles were spent on the construction of a ten-kilometre-long Teperishevo – Albeevo – Chukrakly water pipeline in the Chishminsky district.

The Springs of Bashkortostan project, which forms part of the programme, is of special importance. The project's primary purpose is to restore and develop springs in remote villages where they are often the only sources of drinking water.

In 2011-2012 the Group allocated 324.6 million roubles for financing the environmental water programme.



Appendices

Glossary of terms and abbreviations

Common depth point (CDP)	2D or 3D seismic survey involving the use of the common depth point method
CSR	Corporate social responsibility
GPP	Gas processing plant
GR	Government Relations
HSE	Health, safety and environment
IFRS	International financial reporting standards
IT	Information technologies
KPI	Key performance indicator
Nelson Index	A measure of the complexity of technological processes at an oil refinery
OGPD	Oil and gas production department
PRMS	Petroleum Resources Management System
R&D	Research and development
TGP	Target Gas Programme
The EMEA region (Europe, the Middle East and Africa)	Region including Europe, the Middle East and Africa
VAT	Value added tax
VIC	Vertically integrated oil company

Compliance with the GRI-3.1 (OGSS) Guidelines (Application Level B)

Indicator	Description	Section (or disclosure made in the table)	Completeness of disclosure*
1. STRATEGY			
GRI1.1	Statement from the most senior decision-maker of the organization	Address by the Chairman of the Board of Directors and the President	●
GRI1.2	Description of key impacts, risks, and opportunities	Address by the Chairman of the Board of Directors and the President	●
2. ORGANIZATIONAL PROFILE			
GRI2.1	Name of the organization	Short name: JSOC Bashneft Full name: Joint-Stock Oil Company Bashneft	●
GRI2.2	Primary brands, products and/or services	About the Group	●
GRI2.3	Operational structure of the organization	About the Group	●
GRI2.4	Location of organization's headquarters	Contacts	●

Indicator	Description	Section (or disclosure made in the table)	Completeness of disclosure*
GRI2.5	Number of countries where the organization operates	About the Group	●
GRI2.6	Nature of ownership and legal form	Shared ownership. Open joint-stock company	●
GRI2.7	Markets served by the organization (including geographic breakdown, sectors served, and types of customers/beneficiaries)	About the Group	●
GRI2.8	Scale of the organization	About the Group; Human Resources and Corporate Social Programmes	●
GRI 2.9	Significant changes during the reporting period regarding size, structure, or ownership	About the Group	●
GRI2.10	Awards received in the reporting period	About the Group; Occupational and Industrial Safety; Investor and Shareholder Information (Annual Report of JSOC Bashneft for 2012); Research and Innovation (Annual Report of JSOC Bashneft for 2012)	●
3. REPORT PARAMETERS			
GRI3.1	Reporting period	January 1 – December 31, 2012	●
GRI3.2	Date of the most recent previous report (if any)	October 2012	●
GRI3.3	Reporting cycle (annual, biennial)	The report is published annually	●
GRI3.4	Contact point for questions regarding the Report	Contacts	●
GRI3.5	Process for defining report content	In 2012 the Group developed an approach to defining the content of the Report. The approach is based on monitoring and defining key topics by analyzing feedback received from stakeholders. Besides, the Report contains an overview of events and issues the disclosure of which is of primary importance to the Group in the reporting year. The Group intends to continue improving the structure and content of its reports in the future and pay special attention to environmental and social aspects of its operations	●
GRI3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	The content of the Report covers the operational structure of the organization (GRI 2.3), number of countries where the organization operates (GRI 2.5) and significant events and changes that may affect the results and data for the reporting period compared to the results and data for previous periods disclosed by the Group in the 2009 and 2010 Reports (GRI 3.8)	●

SOCIAL PROGRAMMES

RESEARCH AND INNOVATION

ENVIRONMENT

SAFETY

HUMAN RESOURCES

CORPORATE GOVERNANCE

ABOUT THE GROUP

KEY RESULTS

Indicator	Description	Section (or disclosure made in the table)	Completeness of disclosure*
GRI3.7	Limitations on the scope or boundary of the report	Appendix: Legal Information on the Report	●
GRI3.8	Basis for reporting on joint ventures, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations	Appendix: Legal Information on the Report	●
GRI3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques applied to the compilation of the Indicators and other information in the report	Appendix: Legal Information on the Report	●
GRI3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement	Appendix: Legal Information on the Report	●
GRI3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	Appendix: Legal Information on the Report	●
GRI3.12	Table identifying the location of the Standard Disclosures in the report	Appendix: Compliance with the GRI-3.1 (OGSS) Guidelines	●
GRI3.13	Policy and current practice with regard to seeking external assurance for the report	The Group intends to follow the practice of seeking external assurance for the Report in the future	●
<b>4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT</b>			
GRI4.1	Governance structure	Corporate Governance	●
GRI4.2	Indicate whether the Chairman of the highest governance body is also an executive officer	Corporate Governance. The Chairman of the Board of Directors is not a member of the collective executive body (Management Board) of JSOC Bashneft	●
GRI4.3	The number of members of the highest governance body that are independent and/or non-executive members	Corporate Governance. As of December 31, 2012, the Board of Directors of JSOC Bashneft included four independent directors	●
GRI4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	About the Group	●
GRI4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives and the organization's performance	Corporate Governance	●
GRI4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Corporate Governance	●

Indicator	Description	Section (or disclosure made in the table)	Completeness of disclosure*
GRI4.7	Process for determining the qualifications and expertise of the members of the highest governance body required for formulating the organization's economic, environmental and social (sustainable development) policies	Corporate Governance	●
GRI4.8	Internally developed statements of mission or values	About the Group	●
GRI4.9	Procedures of the highest governance body for overseeing the organization's identification and management of its economic, environmental and social performance	Corporate Governance	●
GRI4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance of the organization	Corporate Governance	●
GRI4.11	Explanation of whether and how the precautionary principle is addressed by the organization	About the Group; Corporate Governance	●
GRI4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	In 2010 the Group signed the Social Charter of the Russian Union of Industrialists and Entrepreneurs. We support the principles of UNGC Corporate Sustainability and the International ISO/FDIS 26000 Standard (Guidance on Social Responsibility)	●
GRI4.13	Membership in associations	Union of Oil & Gas Producers of Russia; Non-profit partnership SRO National Association for Subsoil Use Auditing; Russian National Committee of the World Petroleum Council (RNC WPC); Autonomous non-commercial organization Russian-Arab Business Council	●
GRI4.14COMM	List of stakeholders	About the Group	●
GRI4.15	Basis for identification and selection of stakeholders with whom to engage	About the Group	●
GRI4.16	Approaches to stakeholder engagement	About the Group	●
GRI4.17COMM	Key topics and concerns that have been raised through stakeholder engagement	About the Group	●
GRIDMA EC	Disclosure on management approach to economic aspects	About the Group	●
GRIDMA EN	Disclosure on management approach to environmental aspects	Environment	●
GRIDMA LA	Disclosure on management approach to labour aspects	Human Resources and Corporate Social Programmes	●



Indicator	Description	Section (or disclosure made in the table)	Completeness of disclosure*
GRIDMA HR	Disclosure on management approach to human rights aspects	Human Resources and Corporate Social Programmes	●
GRIDMA SO	Disclosure on management approach to society aspects	Social and Charitable Programmes	●
GRIDMA PR	Disclosure on management approach to product responsibility aspects	About the Group	●
5. ECONOMIC PERFORMANCE INDICATORS			
GRIEC1COMM	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	About the Group	●
GRIEC2COMM	Financial implications and other risks and opportunities for the organization's activities due to climate change		○
GRIEC3	Coverage of the organization's defined benefit plan obligations	Human Resources and Corporate Social Programmes	●
GRIEC4	Significant financial assistance received from the government	In 2012 the Group received no significant financial assistance from the government	●
GRIEC5	Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Human Resources and Corporate Social Programmes	●
GRIEC6COMM	Policies and practices of spending on locally-based suppliers	About the Group. Bashneft makes no distinctions and does not use discriminatory approaches to selecting suppliers based on their region of origin	●
GRIEC7COMM	Procedures for local hiring and proportion of senior management hired from the local community	The Group does not use any special procedures for local hiring	●
GRIEC8COMM	Development and impact of infrastructure investments and services provided primarily for public benefit	Social and Charitable Programmes	●
GRIEC9COMM	Understanding and describing significant indirect economic impacts	About the Group; Social and Charitable Programmes	●
GRIOG1	Volume and type of estimated proved reserves and production	About the Group	●
6. ENVIRONMENTAL PERFORMANCE INDICATORS			
GRIEN1COMM	Materials used by weight or volume	About the Group	●
GRIEN2	Percentage of materials used that are recycled input materials	Environment	●
GRIEN3COMM	Direct energy consumption by primary energy source	Energy Efficiency	●

Indicator	Description	Section (or disclosure made in the table)	Completeness of disclosure*
GRIEN4	Indirect energy consumption by primary source	Environment	●
GRIOG2	Total amount invested in renewable energy	Environment. The Group does not invest in renewable energy	●
GRIOG3	Total amount of renewable energy generated	Environment. The Group does not generate renewable energy	●
GRIEN5	Energy saved due to conservation and efficiency improvements	Environment	●
GRIEN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives		○
GRIEN7	Initiatives to reduce indirect energy consumption and reductions achieved		○
GRIEN8COMM	Total water withdrawal by source	Environment	●
GRIEN9COMM	Water sources significantly affected by withdrawal of water		○
GRIEN10	Percentage and total volume of water recycled and reused	Environment	●
GRIEN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		○
GRIEN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas		○
GRIEN13	Habitats protected or restored		○
GRIEN14COMM	Strategies, current actions, and future plans for managing impacts on biodiversity		○
GRIOG4	Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored		○
GRIEN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk		○
GRIEN16COMM	Total direct and indirect greenhouse gas emissions by weight		○
GRIEN17COMM	Other relevant indirect greenhouse gas emissions by weight		○

Indicator	Description	Section (or disclosure made in the table)	Completeness of disclosure*
GRIEN18COMM	Initiatives to reduce greenhouse gas emissions and reductions achieved	Environment	
GRIEN19	Emissions of ozone-depleting substances by weight		
GRIEN20COMM	NO <sub>x</sub> , SO <sub>x</sub> , and other significant atmospheric emissions by type and weight		
GRIEN21	Total water discharge by quality and destination		
GRIEN22COMM	Total weight of waste by type and disposal method	Environment	
GRI0G5	Volume and disposal of formation or produced water		
GRIEN23COMM	Total number and volume of significant spills	Environment	
GRI0G6	Volume of flared and vented hydrocarbon		
GRI0G7	Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	Environment	
GRIEN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	Not applicable	
GRIEN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff		
GRIEN26COMM	Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation	Environment	
GRIEN27	Percentage of products sold and their packaging materials that are reclaimed by category		
GRI0G8	Benzene, lead and sulphur content in fuels	Fuel produced by the Group fully complies with regulatory requirements for this type of products	
GRIEN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		
GRIEN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce		

Indicator	Description	Section (or disclosure made in the table)	Completeness of disclosure*
GRIEN30	Total environmental protection expenditures and investments by types	Environment	
7. LABOUR PRACTICES AND DECENT WORK PERFORMANCE INDICATORS			
GRILA1	Total workforce by employment type, employment contract, and region	Human Resources and Corporate Social Programmes	
GRILA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region	Human Resources and Corporate Social Programmes	
GRILA3	Payments and benefits for employees	Human Resources and Corporate Social Programmes	
GRILA4	Percentage of employees covered by collective bargaining agreements	Human Resources and Corporate Social Programmes	
GRILA5	Minimum notice period(s) regarding significant operational changes	Human Resources and Corporate Social Programmes. The minimum notice period is stipulated in the Labour Code of the Russian Federation	
GRILA6	Percentage of total workforce represented in formal joint management-worker health and safety committees		
GRILA7COMM	Rates of injury	Occupational and Industrial Safety	
GRILA8	Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	Occupational and Industrial Safety	
GRILA9	Health and safety topics covered in formal agreements with trade unions	Human Resources and Corporate Social Programmes	
GRILA10	Average hours of training per year per employee	Human Resources and Corporate Social Programmes	
GRILA11	Programmes for skills management and lifelong learning	Human Resources and Corporate Social Programmes; Occupational and Industrial Safety	
GRILA12	Percentage of employees receiving regular performance and career development review	Human Resources and Corporate Social Programmes	
GRILA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity		
GRILA14	Ratio of basic salary and remuneration of women to men by employee category	There is no gender discrimination in terms of basic salary	
GRILA15	Return to work and retention rates after parental leave, by gender		



Indicator	Description	Section (or disclosure made in the table)	Completeness of disclosure*
<b>8. HUMAN RIGHTS PERFORMANCE INDICATORS</b>			
GRIHR1	Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening		○
GRIHR2	Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken		○
GRIHR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained		○
GRIHR4	Total number of incidents of discrimination and corrective actions taken	No incidents of discrimination were recorded in the reporting period	●
GRIHR5	Operations in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk		○
GRIHR6	Operations identified as having a significant risk for incidents of child labour	About the Group	●
GRIHR7	Operations identified as having a significant risk for incidents of forced or compulsory labour	About the Group	●
GRIHR8COMM	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations		○
GRIHR9COMM	Total number of incidents of violation involving rights of indigenous peoples and ethnic minorities	No violations of the rights of indigenous peoples and ethnic minorities were reported in 2012	●
GRIHR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments	No violations of human rights in Bashneft Group were recorded in the reporting period	●
GRIOG9	Operations where indigenous communities are present or affected by activities and where specific engagement strategies are in place	LLC Bashneft-Polyus carries out geological exploration and preparation for oil production in the Nenets Autonomous District	●
GRIHR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms	No grievances related to human rights were filed in 2012	●

Indicator	Description	Section (or disclosure made in the table)	Completeness of disclosure*
<b>9. SOCIETY PERFORMANCE INDICATORS</b>			
GRIS01	Nature, scope and results of programmes and practices assessing and managing the impact of the organization's operations on communities, including the start of operations, the operations proper and their completion	Social and Charitable Programmes	●
GRIS02	Percentage and total number of business units analyzed for risks related to corruption	Corporate Governance. In 2012 the Anti-Corruption Policy and the Code of Ethics were adopted in five branches of JSOC Bashneft	●
GRIS03	Percentage of employees trained in organization's anti-corruption policies and procedures	Corporate Governance. All employees of the Company sign a statement of compliance with anti-corruption legislation	●
GRIS04	Actions taken in response to incidents of corruption	No incidents of corruption were reported in the Company in 2012	●
GRIS05COMM	Public policy positions and participation in public policy development and lobbying	About the Group	●
GRIS06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions	The Group does not finance the activities of political parties, politicians or related institutions	●
GRIS07	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	No legal actions were taken against the Group for anti-competitive behaviour, anti-trust, and monopoly practices in 2012	●
GRIS08COMM	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations		○
GRIS09COMM	Operations with significant potential or actual negative impacts on local communities		○
GRIS010COMM	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities	Environment	●
GRIOG10	Number and description of significant conflicts with local communities and indigenous peoples	No conflicts with local communities and indigenous peoples were reported in 2012	●
GRIOG11	Number of sites that have been decommissioned and sites that are in the process of being decommissioned		○
GRIOG12	Operations where involuntary resettlement took place, the number of households resettled in each and how their livelihoods were affected in the process	No operations where involuntary resettlement took place were carried out in the reporting period	●
GRIOG13	Number of process safety events, by business activity		○

Indicator	Description	Section (or disclosure made in the table)	Completeness of disclosure*
10. PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS			
GRIPR1	Lifecycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	About the Group	●
GRIPR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services	No incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services were recorded in the reporting period	●
GRIPR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements	Consumers of the Group's Products and Services, Suppliers. Products manufactured by the Group fully comply with regulatory requirements and undergo the necessary certification	●
GRIPR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	About the Group	●
GRIPR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	About the Group	●
GRIPR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Consumers of the Group's Products and Services, Suppliers. The Group implements a set of marketing programmes aimed at informing consumers about the characteristics of its products, including a programme aimed at rebranding the Group's retail network	●
GRIPR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	No incidents of non-compliance with regulations and voluntary codes concerning marketing communications were recorded in the reporting period	●
GRIPR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	The Group follows a non-disclosure policy to protect confidential customer information. No complaints regarding disclosure of personal information were recorded in the reporting year	●
GRIPR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	No fines for non-compliance with laws and regulations concerning the provision and use of products and services were imposed in the reporting period	●
GRI0G14	Volume of biofuels produced and purchased meeting sustainability criteria	No biofuels were purchased in the reporting period	●

\* Completeness of disclosure:  
● – Complete  
● – Not quite complete  
○ – Incomplete

Legal information on the Report

When preparing this Report, we used the third generation of the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI G3.1) and a set of non-financial performance indicators recommended specifically for oil and gas companies (OGSS Checklist). The Report contains a system of cross-references between OGSS Checklist indicators and corresponding sections of the Report in which the information is disclosed in greater detail.

When preparing this Report, we intended to disclose as many GRI indicators as possible, except for the following:

- ✓ confidential indicators that may not be disclosed;
- ✓ indicators that are not applicable to the Group;
- ✓ indicators that, in our opinion, do not fully correspond to the business practice in the Russian oil and gas sector.

The Group operates in the Russian Federation. Other countries where Bashneft's subsidiaries and affiliates in which the Group has a stake exceeding 5% of the authorized share capital have been registered, are as follows: Kazakhstan, Switzerland, the Virgin Islands.

In this Report we mainly analyse data for the period of January through December 2012 and use the same data as in the Annual Report for 2012. During the preparation of this Report we used various methods for analysing information and data similar to those used in the Group's Annual Report for 2012. In this Report we also used the same sources of information as in the Annual Report. Consequently, the analysis of certain data and events contains references to corresponding sections of the Annual Report. Besides, the Report includes selected pieces of information on events after the reporting date which took place in 2013. Such information does not provide a complete description of the events which took place in 2013 before the publication of the Report; it was used only for representing the development of processes and trends continuing since 2012.

The Report contains certain data on considerable changes compared to previous periods; practically all of them are mentioned and explained in the text. The Report includes certain interim results and projections about future periods, concerning the Five-Year Development Strategy of the Group and the Strategy up to 2022. Statements concerning processes beyond the reporting period cannot be considered assertions, and the relevant data should be considered only interim but not final results.

The Report covers all data within the reporting period compared to the results and data for previous periods disclosed in the Report for 2011, including significant events and changes that may affect the results. The Report includes data by reporting segments which form the basis for accounting when preparing financial statements for 2012 under RAS and Consolidated IFRS financial statements for the twelve months ended December 31, 2012.

In accordance with the GRI Guidelines, with a few exceptions, the Group chooses which indicators it should use for self-appraisal at its own discretion. When preparing this Report, we did not review all 146 GRI and DMA indicators. A number of indicators are not applicable to the Group; besides, there are certain indicators that we have not used for objective reasons, as we believe that not all of the GRI indicators fully correspond to the Russian business practice.

This year we have made an attempt to make the disclosure more complete by adding nine new indicators to those that we disclosed in the previous reporting period. In this Report, we fully or partly disclose 109 indicators, i.e. approximately 75% of the total number. We intend to continue making efforts in this sphere so as to present more comprehensive and accurate information.

At present, we do not engage independent experts to approve our Sustainability Reports. In the future, the Group plans to hold public consultations on the Reports involving representatives of our stakeholders and the public.



## Contacts

JSOC Bashneft

### Moscow office:

**Location:** 5 1st Tverskaya-Yamskaya Street, Moscow, 125047, Russian Federation

**T:** +7 (495) 228-15-96

**F:** +7 (495) 228-15-97

### Bashneft's headquarters in Ufa:

**Location:** 30 Karl Marx Street, Ufa, 450008, Russian Federation

**T:** +7 (347) 261-61-61

Should you have any questions concerning this Report, please do not hesitate to contact the Group by email:  
[IR@bashneft.ru](mailto:IR@bashneft.ru)