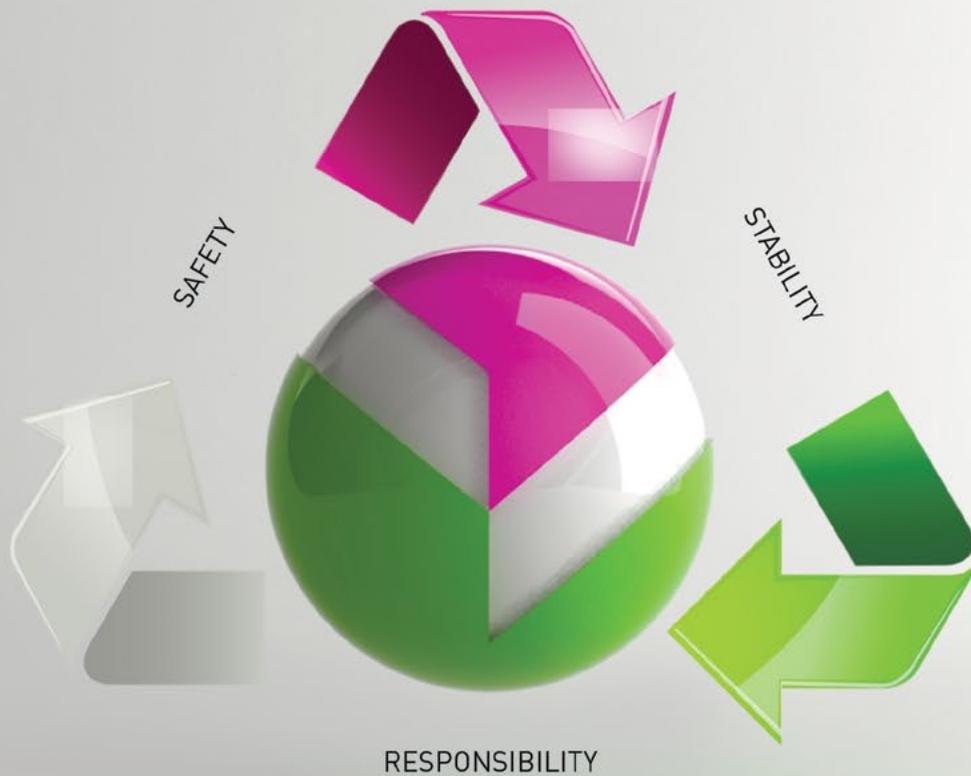


BASHNEFT

ENVIRONMENTALLY FRIENDLY DEVELOPMENT



Sustainability and corporate
social responsibility report

2011

INTRODUCTION

- ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS · 2
- ADDRESS BY THE PRESIDENT · 4

BASHNEFT'S SUSTAINABLE DEVELOPMENT POLICY, PRINCIPLES AND APPROACHES

- BASHNEFT: KEYS TO SUSTAINABLE DEVELOPMENT · 6

- Structure of assets: business areas and types of operations · 10
- Geographic footprint · 17
- Types of products · 22
- Sustainable development of business areas · 24

- POSITION IN THE INDUSTRY AND THE MARKET · 28

- Contribution to sustainable development of the national fuel and energy sector · 30
- Bashneft's position in the industry and on the petroleum products market in 2011 · 33
- Position on the industry research and technologies market · 48
- Position on the stock market · 53

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT IN PRACTICE: RESULTS OF 2011 AND PLANS FOR THE FUTURE

- EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION · 150

- Initiatives for reducing the environmental impact of Bashneft's products and services · 152
- Increasing associated gas utilization: results and plans for the future · 159
- The reduction of harmful atmospheric emissions · 164

DISCLOSURE OF INFORMATION ON CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT

- NON-FINANCIAL REPORTING AND OTHER IMPORTANT INFORMATION · 204

- Voluntary initiatives, listing rules and regulators' demands · 204
- Appendix 1: Components of our responsibility are factors of our sustainable development · 208

- CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT · 54

- Corporate governance: principles and structure · 56
- Corporate governance bodies · 62
- The Audit Commission and internal control · 68
- Corporate governance: policy and practice · 69
- Improvement of corporate structure · 77

- HEALTH, SAFETY AND ENVIRONMENT (HSE) · 84

- Occupational safety and environmental protection: principles and policies · 86
- Main areas of ensuring industrial safety · 100
- Main areas of ensuring environmental safety · 108

- RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION · 120

- CSR: objectives and principles · 122
- CSR: policy and structure · 126
- Stakeholder engagement · 131
- Risk management system · 146
- Fair business practice · 149

- Processing and treatment of industrial waste · 168
- Reducing the impact of the group's operations on water resources · 170
- Increasing the energy efficiency of operations · 173
- Environmental protection: financial results · 181

- CORPORATE SOCIAL PROGRAMMES AND INVESTMENTS · 182

- Corporate social programmes · 186
- Financing corporate social programmes · 195
- Participation in the life of communities and their development · 196

- Appendix 2: Compliance with the GRI-3.1 (OGSS) Guidelines · 212
- Appendix 3: Information on the observance of the Code of Corporate Conduct of the FFMS · 220
- Appendix 4: Environmental standards for engine fuels · 230

- Appendix 5: Glossary of abbreviations · 231
- Legal information on the report · 232
- Contacts and feedback · 233

ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF JSOC BASHNEFT



FELIX EVTUSHENKOV

DEAR COLLEAGUES!

The report that we present you with outlines the Group's approach to sustainable development and its principles of corporate social responsibility (CSR). I am convinced that the close attention to these activities contributes to the sustainability of the business and the development of the sector as a whole.

Today, the success of every big company depends not only on the trends of its operating and financial performance, but also on the strong relationships with and the high confidence of its stakeholders: government bodies, non-governmental organizations, investors, residents of the company's operating regions and consumers. Bashneft upholds the principles of the Social Charter of Russian Business and the Global Compact, which state that the sustainability of a business crucially depends on the company's responsible business conduct. The Group's performance in 2011 corroborates this point of view, and the proactive approach to corporate social responsibility has played an important role in achieving these results.

In the late nineties, corporate management was one of the main issues that influenced investors' general attitude towards different companies. At the beginning of the 2000s, portfolio investors started to demand more and were the first to raise the issue of social responsibility in connection with its influence on the sustainable development of business. It is highly significant that the importance of the issue of corporate social responsibility was very soon understood and recognized in Russia by such a powerful organization as the Russian Union of Industrialists and Entrepreneurs.

2

INTRODUCTION

We keep paying a lot of attention to the quality of corporate governance, which still remains one of the priorities in Bashneft's sustainable development strategy. If we view our material assets and reserves (licences) as the basis of our business, then corporate governance is a superstructure and a system that enables us to increase the efficiency of this business. Commitment to the modern standards of corporate governance remains a prerequisite for the sustainable and dynamic development of our business.

Our CSR strategy determines the key factors affecting Bashneft's sustainable development. But it is also important that the consistent implementation of this strategy will allow us to make a contribution to the social and economic development of the Russian society.

At the same time, the Group's management is aware of the impact the Group makes on the environment and ecosystems in the course of mineral exploitation and industrial operations and consistently seeks to minimize it.

We believe that the main factors of sustainable development are:

- economic freedom and efficiency;
- responsible use of natural resources;
- development of the employees' potential.

And we believe that our contribution to efficient development of these factors consists in the following:

- increase in the share capital and the development of the potential of the sector;
- efficient use and restoration of natural resources;
- promoting the wellbeing of our employees and the residents of our operating areas;
- effective cooperation between business, society and the government.

These were the aims of the Group's activity in 2011. This year not only saw the final steps of JSOC Bashneft's progress towards becoming a vertically integrated company, but it was also one of the most successful periods in its eighty-year history. Therefore, I am especially proud to present you with the Group's Report on its activity in the sphere of sustainable development for 2011.

In this report we present various aspects of the Group's operations to our shareholders, investors, employees, consumers and business partners, as well as the representatives of regional authorities and governmental bodies – in other words, to all those who contributed to the Group's strong operating and financial performance in the reporting year.

CHAIRMAN OF JSOC BASHNEFT'S
BOARD OF DIRECTORS
F. V. EVTUSHENKOV

3

INTRODUCTION

ADDRESS BY THE PRESIDENT OF JSOC BASHNEFT



ALEXANDER KORSIK

DEAR COLLEAGUES!

I am proud to present you with the Report on sustainable development and social responsibility of JSOC Bashneft for 2011.

Today, Bashneft is a vertically integrated oil company which ranks in the top ten Russian companies in terms of oil production and in the top five in terms of refining volumes. The scope of the Group's operations determines the high level of our responsibility towards society and all our stakeholders.

We believe that we can contribute to the sustainable development of the oil sector through the uninterrupted supply of high-quality products to consumers, the responsible use of mineral resources, the conservation of national natural resources for the future generations, the efficient development of the resource base and the introduction of state-of-the-art technologies in oil production and refining.

We follow the policy of responsible use of resources and implement measures for minimizing the environmental impact and increasing the energy efficiency of production.

The key aspect of a socially responsible business is ensuring the safety of employees. The Group's main goal in this sphere is to become one of the industry leaders in terms of process safety.

The UN World Commission on Environment and Development defines sustainable development as the development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Bashneft's strategy fully complies with this principle.

Our major contribution to the social and economic development of our operating regions is not confined to the safeguarding and creation of jobs and the full and timely payment of taxes. As a responsible corporate citizen, Bashneft, together with its main shareholder OJSC JSFC Sistema, continues implementing charity programmes aimed at improving the social infrastructure and developing culture, education and sports in all of its operating regions. In 2011 our social investments in our key operating region, the Republic of Bashkortostan, amounted to approximately 1.5 billion roubles.

We have done our best to present you with a detailed Report on all aspects of Bashneft's operations based on our strong belief that efficient and sustainable development is inseparably linked with the country's economic competitiveness, social well-being and conservation of natural resources.

I would like to thank the readers of this Report on sustainable development and social responsibility of JSOC Bashneft for 2011 for their attention to our work.



TODAY, BASHNEFT IS:

•.....•
A large, efficient and fast-growing vertically integrated company

•.....•
An environmentally conscious oil company and a responsible subsoil user

•.....•
A socially responsible corporate citizen



THE SPHERES OF CORPORATE RESPONSIBILITY ARE:

•.....•
Vertical integration, efficient management, integrated development

•.....•
Industrial and environmental safety, reduction of the environmental impact of operations and products

•.....•
Responsibility and respect for the interests of all stakeholders, development of human resources and local communities



THE FACTORS OF SUSTAINABLE DEVELOPMENT ARE:

•.....•
Contribution to sustainable development of the Russian fuel and energy complex and an increase in the share capital

•.....•
Efficient use of natural resources and support for initiatives aimed at reducing the environmental impact of the fuel and energy complex

•.....•
Contribution to the effective cooperation between business, society and the state

● THE COMPONENTS OF OUR SOCIAL RESPONSIBILITY ARE FACTORS OF OUR SUSTAINABLE DEVELOPMENT

BASHNEFT: KEYS TO SUSTAINABLE DEVELOPMENT

TODAY, BASHNEFT GROUP IS A VERTICALLY INTEGRATED OIL COMPANY THAT IS ENJOYING VALUE GROWTH IN ALL BUSINESS AREAS, FROM OIL PRODUCTION TO PETROLEUM PRODUCT SALES; BASHNEFT IS ALSO AN INDUSTRY LEADER IN TERMS OF SEVERAL KEY INDICATORS.

IN 2005 OJSC JSFC SISTEMA ACQUIRED ITS FIRST LARGE STAKES IN JSOC BASHNEFT, UFA REFINERIES AND PETROCHEMICAL PLANTS, AND OJSC BASHKIRNEFTEPRODUKT. IN MARCH 2009 IT BECAME THE OWNER OF CONTROLLING STAKES IN THESE COMPANIES.

Vertical integration of separate assets enabled to create a clear and transparent scheme of cooperation of all parts of the production process and marked a new stage of Bashneft's development.



8

At the end of December 2009 the formation of a vertically integrated oil company based on JSOC Bashneft started. The reorganization through consolidation of its five main subsidiaries, which is to be completed by the end of 2012, is another important stage of the company's development and a logical conclusion of the vertical integration process.

These transformations considerably increased Bashneft's efficiency, making it a fast-growing national vertically integrated company, which ranks in the top ten of Russian enterprises in terms of oil production and places first in terms of the production growth rate.

Bashneft Group conducts oil exploration, produces and refines oil; it also sells oil, petroleum products and petrochemicals in Russia and abroad. Bashnet's assets include 190 oilfields, three refineries (OJSC Novoil, OJSC Ufaneftekhim, OJSC Ufimsky refinery plant), the petrochemical plant OJSC Ufaorgsintez and 485 own filling stations.

JSOC BASHNEFT IS THE PARENT COMPANY OF THE VERTICALLY INTEGRATED BASHNEFT GROUP. THE GROUP'S ORGANIZATIONAL STRUCTURE HAS BEEN FORMED ACCORDING TO ITS CORE BUSINESSES AND IS MADE UP OF THREE MAIN UNITS:

1

UPSTREAM OPERATIONS

2

OIL REFINING AND PETROCHEMICALS

3

MARKETING AND LOGISTICS (COMMERCE)

9

BASHNEFT: KEYS TO SUSTAINABLE DEVELOPMENT

STRUCTURE OF ASSETS: BUSINESS AREAS AND TYPES OF OPERATIONS

SUBSIDIARIES AND SPECIAL PURPOSE ENTERPRISES

As of December 31, 2011, Bashneft Group included 29 organizations in which it had at least a 5% stake, and 31 special purpose enterprises that provide the Group with related services.

THE GEOGRAPHIC FOOTPRINT OF BASHNEFT'S SUBSIDIARIES AND AFFILIATES

REGION	NUMBER OF COMPANIES
REPUBLIC OF BASHKORTOSTAN	18
ORENBURG REGION	2
SVERDLOVSK REGION	2
MOSCOW	2
NENETS AUTONOMOUS DISTRICT	1
UDMURZIA	1
KAZAKHSTAN	1
COUNTRIES OUTSIDE THE CIS	2
TOTAL	29

The table below includes only key business assets (the 20 companies analyzed in this Report).



FUNCTIONAL STRUCTURE OF THE GROUP AS OF DECEMBER 31, 2011

BUSINESS UNIT	TYPE OF OPERATIONS	EFFECTIVE INTEREST OF THE GROUP, %	JSOC BASHNEFT'S STAKE IN THE AUTHORIZED CAPITAL*, %	BUSINESS AREA
LLC BASHNEFT-DOBYCHA	Production of oil and associated gas	100	100	Upstream operations
LLC BASHMINERAL	Geological exploration; oil and gas production (Organizing oil production)	100	100	Upstream operations
LLC ZIRGAN	Development of oil and gas fields; oil and gas production	100	100	Upstream operations
LLC GEONEFT	Development of oil and gas fields; oil and gas production; oil refining and gas processing	100	100	Upstream operations
LLC BASHNEFT-POLYUS	Crude oil and natural gas production	74.9	74.9	Upstream operations
LLC BASHNEFT-BURENIYE	Construction services and field facilities construction	100	100	Upstream operations
LLC BASHNEFTERAZVEDKA	Geological exploration	60	60	Upstream operations
LLC BASHNIPINEFT	Research and development	100	100	Upstream operations
OJSC UFIMSKY REFINERY PLANT	Refining of hydrocarbons and production of petroleum products	66	56	Refining and petrochemicals
OJSC NOVOIL	Refining of third-party raw materials	72	62	Refining and petrochemicals
OJSC UFANEFTEKHIM	Refining of third-party raw materials	63	55	Refining and petrochemicals
OJSC UFAORGSINTEZ	Refining of hydrocarbons, propane and propylene, benzene, alpha methylstyrene resin and production of petrochemicals	66	57	Refining and petrochemicals
OJSC UNITED PETROCHEMICAL COMPANY	Management of financial industrial groups and holding companies (Managing petrochemical assets)	74.99	74.99	Refining and petrochemicals
OJSC BASHKIRNEFTEPRODUKT	Retail sales and wholesale of petroleum products	64	57	Marketing and logistics
OJSC ORENBURGNEFTEPRODUKT	Wholesale of engine fuel, including jet fuel	94	94	Marketing and logistics
OJSC BN-NEFTEPRODUKT (INCL. CJSC BASHNEFT-REGION AND LLC BASHNEFT-UDMURZIA)	Petroleum product sales, capital investments in securities	100	100	Marketing and logistics
LLC SKON GROUP OF COMPANIES	Petroleum product sales (leasing the Group's real estate)	100	100	Marketing and logistics
LLC BASHNEFT-TRANS	Railroad transportation and transport logistics	100	100	Marketing and logistics

*Decimal fractions are rounded to whole numbers, apart from LLC Bashneft-Polyus and OJSC United Petrochemical Company

BASHNEFT: KEYS TO SUSTAINABLE DEVELOPMENT

● STRUCTURE OF ASSETS: BUSINESS AREAS AND TYPES OF OPERATIONS

TYPES OF BUSINESS AND CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

UPSTREAM OPERATIONS

The upstream segment comprises nine subsidiaries conducting geological exploration, drilling, producing hydrocarbons and conducting R&D.

LLC Bashneft-Dobycha, which produces approximately 99% of all Bashneft's hydrocarbons, comprises six oil and gas production departments: Ishimbayneft, Krasnokholmskneft, Ufanefit, Chekmagushneft, Arlanefit and Tuimazaneft, and is the sole executive body of three oil production subsidiaries: **LLC Zirgan**, **LLC Bashmineral** and **LLC Geoneft**.

The above-mentioned oil and gas production departments LLC Zirgan and LLC Bashmineral produce hydrocarbons at the Group's largest fields in the Republic of Bashkortostan, while LLC Geoneft operates at the fields in the Orenburg Region.

LLC Bashneft-Polyus is a joint venture of JSOC Bashneft and OJSC Lukoil. It was established to develop the R. Trebs and A. Titov oilfield in the Nenets Autonomous District. The JV, in which Bashneft and OJSC Lukoil have 74.9% and 25.1% stakes respectively, was established in December 2011.

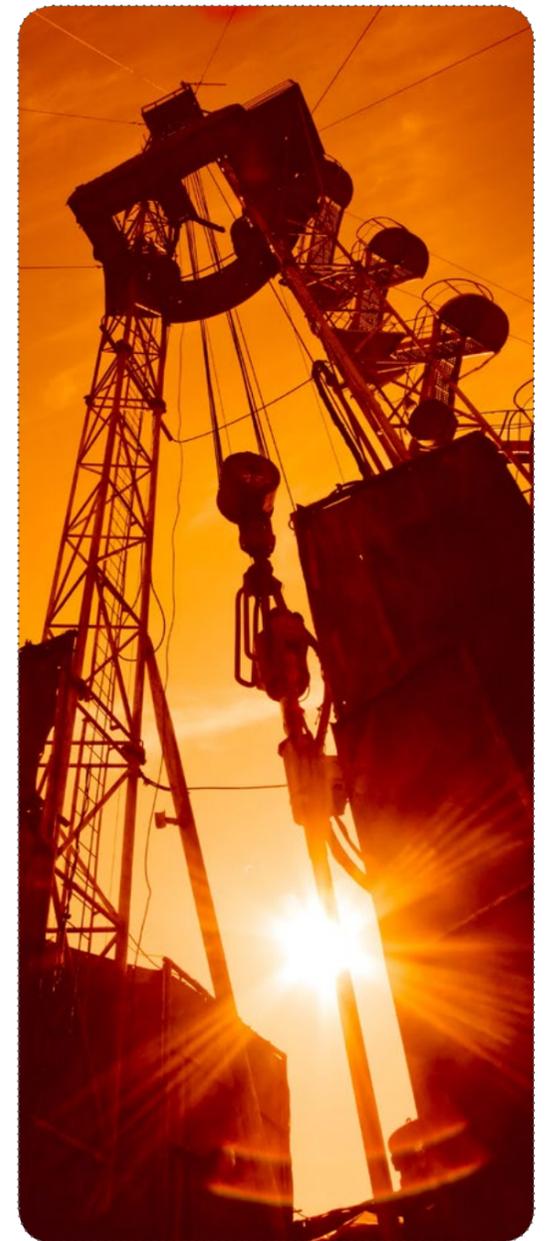
BASHNEFT GROUP'S OIL PRODUCTION IN 2011

OIL PRODUCTION IN 2011	AMOUNT, MILLION TONNES	SHARE, %
LLC BASHNEFT-DOBYCHA	14.90	98.6
LLC BASHMINERAL	0.08	0.6
LLC ZIRGAN	0.01	0.0
LLC GEONEFT	0.12	0.8
TOTAL	15.106	100

LLC Bashnefterazvedka specializes in all types of geological exploration (seismic surveys, deep exploration drilling, geochemical studies and specialized research) in the Republic of Bashkortostan and other regions of Russia: the Orenburg Region, the Khanty-Mansi Autonomous District and the Nenets Autonomous District.

The service unit of JSOC Bashneft includes **LLC Bashneft-Bureniye**, a subsidiary which carries out all the types of drilling, as well as current repairs and major overhauls, and operates in all regions where Bashneft produces hydrocarbons or conducts hydrocarbon exploration.

LLC BashNIPIneft, an advanced R&D complex, conducts research in the spheres of geology, exploration, oilfield development, drilling, production, oil and gas collection, and environmental protection.



● STRUCTURE OF ASSETS: BUSINESS AREAS AND TYPES OF OPERATIONS

TYPES OF BUSINESS AND CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

OIL REFINING AND PETROCHEMICALS

The oil refining and petrochemical production comprises four enterprises with a total capacity of 24.1 million tonnes per year: OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim and OJSC Ufaorgsintez.

OJSC Ufimsky refinery plant is one of the most advanced oil refining enterprises in Russia and is capable of producing a wide range of high-quality petroleum products. The configuration of the plant ensures comprehensive oil refining with the wide use of highly efficient thermal, catalytic and hydrogenation processes. The plant uses modern equipment and produces engine fuels that meet international quality standards, boiler fuel and a wide range of liquefied gases. Its installed capacity amounts to 7.5 million tonnes per year.

OJSC Novoil is one of the largest Russian producers of high-quality petroleum products. Its production facilities include crude oil distillation units, hydrotreaters, reforming and isoreforming units, sulphuric acid alkylation, thermal cracking and visbreaking units, cokers and gas fractionation units, units for solvent refining and dewaxing of oil distillates, tar deasphalting and bitumen production units, as well as gas des-

ulphurization and sulphur production units. The plant has a flexible configuration, which enables it to refine various types of hydrocarbons: low-sulphur and high-sulphur oil, various gas condensates, as well as distillates produced at other enterprises of the Ufa group. Its installed capacity amounts to 7.1 million tonnes per year.

OJSC Ufaneftekhim is one of the largest and most technologically advanced refineries in Russia. It specializes in refining hydrocarbons and producing petroleum products, mainly engine fuel, including high-octane gasoline. Its production facilities ensure a high level of crude oil refining depth. The enterprise produces about 30 types of commodities. The plant is also involved in petrochemical production; it manufactures aromatic hydrocarbons. The aromatic hydrocarbon production complex of OJSC Ufaneftekhim processes straight-run gasoline produced at all three Ufa plants into valuable petrochemicals, such as benzene, paraxylene, orthoxylene and toluene. The installed capacity of amounts to 9.5 million tonnes per year.

OIL REFINING BY BASHNEFT GROUP IN 2011

COMPANY NAME	AMOUNT, MILLION TONNES	SHARE, %
OJSC UFIMSKY REFINERY PLANT	6.101	29.0
OJSC NOVOIL	6.597	31.3
OJSC UFANEFTEKHIM	8.366	39.7
TOTAL	21.064	100

OJSC Ufaorgsintez is a strategic enterprise in the petrochemical production chain, which uses hydrocarbon gases, light gasolines and benzene produced at the three Ufa refineries as raw material. Being one of the largest Russian producers of organic synthesis products, OJSC Ufaorgsintez manufactures about 40% of Russia's total output of phenol, 12 to 13% of the total output of high-density polyethylene and about 20% of the total output of polypropylene; the company is also one of the leading acetone producers. The plant produces over 30 types of petrochemicals that are used by chemical companies, as well as in mechanical engineering, the light industry and by health care enterprises.

In September 2011 the Board of Directors of JSOC Bashneft considered the issue of establishing a joint venture to develop the petrochemical business. Later on **OJSC United Petrochemical Company** was created, whose shareholders are JSOC Bashneft (75%) and Petrochemical Holding GmbH (25%).

BASHNEFT: KEYS TO SUSTAINABLE DEVELOPMENT

● STRUCTURE OF ASSETS: BUSINESS AREAS AND TYPES OF OPERATIONS

TYPES OF BUSINESS AND CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

MARKETING AND LOGISTICS

Bashneft sells its products on both domestic and foreign markets, both retail and wholesale. Bashneft's petroleum products are mainly sold on the domestic market; the Group's efforts in the sphere of domestic sales are aimed at fulfilling the potential of its own marketing infrastructure. Bashneft has its own transport infrastructure and a logistics service for organizing product supplies.

As of December 31, 2011 the retail network of Bashneft Group comprised four operators: **LLC Bashneft-Udmurtia**, **OJSC Bashkirnefteprodukt**, **OJSC Orenburgnefteprodukt** and **LLC SKON Group of Companies**, which run a network of 485 own and 225 partner filling stations in 24 regions, and the **CJSC Bashneft-Region** managing company, which specializes in small wholesales and manages the network of regional sales offices.

The rolling stock of Bashneft's subsidiary **LLC Bashneft-Trans** comprises 4.5 thousand tank cars. The Group also has a large car fleet and a network of specially equipped laboratories that constantly monitor the quality of engine fuels.



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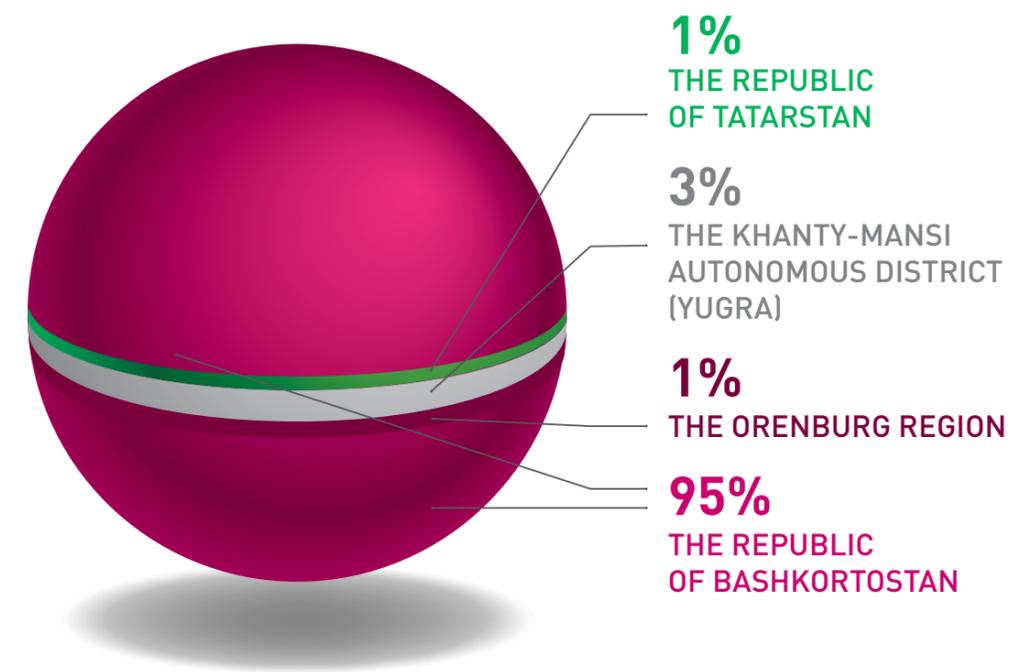
BASHNEFT: KEYS TO SUSTAINABLE DEVELOPMENT

● GEOGRAPHIC FOOTPRINT

Bashneft's main operating regions include the Republic of Bashkortostan, the Nenets Autonomous District, the Republic of Tatarstan, the Khanty-Mansi Autonomous District (Yugra) and the Orenburg Region; the Group also has a large regional marketing network covering 24 regions.

The Republic of Bashkortostan is Bashneft's key operating region, as the main fields developed by the Group are located there. In 2011 field development in Bashkortostan accounted for about 95% of the total oil production, or over 14 million tonnes. Other production regions include the Khanty-Mansi Autonomous District (3% of the total production), the Orenburg Region and Tatarstan (both accounting for 1% of the total production).

BREAKDOWN OF OIL PRODUCTION BY REGIONS IN 2011, %



17

GEOGRAPHIC FOOTPRINT

In 2011 Bashneft's licence portfolio included 221 licences for all core operations. The majority of oil production and geological exploration sites (over 95% of the whole portfolio) were located in the Republic of Bashkortostan, including 193 licences for oil and gas production and 16 licences for geological exploration, prospecting and production of hydrocarbons. Oil refining facilities, including four Ufa refineries, are also located mainly in Bashkortostan.

Apart from the Republic of Bashkortostan, the Group holds development licences for ten fields in other regions of Russia: the Orenburg Region, the Khanty-Mansi Autonomous District and the Nenets Autonomous District. Bashneft is expanding its geographic footprint. Bashneft plans to actively develop promising licence areas in the Nenets Autonomous District; these plans are not confined to the implementation of a large-scale development project of the R. Trebs and A. Titov oilfields.

OPERATING REGIONS: PORTFOLIO OF DEVELOPMENT LICENCES AS OF DECEMBER 31, 2011

REGION	OIL AND GAS PRODUCTION (NE)	PROSPECTING AND EVALUATION OF OIL AND GAS DEPOSITS (NP)	GEOLOGICAL EXPLORATION AND PRODUCTION OF HYDROCARBONS (NR)
REPUBLIC OF BASHKORTOSTAN	193	2	16
REPUBLIC OF TATARSTAN	1	0	0
KHANTY-MANSI AUTONOMOUS DISTRICT (YUGRA)	3	0	1
ORENBURG REGION	0	0	1
NENETS AUTONOMOUS DISTRICT	0	0	4
TOTAL	197	2	22

EXPANDING THE RESOURCE BASE IN STRATEGIC REGIONS

Following the sustainable development strategy, we intend to expand our geographic footprint and resource base in the Republic of Bashkortostan even further and to implement a large-scale geological exploration programme in the Republic. Bashneft also plans to increase its resource base by exploring the purchased areas in the north of the Timano-Pechora Region, which the Group's geologists expect to contain substantial oil reserves. The fact that we have acquired subsoil blocks in the Nenets Autonomous District proves that our investments are strategic. We have obtained licences for geological exploration, prospecting, surveying and production of hydrocarbons at three subsoil blocks in the Nenets Autonomous District: the Vostochno-Padimeyskiy, Savatinskiy and Nyarioyakhskiy blocks.



GEOGRAPHY OF THE GROUP'S FILLING STATIONS NETWORK

Today Bashneft is the leader in terms of engine fuel sales via its own retail network in the Republic of Bashkortostan (comprising 299 of Bashneft's own filling stations). Bashneft's network covers a number of regions, but the majority of its filling stations are located in the following ten regions, which account for 87% of the total number of retail outlets.

MAIN REGIONS COVERED BY THE RETAIL NETWORK OF FILLING STATIONS AS OF DECEMBER 31, 2011

REGION	NUMBER OF FILLING STATIONS
BASHKORTOSTAN	299
ORENBURG REGION	91
UDMURTIA	50
CHELYABINSK REGION	32
TATARSTAN	31
SVERDLOVSK REGION	28*
SAMARA REGION	27
ROSTOV REGION	24
KRASnodAR TERRITORY	23
KURGAN REGION	14
OTHER REGIONS	91
TOTAL	710**

* including three partner filling stations. The regions covered by Bashneft's own retail network are marked in red;

** including 20 leased filling stations.

BASHNEFT: KEYS TO SUSTAINABLE DEVELOPMENT

GEOGRAPHIC FOOTPRINT

EXPANDING THE GEOGRAPHIC FOOTPRINT OF THE MARKETING NETWORK

In 2011 Bashneft's priority was to increase retail sales by expanding the network of its own and partner filling stations. The Group is actively expanding the network of its marketing subsidiaries in the priority regions in order to develop small wholesale of engine fuel. This network includes the regions bordering Bashkortostan, as well as Moscow and Saint Petersburg, as these are the most promising markets in terms of consumption.

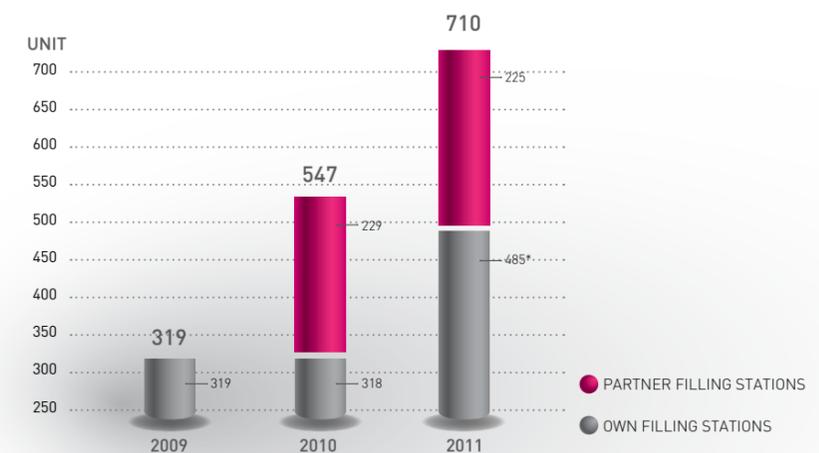
In April 2011, Bashneft purchased 94% of the authorized capital of OJSC Orenburgnefteprodukt (16 oil storage facilities and 95 filling stations in the Orenburg Region) from OJSC RussNeft. In July 2011, Bashneft gained control over LLC BN-Nefteprodukt as a result of reorganization of LLC Aspec; LLC BN-Nefteprodukt owns 50 filling stations and four oil storage facilities. At the end of December 2011 Bashneft announced that it had acquired LLC SKON Group of Companies, the third largest filling stations operator in the Sverdlovsk Region (approximately 5% of all filling stations in the region), which owns an oil storage facility and a network of 25 filling stations in Yekaterinburg and the Sverdlovsk Region.

At the same time, we fully recognize that the market share is directly related to the quality and range of our products. This is why we aim to strengthen our position in the retail market by expanding our own retail network along with increasing the share of cleaner fuels that meet the most up-to-date standards in our product range.



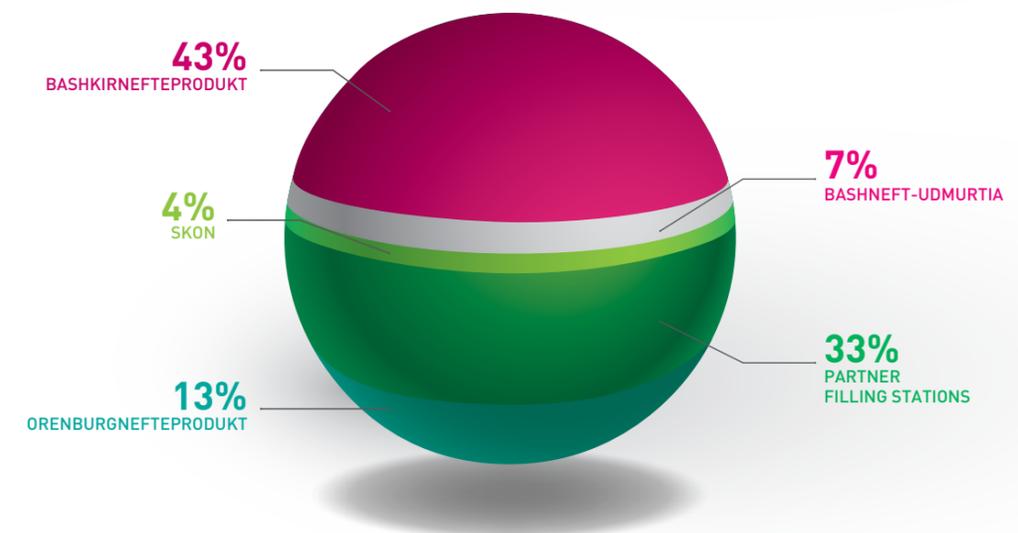
20

EXPANSION OF THE FILLING STATIONS NETWORK IN 2009-2011



* Including 20 leased filling stations

BREAKDOWN OF THE FILLING STATIONS NETWORK BY BASHNEFT'S ENTERPRISES AS OF DECEMBER 31, 2011, %



21

BASHNEFT: KEYS TO SUSTAINABLE DEVELOPMENT

TYPES OF PRODUCTS

ALL COMMODITIES PRODUCED BY BASHNEFT FALL INTO THREE MAIN CATEGORIES:

1

CRUDE OIL AND GAS
CONDENSATE

2

PETROLEUM
PRODUCTS

3

PETROCHEMICALS

The revenue of Bashneft Group from crude oil sales amounted to approximately 19% of total sales, while sales of petroleum products accounted for approximately 79% of Bashneft's total revenue in 2011 (compared to 17% and 80% respectively in 2010).

PRODUCT RANGE BY TYPES OF PRODUCTION

OIL REFINING

OJSC UFANEKTEKHIM	high-octane gasolines, low-sulphur diesel fuel, boiler fuel, bitumen, coke, lump sulphur and sulphur pellets, liquefied gases, benzene, ortho- and paraxylenes
OJSC UFIMSKY REFINERY PLANT	high-octane gasolines, diesel fuel, boiler fuel, liquefied gases, liquid and lump sulphur, bisphenol A
OJSC NOVOIL	gasolines, jet fuel, diesel fuel, engine oil, gear oil and special oil, vacuum gas oil (VGO), wax products, petroleum bitumen, boiler fuel, coke, lump sulphur

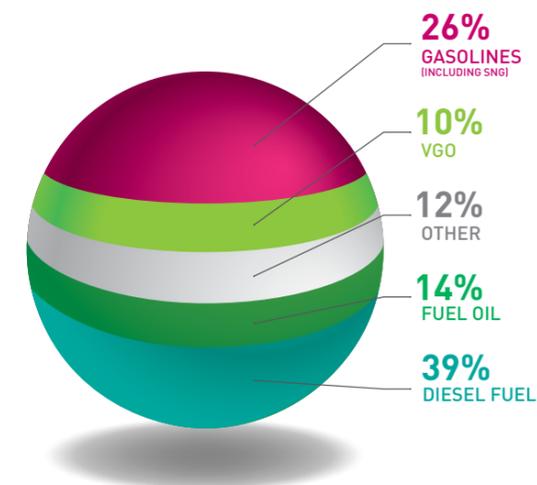
PETROCHEMICALS

OJSC UFAORGSINTEZ	polypropylene, high-density polyethylene, acetone, phenol, alpha-methylstyrene, rubber, etc. (over 30 types of petrochemicals and over 25 types of consumer goods)
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BREAKDOWN OF PRODUCTS

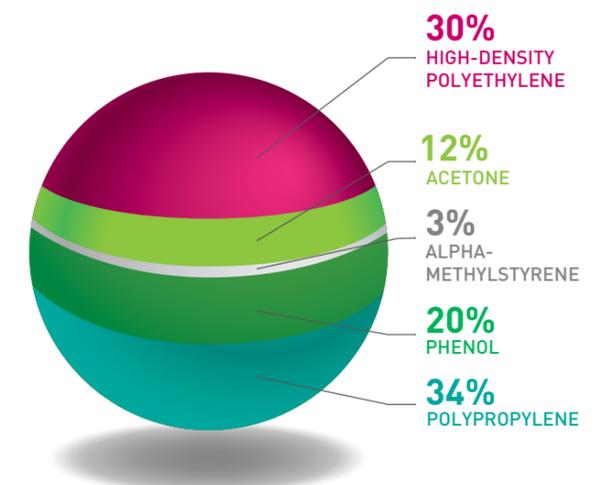
The breakdown of commodities produced by the oil refining complex is as follows: diesel fuel accounts for approximately 39% of physical sales volume, while gasolines (including stable natural gasoline) account for 26%; fuel oil, vacuum gas oil and other petroleum products account for 14%, 10% and approximately 12%, respectively.

OIL REFINING: FUEL AND LUBRICANTS PRODUCTION, %



The structure of the main commodities produced by the petrochemical complex is well diversified: polypropylene accounts for approximately 35%, high-density polyethylene accounts for 30%, while phenols, acetone and alpha-methylstyrene account for 20%, 12% and approximately 3%, respectively.

PETROCHEMICALS: MAIN PRODUCTS OF ORGANIC SYNTHESIS, %



BASHNEFT: KEYS TO SUSTAINABLE DEVELOPMENT

SUSTAINABLE DEVELOPMENT OF BUSINESS AREAS

PLANNING IS THE BASIS FOR SUSTAINABLE DEVELOPMENT

Taking responsibility for sustainable development of the business and ensuring its long-term and efficient growth, Bashneft's management considers efficient and comprehensive planning to be the basis for sustainable development and makes efforts to ensure it by adopting and implementing medium-term and long-term strategies, investment and target programmes, as well as annual budgeting of all core business areas.

The Group has adopted and is implementing a five-year Development Strategy until 2016 approved by the Board of Directors at the meeting on December 26, 2011. The strategy of JSOC Bashneft is aimed at raising the Company's value by increasing the production of hydrocarbons and building up oil and gas reserves, diversifying assets, implementing the refinery upgrade programme, developing its own filling stations network in various regions of Russia, as well as increasing the efficiency of the entire value chain.

THE SUSTAINABLE DEVELOPMENT STRATEGY FOR 2011-2016

The Group has adopted and is implementing a five-year Development Strategy until 2016, which was approved at the meeting of the Board of Directors held on December 26, 2011. The strategy of JSOC Bashneft is aimed at raising the Company's value by increasing the production of hydrocarbons and building up oil and gas reserves, diversifying assets, implementing the refinery upgrade programme, developing its own filling stations network in various regions of Russia, as well as increasing the efficiency of the entire value chain.

Bashneft's Strategy remains focused on increasing **oil production** growth rate by developing new oilfields and preventing the reduction in production at old and depleted oilfields; this is one of Bashneft's primary goals. The Group plans to maintain the level of oil production at the existing oilfields by increasing the scope of geological and engineering operations, such as drilling new wells, optimizing fluid withdrawal, transferring wells to new geological targets, hydraulic fracturing, waterflooding in new zones, reducing the number of idle wells and using highly efficient enhanced oil recovery methods more widely.

At the same time Bashneft plans to implement a large-scale **geological exploration** programme in the Republic of Bashkortostan, its key operating region, and expects to obtain licences for several fields in other regions. The Group believes that after 2016 this will allow to significantly increase oil and natural gas reserves, including through exploration of non-conventional oil reserves in Bashkortostan.

The Group's Strategy in the field of **refining** includes refinery upgrades, which are aimed at increasing the competitiveness and value of its product range. With oil refining volumes remaining at the level of approximately 20 million tonnes per year the implementation of key investment projects will allow Bashneft to increase the Nelson Index to 9.6 and increase the refining depth from 86% to 94.4%, expand the share of light products from 59.9% to 73.4%, as well as to start producing only Euro 4 and 5 engine fuels in a timely manner and in accordance with the Technical Regulations.

In the sphere of marketing, the Strategy also involves improving the efficiency of all marketing channels, developing export logistics and boosting small wholesales by expanding Bashneft's own retail network by a factor of 2.5 in 2016, which will increase the profitability of sales and enable to sell up to 80% of gasoline retail. Promoting Bashneft's brand name in the regions by acquiring independent networks of filling stations and implementing partnership programmes is very important for the Group.



BASHNEFT: KEYS TO SUSTAINABLE DEVELOPMENT

SUSTAINABLE DEVELOPMENT OF BUSINESS AREAS

THE STRUCTURE, STRATEGY AND OBJECTIVES IN THE SPHERE OF SUSTAINABLE DEVELOPMENT

	UPSTREAM OPERATIONS	OIL REFINING AND PETROCHEMICALS	MARKETING AND LOGISTICS	SERVICES
STRATEGIC GOALS FOR THE DEVELOPMENT OF BUSINESS UNITS	Maintaining oil production at the existing oilfields at the optimal level of 15 million tonnes per year and boosting oil production by launching the Trebs and Titov project	Increasing the refining depth to 94.4% and the share of light products to 73.4% by 2016, while maintaining oil refining at the existing capacities at the level of about 20 million tonnes per year. Increasing the Nelson Index to 9.6	Aggressive expansion of Bashneft's own marketing network and controllable marketing channels to 1,200 filling stations by 2016; Retail sale of up to 80% of produced gasoline via Bashneft's own network	Leadership in financial, organizational and environmental performance, as well as in overall safety and security
OBJECTIVES IN THE SPHERE OF SUSTAINABLE DEVELOPMENT	<ol style="list-style-type: none"> Increasing the recovery factor at the existing oilfields and operating the wells more efficiently Reduction of the environmental impact by introducing new enhanced oil recovery methods Expansion of the scope of business, i.e. reaching a much higher level of oil production through organic growth at existing fields, as well as the purchase of new production assets and obtaining exploration licences 	<ol style="list-style-type: none"> Installation of advanced high-performance, environmentally friendly equipment Production of considerably cleaner fuel, switch over to the production of high-quality petroleum products that meet the strictest international standards Efficient use of raw materials and increase of the refining depth Increasing energy efficiency and reducing refining costs 	<ol style="list-style-type: none"> Provision of consumers with Bashneft's high-quality products by forming a regional marketing network Cooperation with consumers in the promotion of Euro 4 and Euro 5 fuels on the Russian market, which will help protect the environment in the region and all over the country Improvement of the quality of customer service and promotion of cooperation with consumers 	<ol style="list-style-type: none"> Reformation of the service system in a socially responsible way, taking into account social consequences Promoting competition on the service market

THE IMPLEMENTATION OF THIS STRATEGY IS AIMED AT THE FOLLOWING:

- 

CONTRIBUTING TO ENHANCING SUSTAINABLE DEVELOPMENT PROSPECTS OF THE NATIONAL OIL INDUSTRY
- 

INCREASING OUR SHARE IN THE DOMESTIC AND FOREIGN OIL AND GAS MARKET
- 

ENSURING UNINTERRUPTED SUPPLY OF HIGH-QUALITY ENERGY SOURCES TO REGIONS IN ORDER TO MEET THE REGIONAL NEEDS
- 

ASSERTING THE GROUP'S LEADERSHIP IN THE SECTOR IN A NUMBER OF AREAS AND FURTHER INCREASE OF KEY PERFORMANCE INDICATORS
- 

INCREASING BASHNEFT'S SHAREHOLDER VALUE AND ITS SHARE IN CAPITAL MARKETS AS WELL AS ENSURING ACCESS TO THE SOURCES OF FINANCING OF OUR FUTURE GROWTH
- 

UPGRADING THE PRODUCTION FACILITIES AND INCREASING THE COMPETITIVENESS OF PRODUCTION THROUGH THE USE OF ADVANCED TECHNOLOGIES

8.3 THE NELSON INDEX

of the Ufa group of refineries

1,983.5
MILLION BARRELS

PROVED RESERVES under PRMS
classification

21.1
MILLION TONNES

OIL REFINING

19.2 MILLION TONNES

PRODUCTION OF PETROLEUM
PRODUCTS AND PETROCHEMICALS

15.1 MILLION TONNES

CRUDE OIL PRODUCTION

165%

RESERVE-REPLACEMENT RATIO
under PRMS classification

18 YEARS

RESERVES TO PRODUCTION
RATIO under PRMS classification

US\$ 1.7 BILLION

NET INCOME ATTRIBUTABLE TO
MAIN SHAREHOLDERS OF THE
GROUP

221

LICENCES FOR CORE BUSINESS
OPERATIONS

+6.8%

THE INDUSTRY LEADER IN
TERMS of annual oil production
growth

OVER 24
MILLION TONNES

OF OIL PER YEAR REFINING
CAPACITIES

8,3%

of the TOTAL OIL REFINING
in Russia

3%

of the TOTAL OIL PRODUCTION
in Russia

85.9%

THE INDUSTRY LEADER
in terms of refining depth

80 YEARS

of commercial oil production in
the Republic of Bashkortostan

 JSOC BASHNEFT
CONTRIBUTES
TO SUSTAINABLE
DEVELOPMENT
OF THE FUEL AND
ENERGY SECTOR
AND INCREASES
THE SHARE CAPITAL

POSITION IN THE INDUSTRY AND THE MARKET

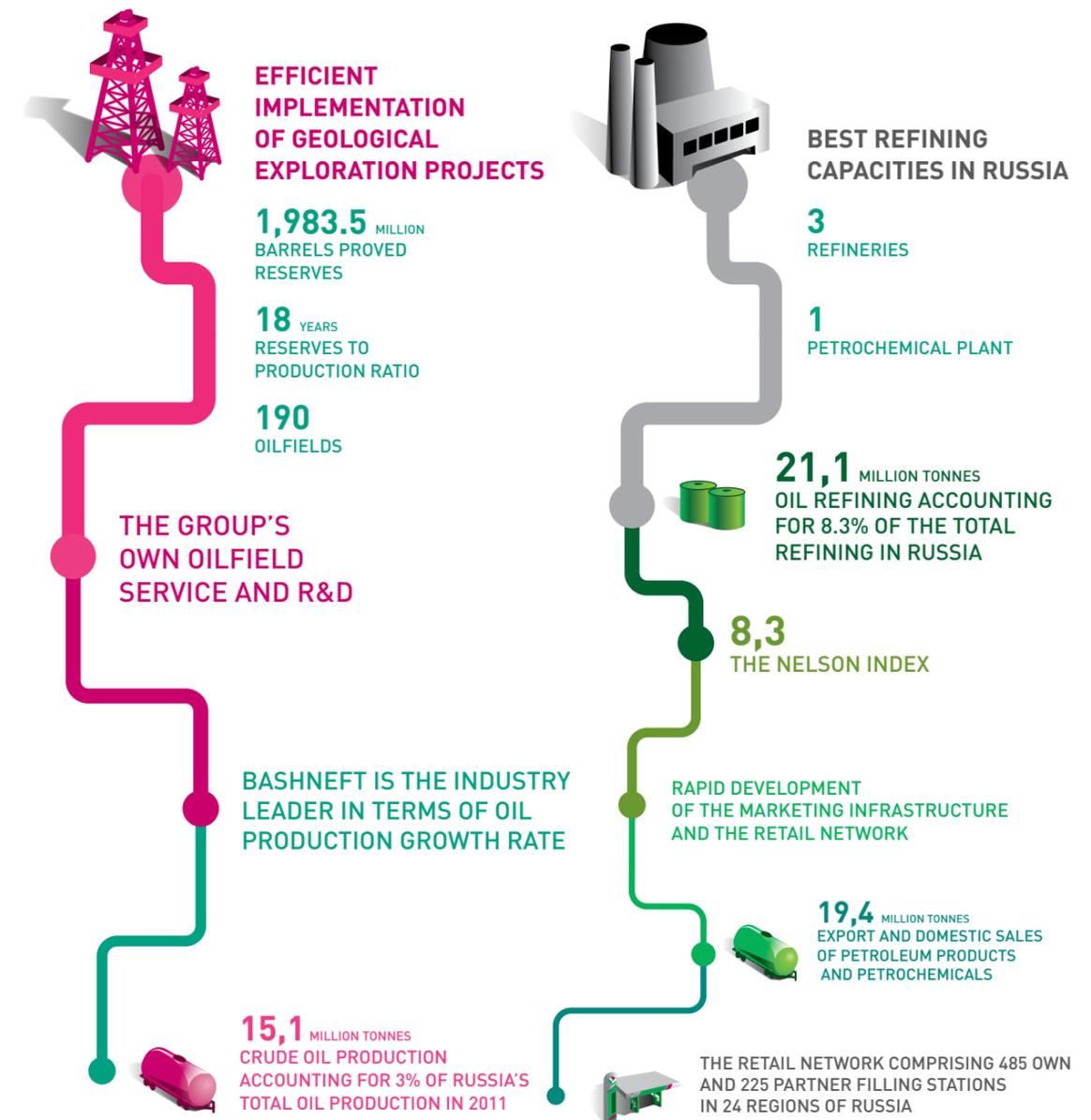
CONTRIBUTION TO SUSTAINABLE DEVELOPMENT OF THE NATIONAL FUEL AND ENERGY SECTOR

BASHNEFT GROUP RANKS IN THE TOP TEN OF RUSSIAN OIL COMPANIES IN TERMS OF OIL PRODUCTION AND IN THE TOP FIVE IN TERMS OF OIL REFINING. BASHNEFT HAS A SIGNIFICANT IMPACT ON THE DEVELOPMENT OF THE RUSSIAN FUEL AND ENERGY SECTOR AS A WHOLE. OUR OBJECTIVES RELATED TO THE CREATION OF SUSTAINABLE DEVELOPMENT PROSPECTS FOR THE OIL INDUSTRY INCLUDE:

- UNINTERRUPTED SUPPLY OF HIGH-QUALITY PRODUCTS TO CONSUMERS;
- RESPONSIBLE USE OF MINERAL RESOURCES, CONSERVATION AND AUGMENTATION OF THE COUNTRY'S NATURAL RESOURCES FOR FUTURE GENERATIONS;
- EFFICIENT USE OF RESOURCES DUE TO THE MODERNIZATION OF BASHNEFT'S PRODUCTION CAPACITIES, PRODUCTION AND REFINING METHODS AND THE DEVELOPMENT OF RESOURCE-EFFICIENT TECHNOLOGIES;
- MODERNIZATION OF THE RUSSIAN FUEL AND ENERGY SECTOR AS A WHOLE BY IMPLEMENTING BASHNEFT'S GAINED EXPERIENCE, ACHIEVEMENTS AND LATEST DEVELOPMENTS IN RELEVANT AND PROMISING AREAS OF THE DEVELOPMENT OF PRODUCTION AND REFINING TECHNOLOGIES;
- BASHNEFT'S CONTRIBUTION TO FULFILLING INTERNATIONAL OBLIGATIONS ASSUMED BY RUSSIA IN THE FIELD OF FUEL SUPPLIES AND IN THE AREA OF ATMOSPHERIC EMISSION REDUCTION.

30

BASHNEFT'S POSITION IN THE INDUSTRY AND ON THE PETROLEUM PRODUCTS MARKET IN 2011



31

JSOC BASHNEFT'S KEY INDICATORS FOR 2011

INDICATOR	2009 *	2010	2011
Oil production, million tonnes	12.2	14.1	15.1
Natural gas production, million cubic metres	46.1	44.8	43.6
Associated gas production, million cubic metres	391.3	436.0	494.8
Crude oil distillation, million tonnes	20.7	21.2	21.1
Supply of oil produced by Bashneft, million tonnes	12.2	14.1	15.1
including oil refined by Bashneft, million tonnes	4.3	10.0	10.4
including domestic sales, million tonnes	6.1	0.9	1.1
including export sales, million tonnes	1.9	3.2	3.6
Sales of petroleum products and petrochemicals	6.8	18.9	19.4
including export sales, million tonnes	2.7	7.8	9.2
Revenue, US\$ million	6,775	11,707	16,549
Share of revenue from domestic sales, %	72	48	43
Share of revenue from export sales, %	28	52	57
Pre-tax income, US\$ million	643	1,880	2,204
Net income, US\$ million	473	1,546	1,815
Production and operating expenses, US\$ million	2,147	1,436	1,684
Wages and salaries, US\$ million	954	848	849
Taxation, US\$ million	1,083	1,773	2,565
Declared dividends, US\$ million	739	1,558	690
IFRS-based dividend payout ratio, %	176	109	41
Investments in communities, US\$ million	42	42	59
Average headcount in the Group, people	29,290	28,245	26,754
Market capitalization, US\$ million	4,424	7,522	7,062
OIBDA (EBITDA), US\$ million	1,249	2,732	3,192
EBITDA margin, %	18.4	23.3	19.3
Basic earnings per share (EPS), US\$	2.05	7.26	9.07
GROWTH			
Revenue	n/a	72.8%	41.4%
EBITDA margin, p.p.	n/a	4.9%	-4.0%
EBITDA	n/a	18.7%	16.8%
EPS	n/a	254.1%	24.9%

* Financial results for 2009 include the financial results of OJSC Bashkirenergo.

POSITION IN THE INDUSTRY AND THE MARKET

BASHNEFT'S POSITION IN THE INDUSTRY AND ON THE PETROLEUM PRODUCTS MARKET IN 2011

UPSTREAM OPERATIONS

190 OILFIELDS ON THE BOOKS

1,983.5 MILLION BARRELS PROVED OIL RESERVES TOTAL

18 YEARS RESERVES TO PRODUCTION RATIO

+6.8% THE INDUSTRY LEADER IN TERMS OF OIL PRODUCTION GROWTH RATE

3% OF THE TOTAL OIL PRODUCTION IN RUSSIA

3-rd IN THE INDUSTRY IN TERMS OF HYDRAULIC FRACTURING EFFICIENCY

POSITION IN THE INDUSTRY AND THE MARKET

BASHNEFT'S POSITION IN THE INDUSTRY AND ON THE PETROLEUM PRODUCTS MARKET IN 2011

UPSTREAM OPERATIONS

As of the end of 2011 the Group owned 190 oilfields, 166 of which were in commercial production. Bashneft's proved oil reserves amounted to 1,983.5 million barrels, which is 3.8% higher than the previous year. The Group had a reserve replacement ratio of 165% and reserves to production ratio of 18 years.

As part of the strategy for expanding the hydrocarbon resource base, the Group works to obtain licences for new



promising areas and actively carries out geological exploration.

In 2011 JSOC Bashneft was granted seven development licences; as of the end of the year it held 309 licences, including 197 licences for oil and gas production, 22 licences for geological studies, exploration and production of hydrocarbons, and two licences for prospecting and evaluating oil and gas deposits.

As part of geological exploration programme, in 2011 exploration drilling excluding additional exploration totalled 29 thousand metres (vs. 6.8 thousand metres in 2010). Exploration drilling resulted in discovering two oil deposits with C1 oil reserves under Russian classification amounting to 739 thousand tonnes (recoverable reserves total 275 thousand tonnes). In 2011 the volume of 3D seismic surveys (common-depth point) totalled 265 square kilometres. Following the seismic surveys nine promising formations with total oil reserves amounting to 7,069 thousand tonnes were prepared. The Group's plans for 2012 include exploration drilling totalling up to 17.9 thousand metres and 3D seismic surveys covering 1,513 square kilometres.

THE R. TREBS AND A. TITOV OILFIELDS

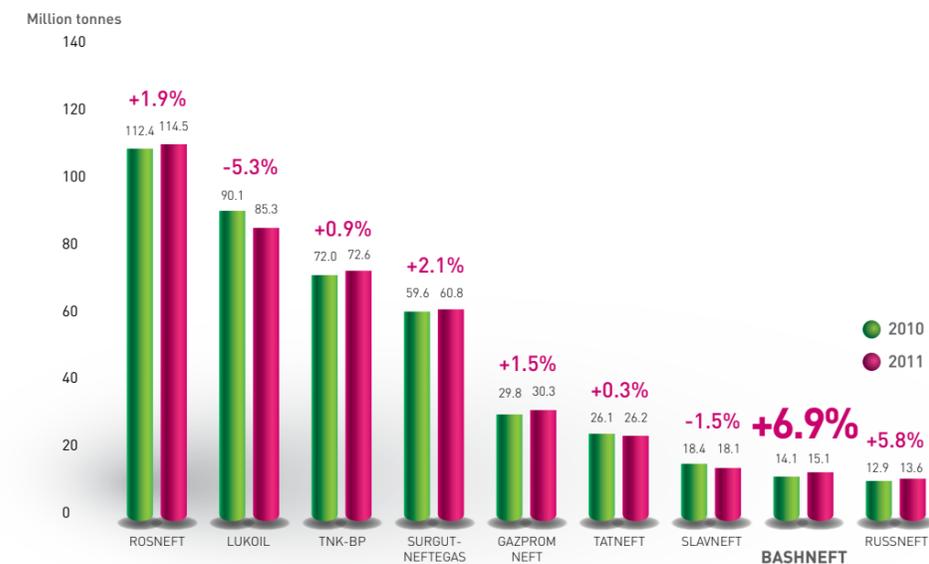
In February 2011, JSOC Bashneft obtained a licence for a federal subsoil area that includes the R. Trebs and A. Titov oilfields and totals 2,151 square kilometres. The total recoverable C1+C2 oil reserves under Russian classification amount to 140.1 million tonnes.

In 2011 the first exploration well, which is 4.2 thousand metres long, was drilled at the R. Trebs oilfield. In 2012 the Group plans to drill two exploration wells with a combined length of 8.5

thousand metres and to conduct 3D seismic surveys (common-depth point) covering 600 square kilometres. Commissioning of the R. Trebs oilfield is scheduled for 2013, and peak production is expected to be reached in 2018.

Bashneft ranks eighth in terms of oil production volume and first in terms of oil production growth rate in Russia. In 2011 the Group produced 15.1 million tonnes of oil, which is 6.8% more than the previous year.

CHANGES IN OIL PRODUCTION VOLUME IN THE INDUSTRY, MILLION TONNES



Source: data on Bashneft Group is provided by Bashneft; data on other companies are provided by CDU TEK and include only production in Russia.

POSITION IN THE INDUSTRY AND THE MARKET

BASHNEFT'S POSITION IN THE INDUSTRY AND ON THE PETROLEUM PRODUCTS MARKET IN 2011

UPSTREAM OPERATIONS

The Group's oil refineries are the main consumers of produced oil: in 2011 approximately two thirds of the crude oil (10.4 million tonnes) produced by the Group was processed at its refineries; about one third (4.6 million tonnes) was sold on the domestic market or exported.

During the last three years average annual production growth remains strong, which has been directly related to an increase in specific flow efficiency of wells, including through hydraulic fracturing widely used by Bashneft. The Group ranks third in the industry in terms of hydraulic fracturing efficiency.

BREAKDOWN OF PRODUCED OIL: REFINING AND SALES, MILLION TONNES



OIL REFINING AND PETROCHEMICALS

85.9% THE INDUSTRY LEADER IN TERMS OF REFINING DEPTH

8.3% OF THE TOTAL OIL REFINING IN RUSSIA

8.3 THE NELSON INDEX

4-th AMONG RUSSIAN OIL COMPANIES IN TERMS OF PETROCHEMICAL PRODUCTION

24.1 MILLION TONNES PER YEAR OIL REFINING CAPACITY

POSITION IN THE INDUSTRY AND THE MARKET

BASHNEFT'S POSITION IN THE INDUSTRY AND ON THE PETROLEUM PRODUCTS MARKET IN 2011

OIL REFINING COMPLEX

In 2011 Bashneft's three refineries (OJSC Ufimsky refinery plant, OJSC Novoil and OJSC Ufaneftekhim) processed 21.1 million tonnes of crude oil, which accounts for 8.3% of the total oil refining in Russia. In order to maximize the efficiency of oil refining capacities the Group purchases West Siberian oil from third parties. In 2011 10.7 million tonnes of oil and gas condensate were purchased.

The Ufa refineries are among the most technologically advanced enterprises in the Russian oil industry: they have a Nelson Index of 8.3, which is comparable with the average figures of European refineries. To compare, the average complexity index of Russian refineries is 4.4.

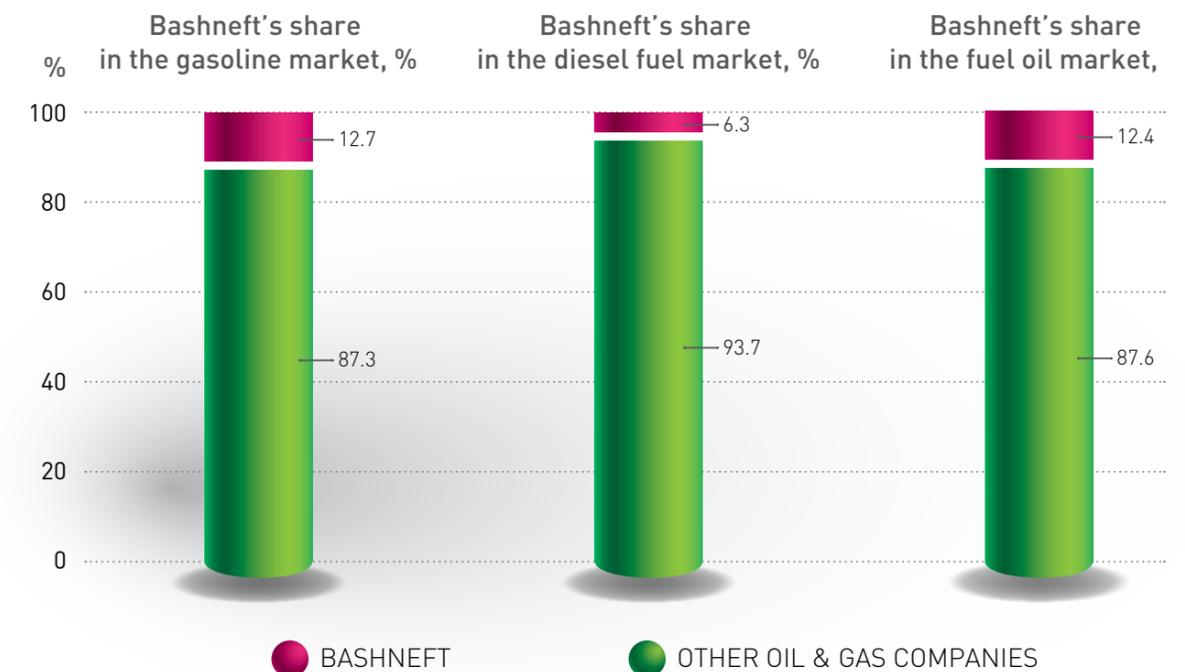
Share of light products totalled 59.95%, while the average refining depth amounted to 85.9%, which is the best result among Russian vertically integrated oil companies.

As for the fuel and lubricants market, Bashneft's market share in the gasoline, diesel fuel and fuel oil segments total 12.7%, 6.3% and 12.4% respectively.



38

BASHNEFT'S SHARE IN THE RUSSIAN FUEL AND LUBRICANTS MARKET IN 2011, %



Source: the Group's data

Bashneft ranks **fourth in Russia** in terms of production of key petrochemicals and has a diversified and balanced production structure. The distinguishing feature of the Group's refining complex is the close cooperation between the

plants in practically all spheres, which allows to select an optimal refining configuration and maximize the profitability of refining.

39

POSITION IN THE INDUSTRY AND THE MARKET

BASHNEFT'S POSITION IN THE INDUSTRY AND ON THE PETROLEUM PRODUCTS MARKET IN 2011

MARKETING AND LOGISTICS

710 OWN AND PARTNER FILLING STATIONS IN 24 REGIONS OF RUSSIA

+30% IN 2011 THE RETAIL NETWORK GROWTH RATE

OWN INFRASTRUCTURE, TRANSPORTATION AND LOGISTICS SERVICE

60% OF THE GROUP'S PRODUCTS ARE DELIVERED BY THE GROUP'S OWN RAIL TRANSPORT

19.4 MILLION TONNES - ANNUAL SALES OF PETROLEUM PRODUCTS AND PETROCHEMICALS

3.6 MILLION TONNES - EXPORT SALES OF OIL

The uninterrupted supply of high-quality products to consumers is one of our primary business goals and Bashneft views this as a contribution to sustainable development of the energy sector.

DOMESTIC MARKET

UNINTERRUPTED SUPPLY OF HIGH-QUALITY PETROLEUM PRODUCTS TO THE REGIONS

On the domestic market JSOC Bashneft seeks to use its **own marketing infrastructure** with maximum efficiency. In June 2009 the Group started selling its products independently by creating its own commercial service. Currently Bashneft's domestic marketing department covers numerous regions and has its own rapidly developing retail infrastructure. By expanding it the Group intends to boost sales in the regions in order to ensure uninterrupted supply of high-quality energy sources to them.

The Group's petroleum products are mainly sold on the **domestic market**. In 2011, domestic sales of Bashneft's products totalled **10.2 million tonnes**, which is approximately **53%** of the total sales of petroleum products and petrochemicals.

It is very important for Bashneft to have its own infrastructure, an essential factor for ensuring profitability and uninterrupted supply, important for transport logistics, and is crucial for the successful implementation of the strategy for developing retail sales in the regions. In 2011 6.5 million tonnes of petroleum products (or 60% of the total amount of petroleum products transported by rail-road) were transported by LLC Bashneft Trans' own fleet.

POSITION IN THE INDUSTRY AND THE MARKET

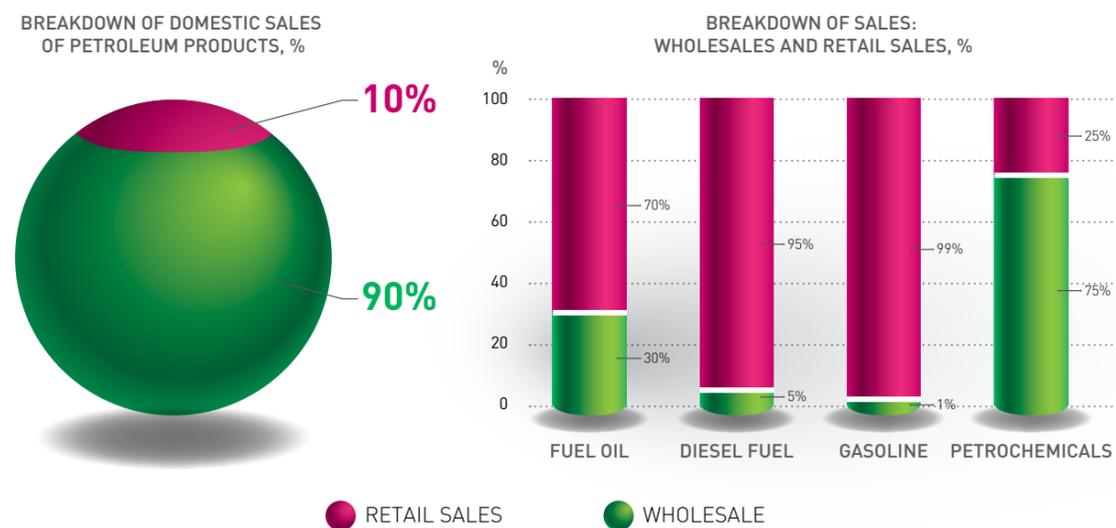
BASHNEFT'S POSITION IN THE INDUSTRY AND ON THE PETROLEUM PRODUCTS MARKET IN 2011

PETROLEUM PRODUCT SUPPLIES: WHOLESALAS AND RETAIL SALES

In 2011 domestic retail sales of petroleum products and petrochemicals via Bashneft's own filling stations totalled approximately 1.0 million tonnes, adding 66.1% as the Group's own retail network was expanded almost 1.5 times

to 485 filling stations. Consequently, wholesales (including small wholesales) decreased by 12.7% as compared to the previous year and totalled 9.1 million tonnes.

BREAKDOWN OF DOMESTIC SALES OF PETROLEUM PRODUCTS IN GENERAL AND BY TYPES OF PRODUCTS, %



42

EXPORT SALES

BASHNEFT'S CONTRIBUTION TO THE EXPORT OF RUSSIAN PETROLEUM PRODUCTS

In 2011 3.6 million tonnes of crude oil and 9.2 million tonnes of petroleum products and petrochemicals were exported. Thus, crude oil sales total approximately 28% of our export product sales; petroleum products and petrochemicals account for the remaining 72%.

During the reporting year export sales of all products increased. Petroleum product exports are growing faster than crude oil export sales, which is a positive result: in 2011 petroleum product exports increased by 18% as compared to 2010, while export sales of crude oil added only 12% during the same period.

HIGHER GROWTH RATE OF PETROLEUM PRODUCT AND PETROCHEMICALS EXPORTS COMPARED TO THE GROWTH RATE OF CRUDE OIL EXPORTS IN 2011, MILLION TONNES

EXPORT BASKET, MILLION TONNES	2010	2011	GROWTH, %
CRUDE OIL	3.2	3.6	12
PETROLEUM PRODUCTS AND PETROCHEMICALS	7.8	9.2	18
TOTAL	10.8	12.8	16



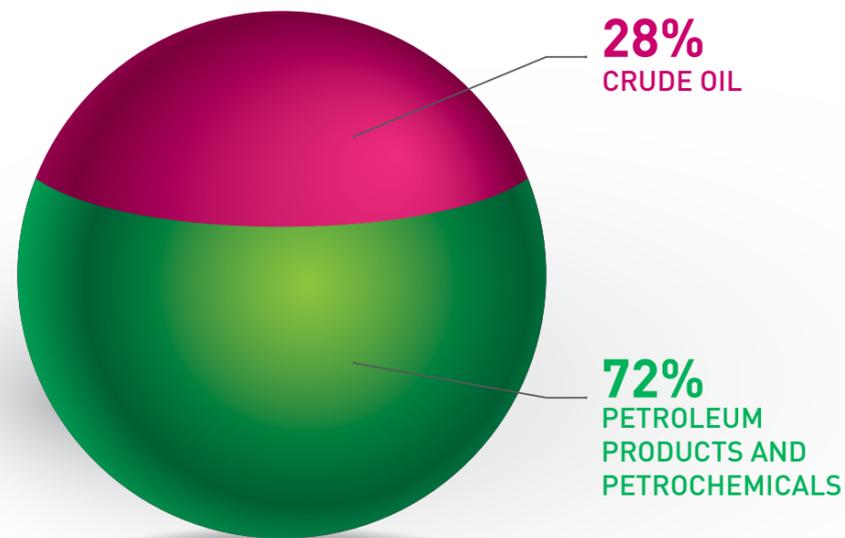
43

POSITION IN THE INDUSTRY AND THE MARKET

BASHNEFT'S POSITION IN THE INDUSTRY AND ON THE PETROLEUM PRODUCTS MARKET IN 2011

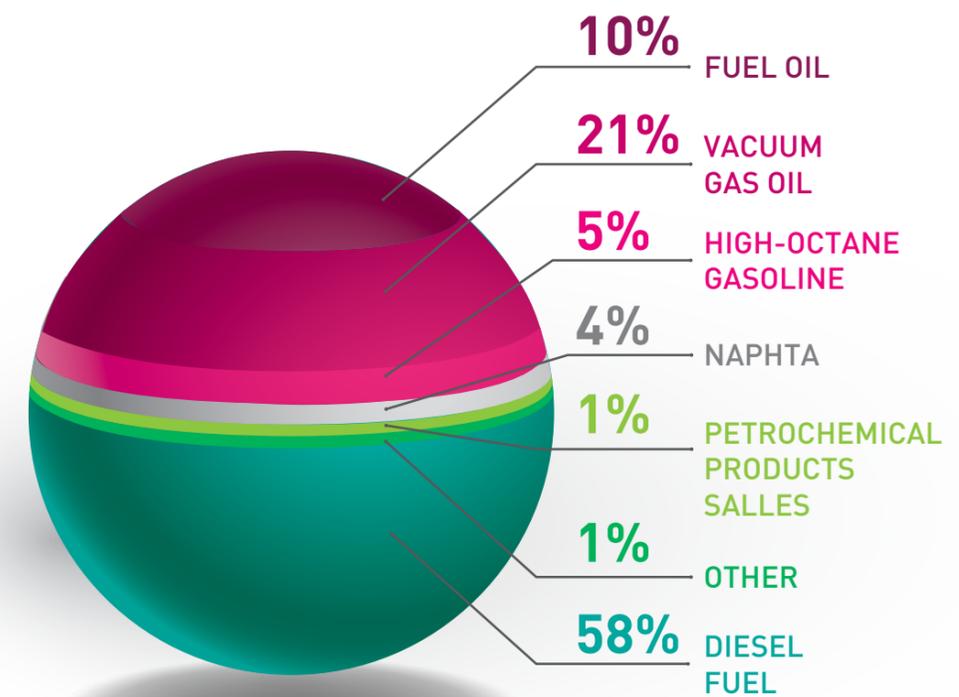
EXPORT SALES

BREAKDOWN OF THE EXPORT BASKET IN 2011, %



44

BREAKDOWN OF EXPORTS OF PETROLEUM PRODUCTS AND PETROCHEMICALS



45

POSITION IN THE INDUSTRY AND THE MARKET

BASHNEFT'S POSITION IN THE INDUSTRY AND ON THE PETROLEUM PRODUCTS MARKET IN 2011

A DIVERSIFIED EXPORT BASKET

Exported petroleum products are well diversified and include diesel fuel, vacuum gas oil, fuel oil and other products. Diesel fuel and vacuum gas oil have the biggest share of physical volumes of petroleum product exports (approximately 58% and 21%, respectively). As for pet-

GEOGRAPHY OF EXPORTS

Approximately 76% of the exports of petroleum products and petrochemicals are destined for to Northwestern Europe countries, while 24% go to the CIS countries (7.0 million tonnes and 2.2 million tonnes respectively). Petroleum products are transported via OJSC Transnefteprodukt's system of export product pipelines and by railway to Kazakhstan and to marine terminals in Murmansk and Kaliningrad.

About 26% of crude oil is sold on the domestic market, while 74% is exported. Crude oil is exported to the Czech Republic, Poland and Germany via the Druzhba pipeline and via ports to Primorsk, Gdansk and Novorossiysk.

rochemicals, Bashneft exported mainly diphenylolpropane (bisphenol A), which is produced by OJSC Ufimsky refinery plant. Besides, the Group exported considerable amounts of lump sulphur and alpha-methylstyrene.



46

BREAKDOWN OF EXPORT SALES OF CRUDE OIL AND PETROLEUM PRODUCTS

PETROLEUM PRODUCT SALES	AMOUNT, MILLION TONNES	SHARE, %
DOMESTIC SALES	10.2	53
EXPORT SALES, INCLUDING:	9.2	47
CIS countries	2.2	11
Countries outside the CIS	7.0	36
TOTAL (PETROLEUM PRODUCTS)	19.4	100
CRUDE OIL SALES	MILLION TONNES	SHARE, %
DOMESTIC SALES	1.0	22
EXPORT SALES, INCLUDING:	3.6	78
Czech Republic	1.42	31
Poland	1.40	30
Primorsk	0.50	1
Gdansk	0.14	3
Novorossiysk	0.14	3
TOTAL (CRUDE OIL)	4.6	100



47

POSITION IN THE INDUSTRY AND THE MARKET

● POSITION ON THE INDUSTRY RESEARCH AND TECHNOLOGIES MARKET

We consider **innovations** and scientific potential to be extremely important resources for Bashneft's sustainable development and its increase of **competitiveness on the market**. Modernizing production and developing scientific

potential are described in detail in the 'Research and Innovation' section of our 2011 Annual Report. In this Report we only outline our approach and strategy in this important sphere of development.

MODERNIZING PRODUCTION AND INCREASING ITS COMPETITIVENESS THROUGH THE USE OF ADVANCED TECHNOLOGIES

Bashneft has a considerable scientific potential and many years of experience in industrial research and in the introduction of advanced technologies into all business areas, which we consider to be **our contribution to the development of the national fuel and energy sector** and we intend to continue its development.

In order to organize and coordinate the implementation of Bashneft Group's R&D strategy, the R&D Department was formed and an expert committee on developing and implementing JSOC Bashneft's R&D Programme (the R&D Committee under the Research and Development Council) was established.

The Committee has the task of implementing the Company's R&D policy by planning, organizing and monitoring R&D implementation. JSOC Bashneft's R&D priorities for 2012-2020 have been determined, and the R&D Programme for 2012 has been approved.

According to the approved list of JSOC Bashneft's R&D priorities for 2012-2020 in the near future Bashneft will continue the active development of five business areas: upstream operations, oil refining and petrochemicals, marketing and logistics, capital construction, organization and management, and social responsibility.

As part of replenishing hydrocarbon reserves Bashneft plans to create and use regional geological models, process and reinterpret geophysical data to search for missed deposits within the existing oilfields, develop the methodology and technical solutions for efficiently predicting the location of traps in carbonate reservoirs of various age and genesis and in terrigenous and unconventional reservoirs. The Group also plans to conduct research in the following areas: increasing the efficiency of geological exploration, optimization of field development, construction of infrastructure at oil and gas fields, drilling and production, as well as in energy efficiency and energy conservation.

The series of measures related to oil refining and petrochemicals is mainly aimed at making it technically feasible to produce 100% of engine fuels in compliance with the requirements of the Regulator (Euro 4 and 5 standards), increase refining depth along with increasing the work load, develop the production method of low-sulphur coke using the existing equipment, and modifying coking additives, as well as increase the energy efficiency of oil refining and petrochemical production.

The development of marketing and logistics involves creating a single Company-wide database, implementing a new information technology of management, which requires integration with external information systems in order to obtain real-time data during the entire transportation process. A lot of attention is paid to supporting the implementation of innovations, optimizing HR management, as well as informational support of activities.

Each of the Group's business units has designed a forward-looking plan for technical development up to 2015. Our specialists participate in activities of non-governmental and public R&D organizations and implement joint projects with foreign companies and developers. JSOC Bashneft's priorities in the sphere of R&D are the improvement of the quality of its products, increase of business efficiency, production safety and improvement of environmental friendliness.

POSITION IN THE INDUSTRY AND THE MARKET

● POSITION ON THE INDUSTRY RESEARCH AND TECHNOLOGIES MARKET

DEVELOPING THE PRODUCTION AND SCIENTIFIC POTENTIAL

Most of the research in the areas of geological exploration and oil production of JSOC Bashneft is to be conducted by LLC BashNIPIneft, the leading R&D institute of the Group.

Since the first years of large-scale commercial oilfield development in Bashkortostan the Institute has carried out the whole range of research and design works, including research in the area of geological exploration, preparation and development of oilfields, drilling projects and operation at wells, oil and gas production, environmental protection, laboratory analyses of core and formation samples, and development of new chemical agents used in production.

In 2012 a new research unit was created at the Institute; it is tasked with developing innovative design and modelling technologies and conducting research in highly relevant and promising areas. Currently LLC BashNIPIneft is a leading R&D institute, whose staff includes over 40 PhDs and three Sc.Ds. Bashneft uses the funds from the target R&D budget to provide laboratories with modern sophisticated equipment, hire new staff and implement comprehensive programmes of personnel training and development at LLC BashNIPIneft.

Bashneft plans to make the Institute a regional industrial R&D centre by investing in the **development of R&D and upgrading of LLC BashNIPIneft**. Our main objectives are to form a competitive **industrial R&D** sector and to promote and maintain the balance between scientific and industrial research (both current and long-term) in all core business areas so as to fully satisfy the internal need of production for technological modernization; besides, we seek to increase efficiency and competitiveness through the use of advanced technologies and to make internal scientific potential one of the main resources for Bashneft's sustainable development.

INNOVATIONS IN GEOLOGICAL EXPLORATION AND PRODUCTION

LLC BashNIPIneft is the general engineering contractor preparing the project of the development of the R. Trebs and A.Titov oilfields. As part of this project an appraisal project on exploration drilling has already been implemented, and a reservoir management plan that includes reservoir characterization and flow models is being created.

Since 2010 Bashneft has been implementing the system of introducing **innovative technologies** and has created a bank of innovative technologies. During the two years of using this

system 170 innovations have been considered, 20 of which were recommended for pilot projects in the spheres of matrix treatment of oil and gas-producing formations, perforating, repairs and sealing, waterflooding control, etc. Another 55 innovations were recommended as potentially applicable. The increase in well production rate due to the use of these technologies is estimated to total 5,200 tonnes per day, and the decrease of water cut of produced oil totals 20%. The innovations are to be introduced at 2,600 wells.

INNOVATIONS IN OIL REFINING AND PETROCHEMICAL PRODUCTION

Bashneft actively introduces innovative technologies in the segment of oil refining and petrochemical production in order to manufacture products that meet the strictest environmental requirements and so as to further increase refining depth. Our priorities in this sphere include constructing a sul-

phuric acid alkylation and sulphuric acid regeneration complex, catalytic cracking gasoline hydrotreater, hydrocracking and hydrogen production units, increasing the capacities of delayed cokers, and the modernization of petrochemical production.

POSITION IN THE INDUSTRY AND THE MARKET

● POSITION ON THE INDUSTRY RESEARCH AND TECHNOLOGIES MARKET

ENVIRONMENTAL INNOVATIONS

In December 2009, the Consortium biological product developed by LLC Bash-NIPIneft won the **Sixth National Environmental Award** in the 'Science for the Environment' category. The invention is aimed at processing oil sludge and is a new technology based on utilizing hydrocarbon fraction. For more details, see Section 6 'Efficient use of natural resources'.



INNOVATIONS IN INFORMATION TECHNOLOGIES

Bashneft considers the development and wide use of information technologies to be one of the key tools for achieving strategic goals of enhancing management quality and ensuring operational efficiency. Both in 2011 and 2012 JSOC Bashneft won the annual national IT-Leader award, the only Russian professional award in the sphere of IT. The Company was awarded for its outstanding contribution to the development of information technologies in Russia in the 'Oil and Gas Companies' category. For more details, see the Research and Innovation section of the 2011 Annual Report.



52

POSITION IN THE INDUSTRY AND THE MARKET

● POSITION ON THE STOCK MARKET

JSOC Bashneft's shares have been traded on the Russian organized securities market OJSC RTS since March 2002. In November 2011 JSOC Bashneft's shares were included in the list of non-listed securities admitted to trading at CJSC MICEX Stock Exchange; ordinary shares are traded under the BANE ticker symbol and preferred shares are traded under the BANEP ticker symbol. About 14% of JSOC Bashneft's ordinary shares are trading on the stock market.

In 2011 prices for JSOC Bashneft's ordinary shares fell by 6.1% to US\$ 41.58 as the MICEX Index decreased by 16.9%. As of December 31, 2011 JSOC Bashneft's market capitalization totalled US\$ 7.1 billion.

We believe that increasing Bashneft's share in capital markets and ensuring access to the sources of finance for our future growth are vital prerequisites of sustainable development. At the same time, we view the **increase in the Group's shareholder value** as one of the indicators of effective corporate governance.



53

28.5%

ANNUAL GROWTH OF THE WEIGHTED AVERAGE PRICE FOR BASHNEFT'S ORDINARY SHARES (by 2010)

US\$ 7.1 BILLION

BASHNEFT'S MARKET CAPITALIZATION as of the end of 2011

A FIVE-YEAR

SUSTAINABLE DEVELOPMENT STRATEGY up to 2016

#6

OF THE WORLD'S FASTEST-GROWING ENERGY COMPANIES compiled by Platts (PLATTS TOP 250 GLOBAL ENERGY COMPANIES)

THE CODE OF CORPORATE CONDUCT

in its new version of and the Code of Ethics

10,782

SHAREHOLDERS as of the end of 2011

DIVIDEND POLICY

AT LEAST 10% of net income under IFRS is allocated for dividend payment

41%

IFRS - BASED DIVIDEND PAYOUT RATIO in 2011

4

COMMITTEES of the Board of Directors

CONTEMPORARY RISK MANAGEMENT

an integrated ERM system

AN INTEGRATED MIS SYSTEM

based on SAP ERP

2

INDEPENDENT DIRECTORS in the Board of Directors as of the end of 2011

13.7%

OF THE TOTAL OIL PRODUCTION in Russia

PERFORMANCE EVALUATION

based on the Key Performance Indicators

24

MEETINGS OF THE BOARD of Directors held during the year



JSOC BASHNEFT:
VERTICAL
INTEGRATION,
COMPREHENSIVE
DEVELOPMENT
AND EFFICIENT
MANAGEMENT

CORPORATE GOVERNANCE: PRINCIPLES AND STRUCTURE

BASHNEFT'S MANAGEMENT CONSIDERS EFFICIENT CORPORATE GOVERNANCE TO BE THE KEY TO LONG-TERM SUSTAINABLE DEVELOPMENT, AND ITS EVERYDAY WORK IS BASED ON THE BEST PRACTICES OF CORPORATE GOVERNANCE AND FOCUSED ON ACHIEVING AN INCREASE IN BASHNEFT'S SHAREHOLDER VALUE FOR THE BENEFIT OF THE SHAREHOLDERS.

In our everyday activities in the sphere of corporate governance, we aim to do the following:

- Diligently follow an efficient policy based on **unified standards** within an **integrated organizational structure** and with applying an **integrated system of internal procedures and control** to all business units and departments of the holding company;
- Implement a balanced policy in the sphere of **corporate communications** related to shareholders, the Board of Directors, the parent company and its subsidiaries, as well as in the sphere of **external communications** related to all stakeholders;
- Ensure appropriate **financial discipline** and the timely disclosure of both financial and non-financial information, which must be accurate and reliable;

- Continue to make efforts to **increase the Group's market capitalization** and investment attractiveness, including through improving the **information policy** and the system of corporate communications;

Bashneft intends to continue its **vertical integration** within the Group, **optimization of the asset management system**, as well as of legal, ownership and organizational structures. The management considers ensuring the **security of the Group's assets** to be the most important obligation to Bashneft's shareholders and focuses on improving internal control and risk management systems.

The main principles and objectives of corporate governance in the area of sustainable development are set out in the Code of Corporate Conduct.

PRINCIPLES OF CORPORATE GOVERNANCE

BASHNEFT'S POLICY IN THE AREA OF CORPORATE GOVERNANCE IS BASED ON THE FOLLOWING PRINCIPLES:

- Respect for the rights and legitimate interests of the participants of corporate relations, including:
 - the right to participate in the management of the Company by making decisions on the most important issues of the Company's operations, and providing them with the opportunity to do so;
 - the right to participate in the Company's profit distribution and providing them with the opportunity to do so;
- Protection of the shareholders' information and property rights, including:
 - ensuring that the shareholders' title to the shares is properly and effectively protected, as well as providing them with the opportunity of free and quick disposal of their shares;
 - disclosing the most accurate and comprehensive information in the materials for the general meetings so as to provide the shareholders with the opportunity to make informed decisions on all the agenda items of the general meetings;
 - efficiently monitoring the Company's financial and business operations in order to protect the rights and legitimate interests of the shareholders.
- Accountability of corporate governance bodies.
- Equal treatment of the Company's shareholders who own an equal number of shares of the same type (category), including minority and foreign shareholders, and protection of their rights.
- Transparency of business operations: ensuring informational and financial transparency and providing equal and timely access to the full and accurate information on the Company to all stakeholders.
- Ethical business practice and the improvement of the system of procedures and internal control for counteracting corruption among the Group's employees.
- Prevention of shareholders' actions aimed at the misuse of their rights and at causing damage to the Company or other shareholders.
- Proactive approach to corporate social responsibility: job creation in Bashneft's operating regions and cooperation with local communities.
- Open dialogue and active cooperation between the Company and all of its stakeholders in order to increase the market value of the Company's assets and securities.

Source: JSOC Bashneft's Code of Corporate Conduct

CORPORATE GOVERNANCE: PRINCIPLES AND STRUCTURE

AUTHORIZED CAPITAL STRUCTURE

In 2011 there were no changes in the authorized capital and no additional shares were issued. The ordinary shares accounted for 83.1% of the authorized capital, while preferred shares accounted for 16.9%.

AUTHORIZED CAPITAL STRUCTURE AS OF DECEMBER 31, 2011

	TOTAL PAR VALUE, ROUBLES	SHARE IN THE AUTHORIZED CAPITAL, %
ORDINARY SHARES	170,169,754	83.1
PREFERRED SHARES	34,622,686	16.9



SHARE CAPITAL STRUCTURE

The formation of the existing shareholder structure started in 2005, when OJSC Sistema-Invest purchased blocking stakes (from 18.6% to 28.2%) in the companies of Bashneft Group; by 2010 OJSC

JSFC Sistema consolidated approximately 73% of Bashneft Group's share capital (including 52.1% consolidated directly and 20.9% consolidated through OJSC Sistema-Invest).

PHASED INCREASE IN OJSC JSFC SISTEMA'S STAKE IN BASHNEFT GROUP'S CAPITAL*



STAGE 1 → STAGE 2 → STAGE 3 →

BLOCKING STAKE
(19-28%)
2005-2008

- 2005. OJSC Sistema-Invest acquires blocking stakes (from 18.6% to 28.2%) in the companies of Bashneft Group (apart from Bashkirenergo)
- 2006. OJSC JSFC Sistema acquires stakes ranging from 0.8% to 8.9% in the companies of Bashneft Group

CONTROLLING STAKE
(66-87%)
2009

- OJSC JSFC Sistema acquires controlling stakes in the companies of Bashneft Group
- The transaction was funded by taking out a loan from VTB; later in 2009, the liabilities were transferred to the level of Bashneft Group
- OJSC JSFC Sistema sells a 5% stake to VTB Capital under the loan agreement

CONSOLIDATION AND RESTRUCTURING
2010-2012

- OJSC JSFC Sistema controls approximately 73% of Bashneft Group's share capital, 52.09% directly and 20.93% through OJSC Sistema-Invest
- Consolidation and restructuring of Bashneft Group's subsidiaries continues by exchanging the shares of Bashneft's subsidiaries for the shares of Bashneft

* As of the end of 2011

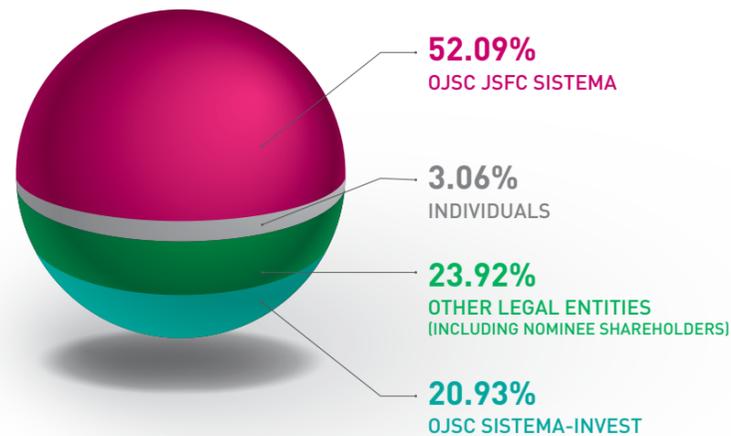
CORPORATE GOVERNANCE: PRINCIPLES AND STRUCTURE

SHARE CAPITAL STRUCTURE

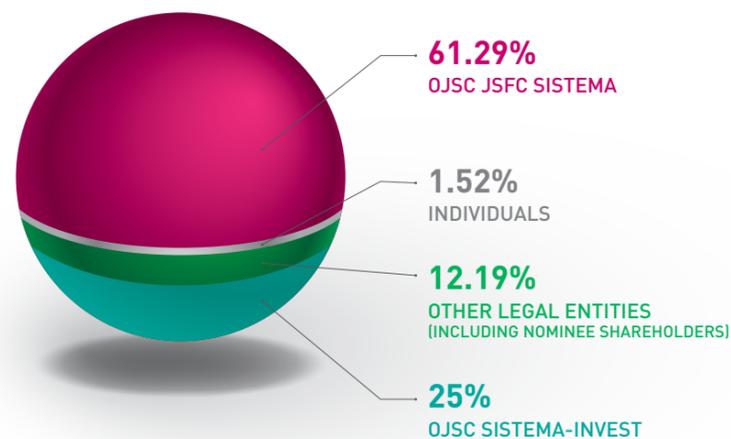
During the reporting year, the shareholder structure did not change. OJSC JSFC Sistema, Bashneft's main shareholder, and its affiliates owned approximately 73% of the Group's authorized capital, which amounted to 86.3% of the voting (ordinary) shares.

SHARE CAPITAL STRUCTURE AS OF DECEMBER 31, 2011

INTEREST IN THE AUTHORIZED CAPITAL



INTEREST IN THE VOTING SHARES



CORPORATE GOVERNANCE STRUCTURE

Bashneft's existing corporate governance structure was created in the process of vertical integration of assets and business units within the Group. As Bashneft's main shareholder changed in 2009, the Group's organizational structure rapidly transformed during the subsequent three years, and so did the corporate governance structure – or rather, a new corporate governance structure was created.

BY AND LARGE, BY THE END OF 2011, THE FORMATION OF A VERTICALLY INTEGRATED PRODUCTION COMPLEX WAS COMPLETED.

As a result of this the organizational and share ownership structure was successfully transformed, and governance principles that match modern VIC models were formulated. Besides, there were changes in the management team, considering the tasks facing the Group at the new stage of its development; we fully unlocked the potential of the most competent leaders of the former structure and at the same time recruited new specialists.



CORPORATE GOVERNANCE BODIES

During the reporting period the structure of the corporate governance bodies and their functions did not change. As of the end of 2011 there were **ten** members of the Board of Directors, including two independent directors, while the Man-

agement Board (**a collective executive body**) comprised nine members, including the Chairman of the Management Board. The Management Board is headed by the President of the Group (**a sole executive body**).

THE GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme governing body of the Company.

In accordance with the Group's Charter, the Annual General Meeting of Shareholders (AGMS) shall be held not earlier than two months and no later than six months after the end of the fiscal year. For several consecutive years, the AGMS has been traditionally held on June 29 in Ufa. The shareholders who own at least 2% of voting shares can submit proposals for putting issues on the agenda of the AGMS and nominate candidates to the Board of Directors and/or to the Audit Commission no later than 100 days after the end of the fiscal year.

Extraordinary Meetings of Shareholders (EGMS) shall be held in accordance with the decision of the Board of Directors based on its own initiative, requests of the Audit Commission, the Group's Auditor, shareholders (or a shareholder) who own(s) at least 10% of the Company's voting shares as of the date when the request is made .

THE BOARD OF DIRECTORS

THE STRUCTURE OF THE BOARD OF DIRECTORS

For three years (2009-2012) A. Goncharuk performed the duties of the Chairman of the Board of Directors. The Chairman of the Board of Directors is not a member of the Group's executive body.

The Board of Directors, which was elected at the **AGMS held on June 29, 2011**, and which performed its duties during the next 12 months, included:*

- Six members of the Management Board of OJSC JSFC Sistema, including M. Shamolin, its Chairman.
- Two members not affiliated with OJSC JSFC Sistema, namely M. Rakhimov, the Deputy Chairman of the Board of Directors and the former President of the Republic of Bashkortostan, and Yu. Pustovgarov, the former Deputy Prime Minister of the Republic of Bashkortostan.
- M. Gutseriev, the President of OJSC RussNeft.
- A. Korsik, the President of Bashneft, who was also a member of the Group's Board of Directors.

Thus, in the Board of Directors that performed its duties during the reporting period and was re-elected in June 2012, 70% of votes belonged to the directors affiliated with OJSC JSFC Sistema, which matched the share capital structure and the number of votes owned by the main shareholder.

* The new membership of the Board of Directors was elected on June 29, 2012. F. Evtushenkov became the new Chairman of the Board.

CORPORATE GOVERNANCE BODIEST

THE BOARD OF DIRECTORS

MEMBERSHIP OF THE BOARD OF DIRECTORS IN 2011

NAME	POSITIONS IN EXECUTIVE BODIES (INCL. FORMER)	OTHER POSITIONS IN NON-EXECUTIVE BODIES (INCL. FORMER)	OTHER POSITIONS ON THE BOARD OF DIRECTORS OF BASHNEFT
A. Goncharuk, Chairman of the Board of Directors	Member of the Management Board of OJSC JSFC Sistema	Member of the Board of Directors of OJSC RussNeft	Chairman of the Nominating and Compensation Committee of JSOC Bashneft
M. Rakhimov		President of the Republic of Bashkortostan until 2010	Deputy Chairman of the Board of Directors
A. Abugov	Member of the Management Board of OJSC JSFC Sistema	Member of the Board of Directors of OJSC RussNeft	
A. Buyanov	Member of the Management Board of OJSC JSFC Sistema	Member of the Board of Directors of OJSC RussNeft	Chairman of the Budget and Audit Committee
M. Gutseriev	President of OJSC RussNeft		
S. Drozdov	Member of the Management Board of OJSC JSFC Sistema	Member of the Board of Directors of OJSC RussNeft	Chairman of the Corporate Conduct Committee
F. Evtushenkov	Member of the Management Board of OJSC JSFC Sistema	Member of the Board of Directors of OJSC RussNeft and OJSC United Petrochemical Company	
A. Korsik	President and Chairman of the Management Board of JSOC Bashneft Member of the Management Board of OJSC JSFC Sistema until 2011	Chairman of the Board of Directors of OJSC RussNeft until 2009	
Yu. Pustovgarov	Chairman of the Chamber of Commerce and Industry of the Republic of Bashkortostan (CCI RB)	Deputy Prime Minister of the Republic of Bashkortostan until 2011	
M. Shamolin	President and Chairman of the Management Board of OJSC JSFC Sistema	Chairman of the Board of Directors of OJSC United Petrochemical Company	

REGULATIONS ON THE BOARD OF DIRECTORS

While performing their duties, Bashneft's directors shall act in the interests of all shareholders. The rules on the meetings of the Board of Directors, as well as powers and duties of the members thereof are set out in the Charter and the Regulations on the Board of Directors.

According to these Regulations, directors shall refrain from actions that may potentially cause a conflict of interest between them and the Company. If such a conflict has occurred or may do so, the directors shall disclose the information on it. Besides, the members of the Board of Directors are recommended to refrain from voting on issues that are of personal interest to them. All Board members and candidates shall also disclose information on their relations with the Company's affiliates and major counterparties.

Candidates for the Board of Directors are chosen by shareholders. The current Board ensures that the candidates should meet the following requirements and criteria:

- the candidate shall be at least 25 years old;
- the candidate shall have at least three years of work experience;
- the candidate shall not have convictions for financial crimes;
- the candidate shall not be prohibited from holding senior management positions;
- the candidate shall not be a member of regulatory and supervisory bodies of companies that provide services for JSOC Bashneft or an affiliated person of such companies.

CORPORATE GOVERNANCE BODIEST

THE BOARD OF DIRECTORS

WORK OF THE COMMITTEES OF THE BOARD OF DIRECTORS

The Corporate Secretary and the four Committees headed by members of the Board of Directors and the management of JSOC Bashneft ensure the work of the Board of Directors. Since 2010 the du-

ties of the Corporate Conduct Committee have included the annual performance evaluation of the Board members. The Committee submits the results of the evaluation to the Board of Directors.

THE EXISTING COMMITTEES OF JSOC BASHNEFT'S BOARD OF DIRECTORS

COMMITTEE	CHAIRMAN	SPHERE OF RESPONSIBILITY WHEN DEVELOPING RECOMMENDATIONS
The Nominating and Compensation Committee	Alexander Yurievich Goncharuk	Key issues of incentives and remuneration; performance evaluation of the management, including the efficiency of the sustainable development policy; selection of candidates for senior management positions
The Strategy Committee	Alexander Yurievich Goncharuk	Long-term strategy of the Group as a whole and the functional strategies of its departments
The Budget and Audit Committee	Alexei Nikolayevich Buyanov	Monitoring the accuracy of the Group's financial statements and the performance of internal control and risk management systems
The Corporate Conduct Committee	Sergey Alexeyevich Drozdov	Creating an efficient corporate governance system, increasing the efficiency of cooperation between the Board of Directors and the Group's management

EXECUTIVE BODIES: THE PRESIDENT AND THE MANAGEMENT BOARD

As part of improving corporate governance in 2011 the membership of the Management Board was reduced from 13 to 9 members. The Management Board is headed by A. Korsik, the President of Bashneft, who was a member of the Management Board of OJSC JSFC Sistema until 2011 and headed the Board of Directors of OJSC RussNeft until 2009.

The Regulations on the Management Board set out the basic requirements for the members of the Management Board (criteria for selection). Thus, a member of the Management Board shall have received higher education, be a highly qualified specialist in their area, have an excellent reputation and no convictions for financial crimes and/or crimes against the state and morality.

Specific qualification and other requirements for a candidate are set by the Board of Directors, taking into consideration the nature of the particular position. The Board of Directors shall also approve the membership of the Management Board. The key performance indicators of the members of the Management Board include KPIs in the area of sustainable development, which are necessary for formulating the organi-

zation's economic, environmental and social strategy, and the achievement of the target indicators is evaluated during the annual performance evaluation.

The President is elected by the Board of Directors by simple majority for three years; the term of office may then be extended.

MEMBERSHIP OF THE MANAGEMENT BOARD OF JSOC BASHNEFT

ALEXANDER LEONIDOVICH KORSIK	President, Chairman of the Management Board (2011- present)
KIRILL IGORIEVICH ANDREICHENKO	Vice President, Corporate Governance and Legal Issues, member of the Management Board (2009- present)
YELENA ANATOLIEVNA BRUSILOVA	Vice President, Corporate Communications and Government Relations, member of the Management Board (2011- present)
VIKTOR ALEXANDROVICH GANTSEV	Senior Vice President, Oil Refining and Petrochemicals, member of the Management Board (2009- present)
ALEXANDER VLADIMIROVICH DASHEVSKY	Senior Vice President, Oil & Gas Production, member of the Management Board (2010- April 2012)
ALEXEI VALERIEVICH KURACH	Vice President, Economics and Finance - Chief Financial Officer, member of the Management Board (2009- present)
VIKTOR VIKTOROVICH MISHNYAKOV	Vice President, Strategy and Development, member of the Management Board (2010-2011)
MIKHAIL EFIMOVICH STAVSKIY	First Vice President, Exploration and Production, member of the Management Board (2011- present)
ALI MUSSAYEVICH UZDENOV	First Vice President, Refining and Commerce, member of the Management Board (2009-2011)

"Present" means at the time when this report was being prepared

● THE AUDIT COMMISSION AND INTERNAL CONTROL

THE AUDIT COMMISSION

The Audit Commission comprises five members and monitors the Company's financial and business operations. Inspections are conducted on the initiative of the Audit Commission, the General Meeting of Shareholders, the Board of Directors or at the request of shareholders who own a total of at least 10% of the voting shares. Scheduled inspections are conducted at least once a year, and their results are submitted to the General Meeting of Shareholders and the Company's Board of Directors.

The Company's annual report and the annual financial statements are submitted to the General Meeting of Shareholders only together with the Opinion of the Audit Commission. The work of the Commission is supervised by its Chairman, who is elected at the first meeting of the Commission. In 2011 the duties of the Chairman of the Audit Commission were performed by N. Demeshkina.

THE INTERNAL CONTROL AND AUDIT SERVICE

In 2009 the Internal Audit Service was created within the Internal Audit Department. It exercises internal control over financial and business operations and is responsible for the preparation of financial statements and cooperation with the Group's external auditors).

Since 2011 the functions of the department have also included monitoring the use and protection of insider information and compliance with legislation in terms of counteracting illegal use of insider information and market manipulation. These functions are performed in cooperation with the Corporate Relations Department.

During the reporting period, the position of the Chief Auditor and head of the Internal Audit Unit was held by V. Zubov.

● CORPORATE GOVERNANCE: POLICY AND PRACTICE

CORPORATE RELATIONS

The management's policy on corporate relations is based on the openness and transparency of information and is aimed at introducing unified standards of governance and an integrated internal control system across the Group and ensuring effective cooperation between the Group's shareholders, management and directors.

At this new stage of development, we intend to continue improving and developing the following:

- the corporate governance system and the organizational structure of business, including internal regulations stipulating **corporate governance procedures** and cooperation among its main participants;
- transparency of business **information**, which is equally applicable to both **financial and non-financial statements**;
- **respect for the interests** and the protection of the legal rights of **all groups of shareholders** (both the main and minority ones), including their **right to information** and their **right to participate in profit distribution**;
- the policy in the area of **fair business practice** and reduction of corruption risks;
- performance of the regulatory bodies of JSOC Bashneft, its subsidiaries and affiliates, including the **system for evaluating and remunerating** the management and directors;

- **the policy of management openness** in the area of external communications (IR) and internal corporate communications;

However, the management's responsibility is not confined to interaction with the shareholders and directors of the Group. Our policy in the sphere of **external communications** is aimed at cooperation with and respect for the interests of all stakeholders, including the Group's shareholders, as well as its employees, investors (potential shareholders), consumers, suppliers and contractors, partners, local communities and NPOs, as well as the government and regional authorities. Respect for the interests and responsibility towards all of the Group's stakeholders are vital prerequisites for ensuring sustainable development of business and reaching strategic goals. For more information, see Section 5 'Respect for interests and responsible cooperation'.

CORPORATE GOVERNANCE: POLICY AND PRACTICE

DIVIDEND POLICY

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.

THE SHARE OF NET INCOME UNDER IFRS ALLOCATED FOR DIVIDEND PAYMENTS IN 2011

ACCRUED DIVIDENDS	2011
DIVIDENDS PER ORDINARY SHARE, US\$	3.4
DIVIDENDS PER PREFERRED SHARE, US\$	3.4
DECLARED DIVIDENDS, US\$ MILLION	690
CONSOLIDATED NET INCOME UNDER IFRS, US\$ MILLION	1,696
IFRS-BASED DIVIDEND PAYOUT RATIO, %	41

REGULATIONS ON DIVIDEND POLICY

At the meeting held on July 22, 2011 the Board of Directors approved the Regulations on Dividend Policy of JSOC Bashneft stipulating that the recommended amount of dividend payments should be determined based on the Group's financial results during the quarter and/or the fiscal year; generally it should total at least 10% of net income under IFRS for the last financial period.

The amount of dividends per class 'A' preferred share equals 10% of the par value of this 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 to be paid on each preferred share, the dividends on preferred shares should be increased to the amount equal to the dividends paid on ordinary shares.

In accordance with the 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.

FINANCIAL DISCIPLINE AND REPORTING

ACCOUNTING is carried out in accordance with Federal Law No. 129-FZ on Accounting of November 21, 1996, the regulations on accounting and financial statements and with other regulatory documents of the Russian Ministry of Finance.

Preparation of the Company's financial statements involves grouping information into reportable segments covering the following areas:

- sales of crude oil produced at licence areas acquired by JSOC Bashneft in accordance with the Russian Law on Mineral Resources;
- sales of petroleum products, including wholesale or retail sales (via filling stations);
- sales of other types of commodities (including minerals), goods, results of work, provided services, etc.

Starting from 2010 the Group has been preparing and releasing **audited statements** in accordance with International Financial Reporting Standards (IFRS), consolidating the assets and the financial results of the parent company, its subsidiaries and departments. Preparing and publishing these statements on a quarterly basis is of special importance for improving financial discipline and increasing the transparency of information.

LLC FinExpertiza audited Bashneft's financial statements for 2010 and 2011, which were prepared in accordance with RAS. The **consolidated financial statements** for 2010 and 2011, which were prepared in accordance with IFRS, were audited by ZAO Deloitte & Touche CIS. The auditors are selected by holding a competition. The auditors are approved by the General Meeting of Shareholders based on the recommendation of the Board of Directors. Both of these audit firms are leaders in the market for auditing services and have experience in the oil and gas industry.

In 2011 the Group conducted an independent audit of reserves under the PRMS classification for the second consecutive year. Both in the reporting year and in the previous one the auditor was Miller and Lents, Ltd. We intend to continue conducting the annual audit of reserves in the future.

In 2010 the Group adopted a clear bidding policy in the area of procurement (for more information, see Section 5 'Respect for interests and responsible cooperation').

CORPORATE GOVERNANCE: POLICY AND PRACTICE

THE SYSTEM OF COMPENSATION AND REMUNERATION OF GOVERNING BODIES

REMUNERATION OF MEMBERS OF THE MANAGEMENT BOARD

No remuneration is paid to the members of the Management Board for serving on Bashneft's governing bodies.

The Group has developed and is implementing a system for performance evaluation of employees using a system of balanced key performance indicators (KPIs). The system of KPIs allows to set targets (both quantitative and qualitative) within job descriptions and evaluate their achievement annually. Some of the KPIs are related to the Group's social and environmental performance. For more information, see Section 7 'Corporate social programmes and investments'.

Members of the Management Board are paid salaries stipulated by employment contracts, bonuses (which depend on the annual performance and KPI implementation) and other remuneration paid annually in accordance with the decision of the Board of Directors. The ratio of the fixed part of the salary to bonuses depends on the position held by an employee; for the middle and senior management bonuses are equal to the fixed part of their annual salary.

OTHER REMUNERATION

The Group has developed and is implementing the Programme of Long-Term Financial Incentives for the middle and senior management, who are paid annual bonuses if there is a positive trend in the market capitalization of the Group. Bonuses are calculated based on the difference between the market value of shares as of the beginning and the end of the period. The Programme is aimed at encouraging the management to take measures for increasing the shareholder value of Bashneft's assets for the benefit of the Group's shareholders.

REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

In 2011 the Group adopted the Regulations on Rewards and Compensation to the Members of the Board of Directors stipulating that the members of Bashneft's Board of Directors who are employees and/or directors of enterprises included in the group of the Company's entities (as defined in the Federal Law on the Protection of Competition) as well as of the companies affiliated with them, must not be paid annual remuneration.

Members of the Board of Directors to whom the above does not apply are paid a part of fixed remuneration and a bonus based on performance during the year, provided that the Group has gener-

ated income under IFRS. The amount of the remuneration is based on the Group's estimated capitalization, which is determined on the basis of an independent annual valuation.

THE CHARTER AND INTERNAL DOCUMENTS

In the reporting year the Group adopted a wide range of measures to establish internal procedures and policies set out in the Group's internal documents. We determined precisely the competence and responsibility of each group of corporate governance participants, recorded them in internal documents and subsequently tried to create an infrastructure for their effective cooperation.

In 2011 a new version of the Charter was approved. The amendments were mainly technical; they were related to the changes in the Russian legislation. Besides, some amendments were related to the development of the Group's operations.

In addition to the Charter Bashneft has adopted other internal documents that regulate corporate governance and interaction among its participants, including eight regulations, seven of which were adopted in 2011:

- Regulations on the Corporate Secretary of JSOC Bashneft;
- Regulations on Bonuses Paid to the Employees of JSOC Bashneft;
- Anti-Corruption Policy of JSOC Bashneft;
- The Code of Corporate Conduct of JSOC Bashneft;
- The Code of Ethics of JSOC Bashneft;
- Regulations on Insider Information of JSOC Bashneft;
- Regulations on Information Policy of JSOC Bashneft;
- Regulations on Dividend Policy of JSOC Bashneft;
- Regulations on Rewards and Compensation to the Members of the Board of Directors of JSOC Bashneft.

CORPORATE GOVERNANCE: POLICY AND PRACTICE

THE CHARTER AND INTERNAL DOCUMENTS

THE CODE OF CORPORATE CONDUCT AND THE CODE OF ETHICS

In 2011 the Group adopted a new version of the Code of Corporate Conduct and the separate Code of Ethics in order to improve the system of corporate governance and to protect the rights and interests of shareholders. Both of these documents regulate the main procedures for monitoring and managing the Group's operations, set out the rules for cooperation between the shareholders, the Board of Directors and executive bodies, determine the main ethical norms of business conduct, as well as the rules on the behaviour of stakeholders in case of a conflict of interest. The Code of Corporate Conduct also includes the principles of information policy and the rules governing significant corporate actions.

POLICY OF DISCLOSURE AND TRANSPARENCY OF INFORMATION

JSOC Bashneft's information policy is based on the principles of regularity, promptness, availability, accuracy and usefulness. The Group has adopted and now follows the Regulations on Information Policy of JSOC Bashneft. When disclosing information, the Group also seeks to meet the requirements of stock exchanges on which its securities are traded and to comply with other regulatory documents.

The information which the Group is required to disclose (reports on material facts, financial and operating results) is released regularly, immediately and simultaneously in the Group's official publications, including press releases, quarterly reports to the FFMS, Annual reports and Sustainability reports.

Available information, which is freely provided at the Stakeholders' request for reference purposes, may be found on the corporate website of JSOC Bashneft, including a special section 'Investors & Shareholders', or can be obtained directly in the Group's office in Ufa or Moscow.

PROTECTION OF THE SHAREHOLDERS' PROPERTY RIGHTS AND DILUTION PROTECTION

THE STANDARD ON CREDIT POLICY

In order to protect the shareholders' property rights, reduce the risk of an increase in debts and provide dilution protection, in January 2012, the Standard on Credit Policy of JSOC Bashneft was adopted. It limits the powers of the executive body to manage the funds and issue guarantees on loans on behalf of the Group. Besides, in order to ensure a higher degree of protection of the shareholders' property rights, the procedure excludes the possibility of investing free cash and assets of the Group in high-risk instruments on the financial and stock market.

In accordance with the Charter, transactions worth 25 to 50% of the carrying value of assets shall be approved by the Board of Directors; if the transaction value exceeds 50%, it is within the competence of the General Meeting of Shareholders.

The strategy for developing corporate governance is an integral part of the five-year Development Strategy up to 2016. Our strategy in this area is aimed at the following:

- improving the corporate governance system, as well as legal, organizational and ownership structures;
- improving the market opinion on the operations of the holding company, its subsidiaries and affiliates by disclosing information;
- improving the performance of the governing bodies of JSOC Bashneft, its subsidiaries and affiliates;
- ensuring the security of assets.

CORPORATE GOVERNANCE: POLICY AND PRACTICE

PROTECTION OF THE SHAREHOLDERS' PROPERTY RIGHTS AND DILUTION PROTECTION

IMPROVING CORPORATE GOVERNANCE IS A PREREQUISITE FOR SUSTAINABLE DEVELOPMENT

THE STRATEGY FOR DEVELOPING CORPORATE GOVERNANCE	OBJECTIVES IN THE AREA OF SUSTAINABLE DEVELOPMENT	EXISTING OPPORTUNITIES
<ul style="list-style-type: none"> Improving the corporate governance system, as well as legal, organizational and ownership structures Improving the market opinion on the operations of the holding company, its subsidiaries and affiliates by disclosing information Improving the performance of the governing bodies of JSOC Bashneft, its subsidiaries and affiliates Ensuring the security of assets 	<ul style="list-style-type: none"> Introducing up-to-date management methods Increasing the transparency of information, including the information on social and environmental performance Protecting the shareholders' rights and interests Increasing business efficiency and transparency Introducing ethical business practices Reforming existing non-core systems in a socially responsible way taking into account the social impact Providing the employees with the opportunity to fulfil their potential Implementation of an innovative incentive system Promoting the social and economic development of the operating regions 	<ul style="list-style-type: none"> The corporate structure was successfully transformed The first stage of creating a vertically integrated production complex was completed The management principles that meet modern VIC models were formulated The system for collecting information for non-financial reporting is being developed The Group shows understanding of international business trends A new management team was formed considering the current stage of development The potential of the most competent leaders of the former structure is exploited, new specialists have been recruited The Code of Corporate Conduct and the Code of Ethics were adopted The Group holds consultations with local authorities on employing resigned workers A comprehensive system for continuous training of all groups of staff was built A long-term target programme for cooperating with the leading industry higher education institutions has been developed Agreements on social and economic cooperation are renewed annually

IMPROVEMENT OF CORPORATE STRUCTURE

The historical complexity of the corporate structure posed a problem for consolidating cash flows and making decisions on operations and investments and hindered Bashneft from reaching its strategic goals. In the spring of 2009,

the creation of a vertically integrated oil holding company based on Bashneft Group's assets began. Currently, we continue improving our corporate structure.

DURING THE REPORTING PERIOD AND THE PERIOD OF PREPARING THIS REPORT, TWO MAJOR EVENTS THAT CONTRIBUTED SIGNIFICANTLY TO THE CHANGE IN THE SCOPE OF ORGANIZATIONAL AND OWNERSHIP STRUCTURE TOOK PLACE:

1

THE STAKE OF JSOC BASHNEFT AND ITS THREE SUBSIDIARIES IN THE AUTHORIZED CAPITAL OF OJSC SISTEMA-INVEST WAS INCREASED

Apart from this, the Board of Directors made decisions on the further reorganization of our internal structure of

2

THE REORGANIZATION OF JSOC BASHNEFT AND ITS FIVE SUBSIDIARIES BEGAN

assets. All these measures are aimed at improving the corporate structure and corporate governance within the Group.

IMPROVEMENT OF CORPORATE STRUCTURE

MAIN EVENTS AND STAGES OF THE REORGANIZATION

The Board of Directors made a decision on increasing Bashneft's stake in the authorized capital of OJSC Sistema-Invest	May 6, 2011
The Board of Directors made a decision on establishing OJSC United Petrochemical Company	September 7, 2011
The Extraordinary Meeting of Shareholders (EGM) of OJSC Ufaorgsintez approved the transfer of the duties of the sole executive body of the parent company to OJSC United Petrochemical Company	May 5, 2012
The Boards of Directors of JSOC Bashneft and its five subsidiaries approved the reorganization programme	March 11, 2012
The register for participating in the EGM of JSOC Bashneft and its five subsidiaries was closed	March 14, 2012
The EGM was held at five Bashneft's subsidiaries to approve the Reorganization	April 26, 2012
The EGM of JSOC Bashneft was held	April 27, 2012
Shareholders of JSOC Bashneft and its five subsidiaries submitted buyback requests	May and June 2012
The buyout of shares from the shareholders who submitted buyback requests	June and July 2012
The shares of the five subsidiaries of JSOC Bashneft are exchanged for JSOC Bashneft's shares	Before the end of 2012

INCREASING BASHNEFT'S STAKE IN THE AUTHORIZED CAPITAL OF OJSC SISTEMA-INVEST

As part of reorganization in May 2011 Bashneft Group's stake in the authorized capital of OJSC Sistema-Invest was increased to **49.4%**. The stake was increased through exchanging the shares of CJSC Bashkir United Energy Systems, CJSC UNKH-EnergolInvest, CJSC UNPZ-EnergolInvest and CJSC Novoil-EnergolInvest owned by JSOC Bashneft

and its subsidiaries for the shares of OJSC Sistema-Invest. The three Ufa refineries (OJSC Ufimsky refinery plant, OJSC Novoil and OJSC Ufaneftekhim) also participated in the exchange of shares. This measure allowed **optimizing the ownership and asset management structure.**

BASHNEFT GROUP'S STAKES IN THE AUTHORIZED CAPITAL OF OJSC SISTEMA-INVEST AFTER THE EXCHANGE OF SHARES, %

COMPANY	STAKE, %
JSOC BASHNEFT	26.7
OJSC UFIMSKY REFINERY PLANT	7.3
OJSC NOVOIL	7.3
OJSC UFANEFTEKHIM	8.1
TOTAL	49.4

● IMPROVEMENT OF CORPORATE STRUCTURE

REORGANIZATION

AIMS AND PRINCIPLES OF REORGANIZATION

As part of the strategy for forming a fully fledged vertically integrated oil holding company in March 2012, the consolidation of five Bashneft's subsidiaries (OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt) with JSOC Bashneft through exchanging their shares for those of Bashneft was announced. OJSC Ufaorgsintez, whose main shareholders remain the same (JSOC Bashneft owns 65.3% of the company's ordinary shares and OJSC Sistema-Invest has a 24.9% stake in OJSC Ufaorgsintez), is not involved in the consolidation.

As a result of the consolidation, which is to be completed by the end of 2012, we will create a single centre for making decisions on operations and investments and consolidate all cash flows. During the reorganization we adhere to the principles of independent appraisal of all companies involved in the reorganization, maximum protection of the rights of all shareholders, transparency of the reorganization and full compliance with the Russian legislation.

PROTECTION OF THE SHAREHOLDERS' RIGHTS AND INTERESTS DURING THE REORGANIZATION

Due to the expected consolidation with JSOC Bashneft, it was proposed to all shareholders of the companies involved in the reorganization that they should exchange their shares for the shares of JSOC Bashneft or submit buyback requests.

The shareholders who did not vote or voted against the reorganization could submit buyback requests (within 45 days after the EGM held by each company); after that, they received cash payments for their shares (within 30 days after the closing date for submitting buyback requests).

So as to ensure equal rights of shareholders of all companies to be consolidated, the Group engaged the same independent appraiser (the company Stremeniye), and used a single approach to the valuation of all assets to be consolidated. The independent appraisal was conducted in accordance with the Russian legislation and was confirmed by LLC Ernst & Young Valuation and Advisory Services. This valu-

ation serves as a basis for calculating the market value, conversion ratios and buyback price of shares for each company involved in the reorganization. As

part of reorganization, JSOC Bashneft engaged the following advisers: Goldman Sachs (Russia) (financial adviser) and Liniya Prava (legal adviser).

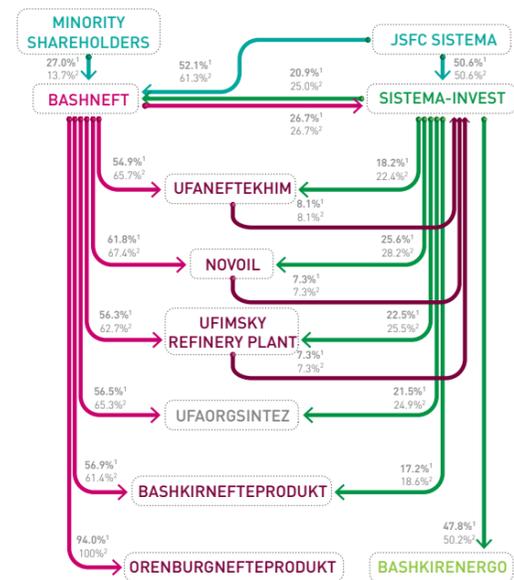


IMPROVEMENT OF CORPORATE STRUCTURE

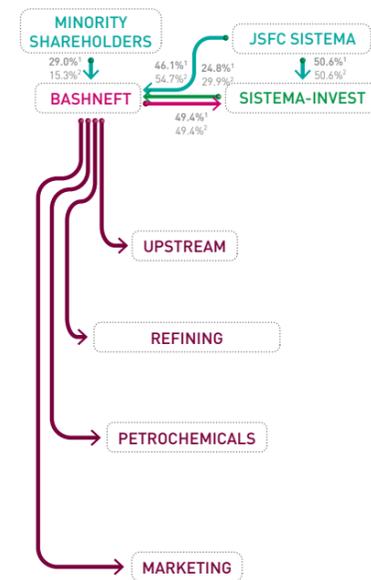
REORGANIZATION

ORGANIZATIONAL STRUCTURE OF BASHNEFT BEFORE AND AFTER THE REORGANIZATION

BEFORE: THE SIMPLIFIED CORPORATE STRUCTURE OF BASHNEFT GROUP



AFTER: THE TARGET CORPORATE STRUCTURE OF BASHNEFT GROUP³



NOTES:

- 1. A stake in the authorized capital
- 2. A stake in ordinary shares
- 3. Calculated on the assumption that 100% of the shares of subsidiaries currently not owned by JSOC Bashneft will be exchanged for the shares of JSOC Bashneft

INTERIM RESULTS OF REORGANIZATION

On June 15, 2012 the Boards of Directors of JSOC Bashneft and the five subsidiaries to be merged with the Company approved the reports on submitting buyback requests by shareholders. On June 27, 2012 all

subsidiaries bought back their securities from shareholders. The funds allocated for the buyback of shares totalled 19.034 billion roubles.

FURTHER OPTIMIZATION OF THE CORPORATE STRUCTURE

OPTIMIZATION OF INTERNAL BUSINESS COMMUNICATIONS

Internal corporate business communications are crucial for making management decisions during business operations. The importance of information support of business processes is several times higher when managing such a large and integrated complex as Bashneft Group.

To increase the efficiency and transparency of business processes the Group implements the project on introducing the SAP ERP system. This system enables automation of the Group's key operations, including the management of cash flows, production, logistic support, property, etc. The ERP introduction is to be completed by 2014, with the subsequent automation of a larger number of business processes, subsidiaries and affiliates.

To ensure advanced and efficient communications between various offices of Bashneft and its subsidiaries and affiliates an integrated fault-tolerant system for communication and data exchange was built. Ensuring that data is secure and that business processes remain uninterrupted in case of an emergency or natural disaster is also extremely important for us. To fulfill this task, the Group commissioned the main corporate data processing centre, which ensures protection of the Group's computing systems and data from fires, explosions, natural disasters and illegal acts of third parties. The task of further increasing disaster tolerance of the Group's business processes is fulfilled as part of the Disaster Recovery Planning project that is to be completed in 2014.

US\$ 37 MILLION

allocated for corporate social programmes

2.1%

of the Group's net income: Expenditure on corporate social programmes

0.16

Accident rate

70% - 90%

of the employees' expenditure on health resorts and recreation subsidized by Bashneft

US\$ 558 MILLION

to be allocated for HSE programmes within five years

72%

of EMPLOYEES underwent certification in occupational and process safety in 2011

65%

workplaces with normal working conditions account

US\$ 208 MILLION

Target financing of ENVIRONMENTAL PROGRAMMES within five years

OVER **US\$ 350** MILLION

THE OCCUPATIONAL AND PROCESS SAFETY FUND for five years

US\$ 7.8 MILLION

The annual budget of OCCUPATIONAL SAFETY measures for 2011

US\$ 1.3 MILLION

Annual expenditure on compulsory EMPLOYEE TRAINING

26,754 PERSONS

The average headcount

19,146

employees underwent certification and knowledge testing

NON-FINANCIAL REPORTING USING THE GRI GUIDELINES

since 2009

OVER 40,000 ROUBLES

PER EMPLOYEE allocated ANNUALLY for corporate social programmes



JSOC BASHNEFT
IS A SOCIALLY
RESPONSIBLE
CORPORATE
CITIZEN

HEALTH, SAFETY AND ENVIRONMENT (HSE)

OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION: PRINCIPLES AND POLICIES

THE GROUP TAKES A PROACTIVE APPROACH TO OCCUPATIONAL HEALTH AND ENVIRONMENTAL PROTECTION, AND CONSIDERS THE EFFICIENT USE OF NATURAL RESOURCES TO BE A KEY FACTOR IN SUSTAINABLE DEVELOPMENT OF ITS BUSINESS AND AN IMPORTANT PART OF CORPORATE SOCIAL RESPONSIBILITY TOWARDS THE PRESENT AND FUTURE GENERATIONS.

PROTECT AND PRESERVE

We accept responsibility for ensuring that our operations are safe. We believe that ensuring safety must guarantee the protection of people and the environment. In accordance with this concept, the management's efforts in this field are focused on two main areas:

- **ENSURING PROCESS AND OCCUPATIONAL SAFETY** based on the analysis and assessment of risks; these efforts are aimed at preventing industrial injuries and improving working conditions, as well as ensuring compliance with HSE rules and regulations;
- **ENVIRONMENTAL SAFETY OF THE PRODUCTION COMPLEX**, which includes the efficient use of natural resources and minimizing the negative environmental impacts of the Group's operations in its operating regions and at the fields it develops.

Bashneft seeks to ensure that its operations comply with the modern concept of sustainable development, which was adopted by the Russian Federation and the international community, and to ensure environmental and industrial safety systematically, taking into account not only the economic and engineering factors, but also the environmental, legal and social conditions of the Group's operating regions, territories and of the fields it develops.



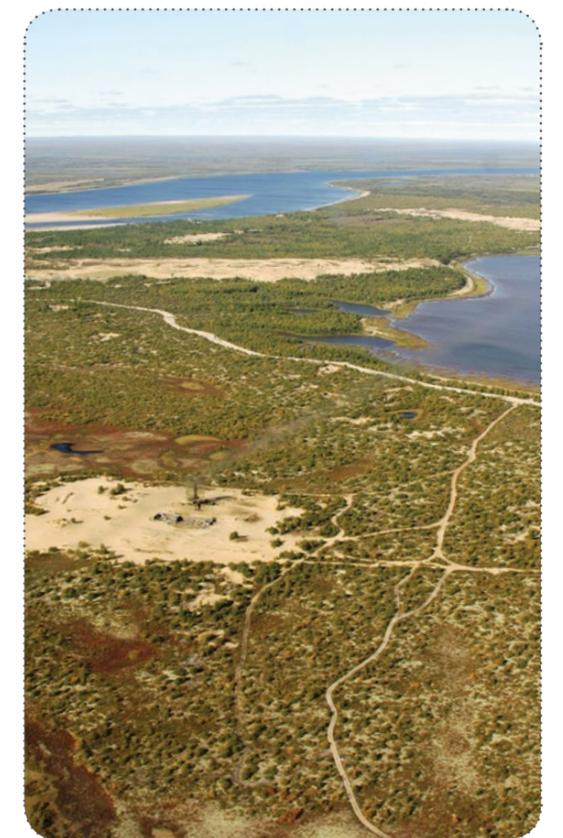
86

STRATEGY ON HEALTH, SAFETY AND ENVIRONMENT

In 2011, the Group adopted the Functional Strategy of JSOC Bashneft on Health, Safety and Environment (hereinafter the Strategy). It was developed as part of Bashneft's five-year strategic development programme and established the following principles of corporate strategy for sustainable development in this area:

- Ensuring occupational safety, protecting the health of all employees and conserving the natural resources for future generations;
- Compliance with the essential requirements and spheres of the Government's HSE policy;
- Compliance with HSE laws and regulations;
- Openness and availability of information;
- Encouraging the employees' personal involvement in the implementation of the HSE management system and incentivizing their active participation;
- Continuously improving the functioning of the HSE management system.

The Group's budget plan stipulates the allocation of 16.44 billion roubles for financing target programmes and activities forming part of the Strategy for the next 5 years. These funds will be used to ensure process safety (54%), environmental protection (37%) and occupational safety (9%).

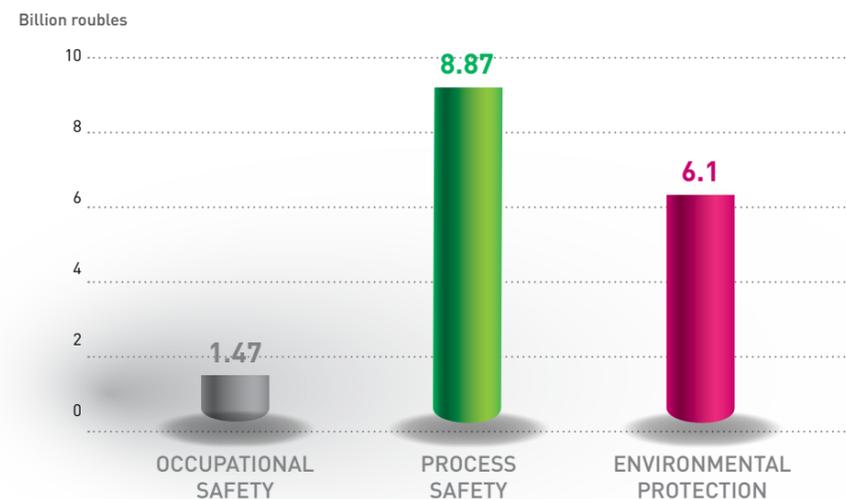


87

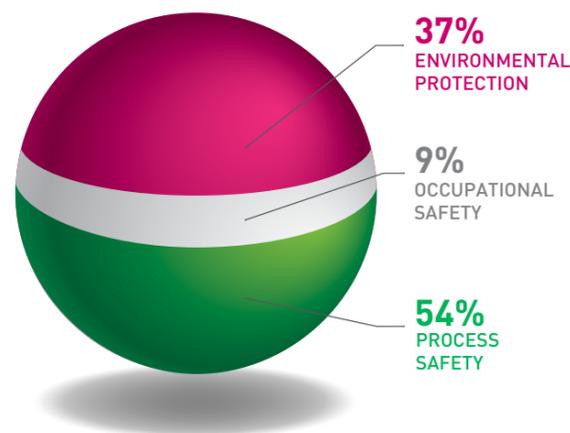
HEALTH, SAFETY AND ENVIRONMENT (HSE)

OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION: PRINCIPLES AND POLICIES

TARGETED FUNDING AS PART OF THE FUNCTIONAL STRATEGY ON HEALTH, SAFETY AND ENVIRONMENT IN 2011-2015, BILLION ROUBLES



THE BUDGET OF THE FUNCTIONAL STRATEGY ON HEALTH, SAFETY AND ENVIRONMENT IN 2011-2015, %



88

OCCUPATIONAL SAFETY

HEALTH AND SAFETY

The Group believes that the life and health of its employees is an absolute priority; therefore, Bashneft is committed to providing them with safe working conditions, i.e. such working conditions under which the risks of the exposure of employees to harmful and/or dangerous industrial factors are eliminated or the levels of exposure do not exceed the established norms.

The Company has a system for ensuring occupational and process safety, which was established in accordance with government regulations on occupational safety, including the national occupational safety standard GOST R 12.0.007-2009 'The system of occupational safety standards. The occupational safety management system in the organization. General requirements for development, implementation, evaluation and improvement'. This programme is aimed at the 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 industrial injuries and accidents, preparedness for them and emergency response activities, and
- **INCLUDES** the processes of planning and performance evaluation of the HSE management system using key performance indicators, and continuous improvement of the system itself.

Along with the systematic analysis of the causes of industrial injuries and the development and implementation of measures for preventing them, the major objectives of the Strategy on HSE management include the implementation of measures to improve the employees' health and working conditions at the Group's subsidiaries and affiliates.

One of the key elements of the Group's HSE management system is the multi-level industrial control over occupational safety performance and working environment; it is a package of administrative and engineering measures aimed at compliance with process safety and risk management requirements at hazardous production facilities.

89

HEALTH, SAFETY AND ENVIRONMENT (HSE)

● OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION: PRINCIPLES AND POLICIES

OCCUPATIONAL SAFETY

HEALTH AND SAFETY

To minimize the risk of accidents, the Group has implemented an **integrated risk management system**, which involves compiling risk registers, categorising workplaces depending on the degree of exposure to harmful and/or dangerous industrial factors, identifying risk groups among oilfield and high-tech production facilities. To assess the impact of dangerous and harmful industrial factors in all areas of production, workplaces at all of Bashneft's subsidiaries and affiliates are regularly assessed; corrective measures have been developed and are now taken to ensure that they fully comply with the regulations. In 2011, the number of workplaces characterized by harmful working conditions decreased by 8.3% as compared to the previous **assessment of workplaces** in terms of working conditions.

Compliance with regulatory requirements for process safety when implementing complex processes is an essential prerequisite for the Group's operations. All of the Group's businesses are required to be certified for compliance of working conditions with the requirements of the government occupational safety regulations.

All subsidiaries and affiliates have their own **target programmes** for ensuring compliance of their facilities with process and fire safety rules stipulating the priorities and deadlines for the reconstruction/upgrade of production facilities.

Local employee councils and trade union organizations actively participate in dealing with issues of occupational safety. The internal management structure of the occupational safety system provides for establishing **Committees (commissions) on health and safety** at the departmental level of Bashneft's subsidiaries and affiliates, involving senior officials and members of the workforce.

In order to prevent the development of occupational diseases in the workplaces affected by harmful and dangerous factors, health monitoring is conducted at all enterprises and **preventive treatment measures** are taken, including mandatory regular medical examinations, hospital treatment (if necessary) and resort therapy. Thanks to these measures, **no cases of occupational diseases have been registered at the enterprises of Bashneft's subsidiaries and affiliates over the last 5 years**. For details see Section 7 'Corporate social programmes and investments'.

In accordance with the current legislation, all the staff of the enterprises undergoes all types of compulsory training in a timely manner. Since all of

the Group's subsidiaries and affiliates are characterised by a high degree of occupational risks, Bashneft pays great attention to first aid training of staff.



HEALTH, SAFETY AND ENVIRONMENT (HSE)

● OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION: PRINCIPLES AND POLICIES

ENVIRONMENTAL SAFETY

ENVIRONMENTAL PROTECTION

The Group's efforts to ensure **environmental safety** are aimed at efficient use, conservation and restoration of natural and biological resources, both those involved in production, and those located in the Group's operating regions. By **efficient usage** we mean reducing pollution levels and increasing utilization rates by introducing resource-saving and energy-efficient technologies.

Our production and environmental protection activities comply with all the norms of the **environmental legislation** and the requirements for **regulatory and technical provision** of environmental and occupational safety; we fully meet **all obligations**, including their environmental and investment aspects; we continuously **monitor the technical condition of our property**, plant and equipment in order to prevent emergency situations and reduce technological risks.

The Group pays constant attention to the sources and factors of negative environmental impacts, and, above all, to the **reduction of the number of failures in the pipeline system** and the storage and treatment of drilling waste. Another priority of the Strategy is the reduction in industrial emissions, including the

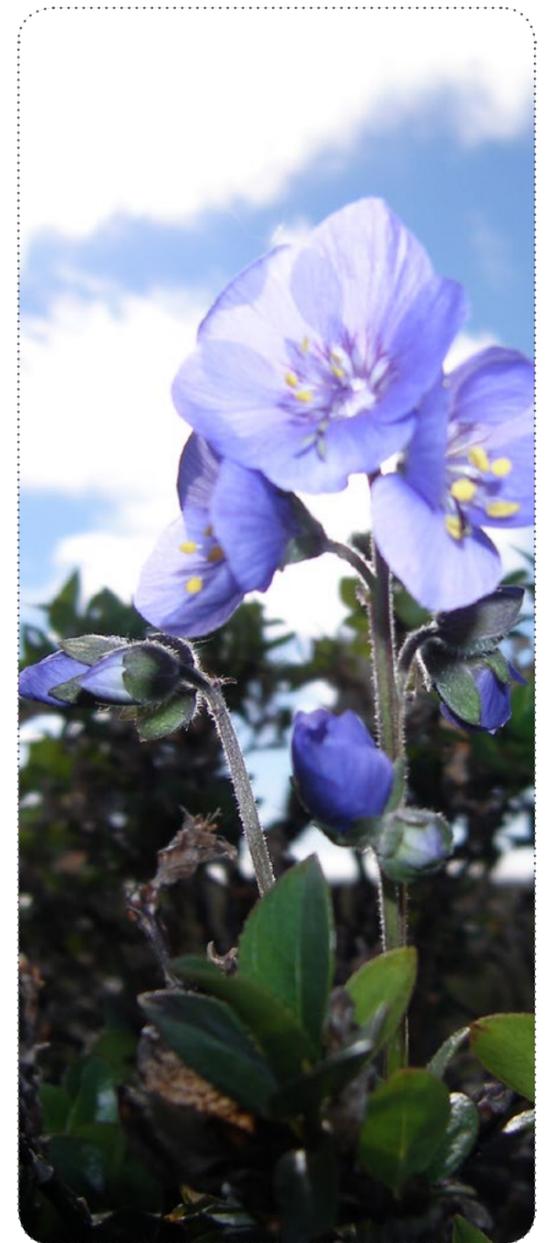
reduction in associated gas flaring and increasing **its utilization rate** to the level set by the Government, as well as improving wastewater treatment at petrochemical plants. Another equally important task for us consists in reducing the losses of **hydrocarbons and reducing CO2 emissions**.

Our attention is constantly focused on environmentally oriented industrial technologies - **eco-innovations**, including the developments of both the Group's R&D centre and of third-party R&D companies. Another area of our attention is the issue of resource conservation and **improvement of energy efficiency** at all stages of production and business operations.

Bashneft takes the **risks associated with the environment and global climate change**, and provides climate and cryogenic monitoring of subsoil areas located in the far north to identify potential impacts of global climate change. In 2010 and 2011, **a technical survey of the engineering risks** of Bashneft Group was conducted; it revealed that overall, the risks of loss of property of the Group do not exceed the average level in the world for oil production, refining and petrochemical companies.

To minimize the impact of industrial and environmental risks specific to the oil and gas industry Bashneft uses an **integrated insurance system**, which includes property insurance and liability insurance. Currently, all potentially dangerous facilities used by the Group in the course of development, production, refining and marketing are insured up to 2013. We consider insurance against environmental and technological risks in the context of the overall risk management policy. For details see Section 5 'Consideration of interests and responsible cooperation'.

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



HEALTH, SAFETY AND ENVIRONMENT (HSE)

● OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION: PRINCIPLES AND POLICIES

ENVIRONMENTAL SAFETY

SOCIAL RESPONSIBILITY STANDARDS OF JSOC BASHNEFT IN THE FIELD OF INDUSTRIAL AND ENVIRONMENTAL SAFETY

TO ENSURE THE PROCESS AND ENVIRONMENTAL SAFETY OF ITS OPERATIONS, JSOC BASHNEFT ACCEPTS THE FOLLOWING OBLIGATIONS:

- to operate in accordance with environmental legislation;
- to reduce the environmental impact of all operations, production processes and products by using state-of-the-art technologies and applying the principles of pollution prevention;
- to switch over to producing cleaner fuels that meet Euro 4 and Euro 5 European standards by the specified deadline;
- to ensure efficient use of natural resources (both those involved in production, and those located in the Group's operating regions) by introducing resource saving and energy efficient technologies and by using alternative energy sources;
- to improve the efficiency of industrial environmental control and the internal audit of compliance with the requirements of environmental legislation and ensure that production complies with the international ISO 14001 standard;
- to continuously improve the HSE management system in accordance with the requirements of international OHSAS 18001, ISO 14001 standards.

MANAGEMENT SYSTEM AND INTERNAL REGULATIONS

MANAGEMENT STRUCTURE

The Health, Safety and Environment Department of JSOC Bashneft in collaboration with the responsible offices and employees of Bashneft's subsidiaries and affiliates coordinate and ensure the implementation of the strategy on health, safety and environment. Starting from 2011, the scope of the responsibility of the Department and its structure were significantly expanded.

The Department coordinates activities in the following areas:

- Environmental protection;
- Occupational safety and Civil Defence (civil defence and emergency situations);
- Industrial control;
- Licensing.



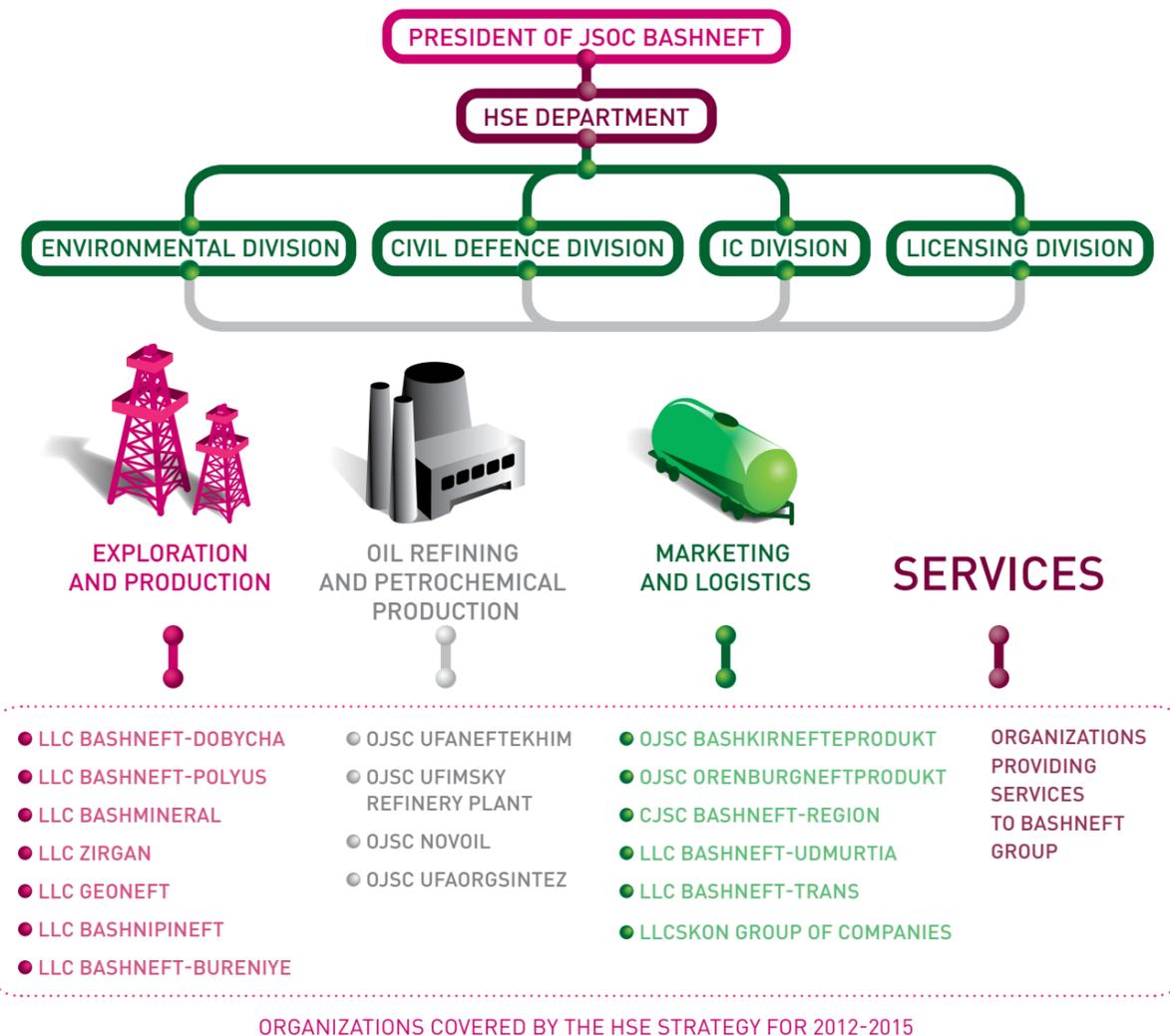
HEALTH, SAFETY AND ENVIRONMENT (HSE)

OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION: PRINCIPLES AND POLICIES

MANAGEMENT SYSTEM AND INTERNAL REGULATIONS

MANAGEMENT STRUCTURE

THE ORGANIZATIONAL CHART OF THE OCCUPATIONAL AND PROCESS SAFETY MANAGEMENT, CIVIL DEFENCE AND EMERGENCIES, ENVIRONMENTAL PROTECTION AND LICENSING IN JSOC BASHNEFT AND ITS SUBSIDIARIES AND AFFILIATES



INTERNAL REGULATIONS

The company has a number of internal documents that regulate the work of the HSE Department, the management of occupational safety, process safety and environmental protection and ensure that the goals and objectives planned in the Strategy are achieved. These are:

- Regulations on the HSE Management System
- Environmental policy of JSOC Bashneft
- Regulations on the industrial environmental control at JSOC Bashneft

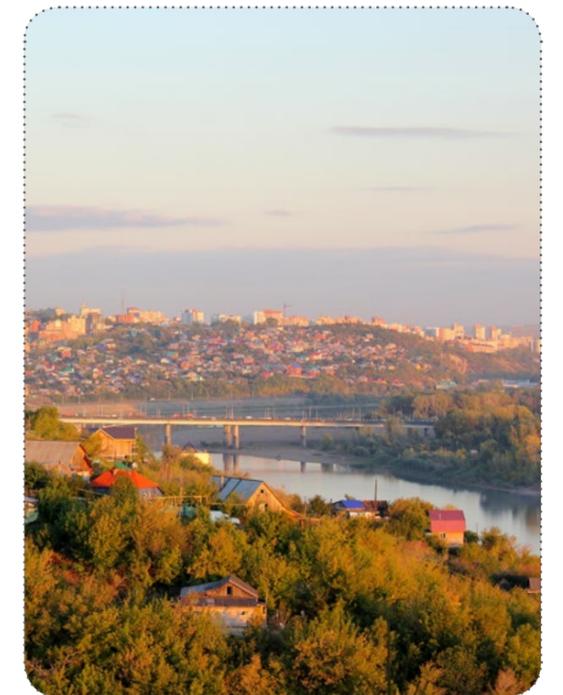
REGULATIONS ON THE HSE MANAGEMENT SYSTEM

These regulations define the main areas of work on occupational and process safety: organizational structure, planning of activities, responsibilities, resources for achieving the objectives and the assessment the efficiency and improvement of the management system. All of the Group's subsidiaries and affiliates have adopted and implemented similar internal procedures.

Given the importance of a number of production facilities and fields with a high degree of risk, in 2011, a number of specific work instructions were developed for the workers of this industrial category to ensure safety during the work.

ENVIRONMENTAL POLICY

In April 2012, the Group first adopted an **Environmental policy**. This policy must become the basis for building an efficient environmental management system resilient to external and internal influences and complying with international practices and standards. In order to create a safe working environment and improve the industry standards of production practices, in 2011, the Group also adopted an internal policy on safety culture and occupational safety.



HEALTH, SAFETY AND ENVIRONMENT (HSE)

OCCUPATIONAL SAFETY AND ENVIRONMENTAL PROTECTION: PRINCIPLES AND POLICIES

MANAGEMENT SYSTEM AND INTERNAL REGULATIONS

MAIN PRINCIPLES OF THE ENVIRONMENTAL POLICY

- Recognizing the constitutional human right to a healthy environment;
- recognizing the primary importance of environmental protection as a component of national policy;
- providing industrial and environmental control during all operations;
- reducing the negative impact on the environment at all stages of production;
- giving priority to preventive measures over measures for mitigating negative environmental impacts;

IMPROVEMENT OF THE MANAGEMENT SYSTEM

The Group continues improving the HSE management system; this should contribute to developing a holistic approach to addressing the issues of occupational and process safety and environmental protection.

COMPLIANCE WITH THE REQUIREMENTS OF THE INTERNATIONAL OHSAS 18001 STANDARD

The Group's efforts in the field of occupational safety and health of employees are aimed at improving the integrated system for the management and internal monitoring of the working conditions and accident prevention. Along with the environmental management certification, we intend to pass the occupational safety management certification assessing compliance with the international OHSAS 18001 standard (Occupational Health and Safety Management Systems).

The OHSAS 18001 certification will prove that the Group constantly monitors industrial and occupational risk factors, ensuring the safety of personnel in the workplace. 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 'Occupational safety standards system. Occupational safety management systems. General requirements'.

COMPLIANCE WITH THE REQUIREMENTS OF THE ISO - 14000 ENVIRONMENTAL MANAGEMENT STANDARDS

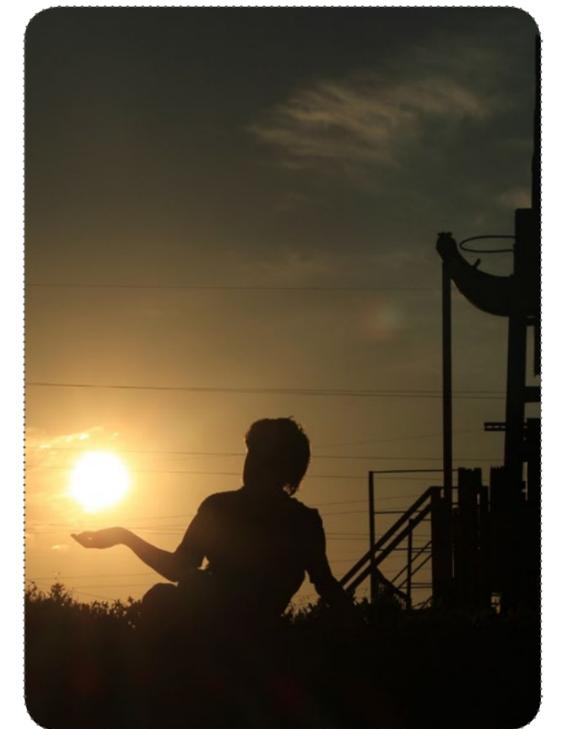
The immediate goals for this year include harmonizing Bashneft's HSE management system with 14000 ISO standards. This family of standards may be divided into three main groups:

- principles of creation and usage of the Ecological Management System;
- tools for environmental monitoring and evaluation;
- standards that are focused on products.

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

Unlike other documents, all its requirements are 'audited': it is assumed that the company must annually certify that the environmental management system that it has built is functioning as efficiently as it was at the time of certification. It is the compliance with the ISO 14001 standard that is subject to formal certification. If the company receives the appropriate certificate, this indicates that it is closely monitoring compliance

with all requirements of this standard. Its counterpart in the Russian Federation is the GOST R ISO 14001-2007 standard 'Environmental Management Systems. Requirements and guidance for use'. According to the International Organization for Standardization, compliance with the standard was confirmed by approximately 200,000 organizations in 155 countries.



HEALTH, SAFETY AND ENVIRONMENT (HSE)

● MAIN AREAS OF ENSURING INDUSTRIAL SAFETY

INDUSTRIAL CONTROL

Compliance with process safety requirements when conducting complex processes is a priority in the Group's production activities. The efficient 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 multi-level system of industrial control at hazardous production facilities enables risk management, accident prevention and compliance with all regulatory requirements for process safety.

The Group and its subsidiaries and affiliates developed Regulations on the procedure for the technical investigation and recording of incidents at hazardous production facilities. They are aimed at determining the causes of equipment failure and the development of precautionary measures for preventing them in the future.

The Group's subsidiaries and affiliates have adopted target programmes aimed at ensuring that the production facilities meet the fire safety requirements and they have been approved by regulatory agencies and the plans of the corresponding measures stipulating the reconstruction and modernisation of production facilities.

As part of the adopted Strategy the Group has planned to take measures for ensuring the compliance of the hazardous production facilities at the Ufa group of refineries (OJSC Ufimsky refinery plant, OJSC Ufaneftekhim, OJSC Novoil, OJSC Ufaorgsintez) with the existing industrial safety rules; the funds allocated for these measures total 6.4 billion roubles. As of July 1, 2012, expenditure on these activities amounted to 1.4 billion roubles.



100

OCCUPATIONAL SAFETY MEASURES

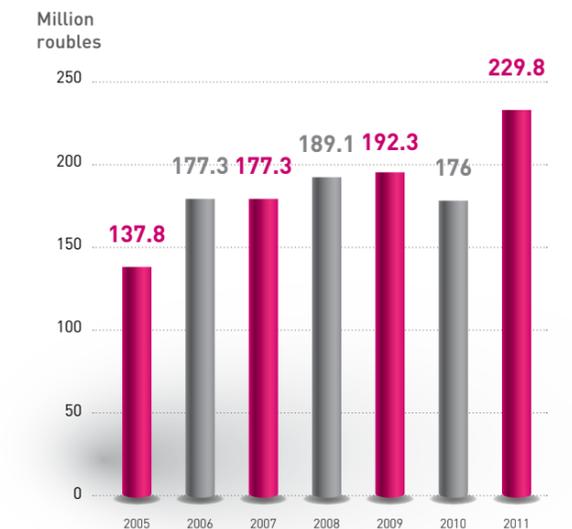
Employee councils and trade unions are actively involved in solving issues related to occupational safety. Obligations of the management of the enterprises to ensure occupational safety and provide workers with personal protective equipment are stipulated in the collective agreements; authorized representatives in charge of occupational safety are elected in every department; employees receive benefits and compensations stipulated by the legislation. The enterprises have in place a multilevel system for monitoring the 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 conducts inspections according to the schedule.

FINANCING OF OCCUPATIONAL SAFETY MEASURES

Every year, the occupational safety fund is formed; forward-looking and target programmes on the improvement of working conditions and occupational safety performance are implemented. All businesses comply with the requirements of article 226 of the Labour Code for the financing of measures of occupational safety, which must total no less than 0.2% of production costs.

Despite the reductions in the average number of employees, the expenditure on occupational safety measures increased in 2011 compared to 2010 by 30% and amounted to 229.8 million roubles.

HISTORY OF EXPENDITURE ON OCCUPATIONAL SAFETY, MILLION ROUBLES



101

HEALTH, SAFETY AND ENVIRONMENT (HSE)

● MAIN AREAS OF ENSURING INDUSTRIAL SAFETY

TRAINING IN OCCUPATIONAL AND PROCESS SAFETY

In accordance with the legislation, employees of the Group's enterprises receive mandatory training in occupational, process and fire safety and undergo certification. The training is provided by large educational centres that have the necessary expertise in the fuel and energy sector.

Every year the Group's employees participate in the republic-wide competition 'The Best Process Safety Specialist', which is held by the non-governmental educational institution 'Intersectoral

institute' with the support of the Priural-skiy administration of the Federal Service for Ecological, Technological and Nuclear Supervision (Rostekhnadzor). Training and certification in occupational, process and fire safety are mandatory under the applicable legislation and are held in the Group thoroughly and in a timely manner. In 2011 funding of compulsory training at the Group's subsidiaries and affiliates amounted to **38 million** roubles, compared to 35 million roubles in 2010.

THE NUMBER OF WORKERS WHO UNDERWENT TRAINING AND CERTIFICATION IN OCCUPATIONAL AND PROCESS SAFETY IN 2011

Average headcount at the Group's enterprises	26,754
Total number of employees that have passed the knowledge testing and certification	19,146
Process safety course	6,897
Occupational safety course	4,725
First aid course	7,195
Fire safety course	13,435

102

REDUCTION IN THE NUMBER OF INDUSTRIAL ACCIDENTS AND THE IMPACT OF HARMFUL AND DANGEROUS INDUSTRIAL FACTORS

All of the Group's employees are provided with modern personal protective equipment taking into account individual working conditions. The Group's subsidiaries and affiliates annually form a fund for ensuring that hazardous production facilities comply with the existing industrial safety rules established by Rostekhnadzor. The Group's budget plans stipulate that in 2011 - 2015, 6.4 billion roubles will be allocated for this purpose.

The Group regularly monitors working conditions in the workplaces. Besides, all workplaces at the Group's subsidiaries and affiliates and the Group itself are assessed annually in terms of working conditions. As a result of the measures for improving working conditions and occupational safety performance, the number of workplaces with dangerous working conditions is constantly decreasing and by the end of 2011 the average figure for twelve subsidiaries and affiliates amounted to 35% of the total number.

INDUSTRIAL ACCIDENTS

The Group's production capacities include long pipeline systems for collecting, preparing and transporting oil. The Group's production facilities are fitted with sophisticated technical equipment, which functions in a harsh environment and is regulated by automated control systems. Therefore, it is impossible to completely prevent industrial accidents; however, the Group makes every effort to minimize the possible risks: we systematically analyze the causes of industrial accidents and develop and implement measures to address them. The situation in the sphere of industrial injuries is characterized by a decrease in the accident rate.

In 2011, there were three industrial accidents at the Group's subsidiaries and affiliates; three people were injured (four incidents in 2010). In 2011, the accident rate amounted to 0.16 (compared to 0.19 in 2010).

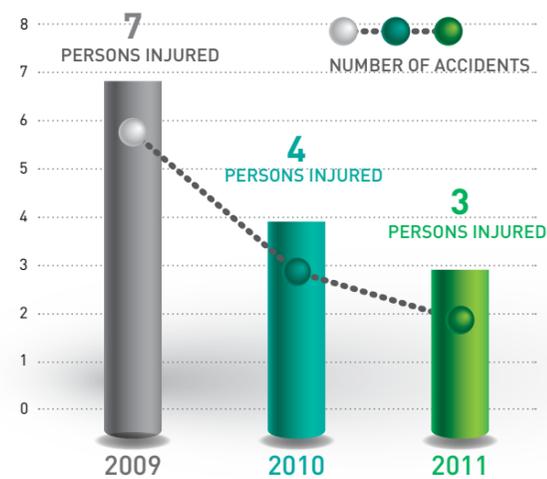
103

HEALTH, SAFETY AND ENVIRONMENT (HSE)

● MAIN AREAS OF ENSURING INDUSTRIAL SAFETY

REDUCTION IN THE NUMBER OF INDUSTRIAL ACCIDENTS AND THE IMPACT OF HARMFUL AND DANGEROUS INDUSTRIAL FACTORS

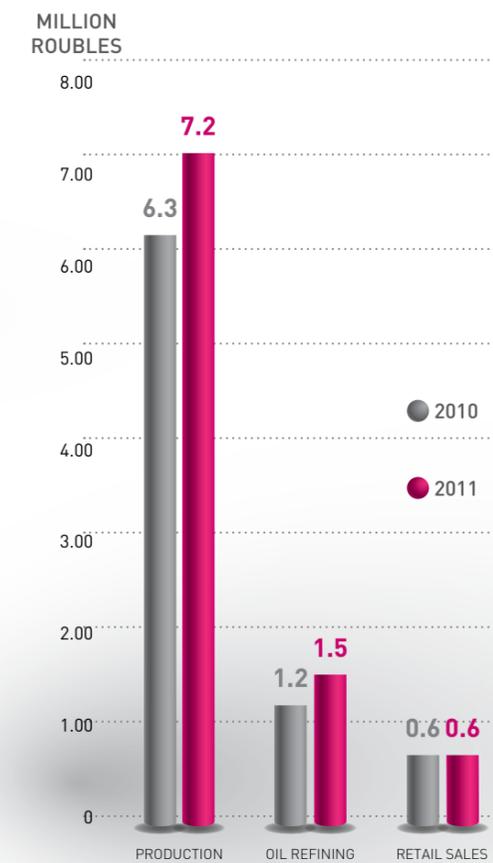
INDUSTRIAL ACCIDENTS



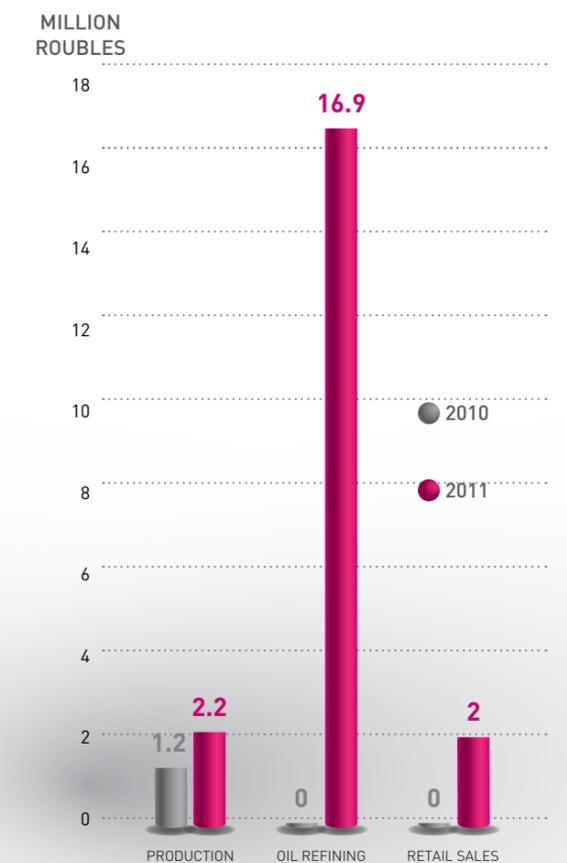
ACCIDENT RATE, %



EXPENDITURE ON THE MAINTENANCE OF SHELTERS, MILLION ROUBLES



EXPENDITURE ON THE DEVELOPMENT OF 3D MODELS OF POTENTIALLY HAZARDOUS FACILITIES, MILLION ROUBLES



CIVIL DEFENCE AND EMERGENCY MEASURES

The Group and all its subsidiaries and affiliates have in place an emergency prevention and response system. 100% of the subsidiaries' and affiliates' shelters are in constant readiness. To conduct rescue operations and other emergency response activities, the Group's subsidiaries and affiliates have formed six emergency response teams comprising 228 persons, 35 of whom are in constant readiness. There are also volunteer emergency response teams totalling 3,603 people, who are provided with special equipment and vehicles.

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. The deadlines for the implementation of three-dimensional modelling for making real-time management decisions on the safe operation of the facilities and accident containment are being met.

HEALTH, SAFETY AND ENVIRONMENT (HSE)

● MAIN AREAS OF ENSURING INDUSTRIAL SAFETY

CIVIL DEFENCE AND EMERGENCY MEASURES

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 employees of the Group's subsidiaries and affiliates to respond to emergency situations. Checks are run and the personnel and equipment of the subsidiaries and affiliates are involved in republic-wide command and staff trainings.

In 2011 inspections were conducted at the Chekmagushneft oil and gas production department, LLC Bashneft-Dobycha and OJSC Novoil. In order to provide training in cooperation according to the Oil Spill Prevention and Response Plan and to determine whether LLC Bashneft-Dobycha had sufficient personnel and equipment to deal with such emergencies, in 2011 large-scale command and staff training involving six oil and gas production departments took place, imitating the worst-case scenarios of oil spills on the Belaya River. All the assignments were successfully completed. Specialists of the Central administration of EMERCOM of Russia in the Republic of Bashkortostan confirmed that the Group's employees were ready to respond to unforeseen emergencies and that the shelters were properly prepared.

In 2011 the Group's expenditure on emergency prevention and response and measures to ensure fire safety amounted to **29 million roubles**.

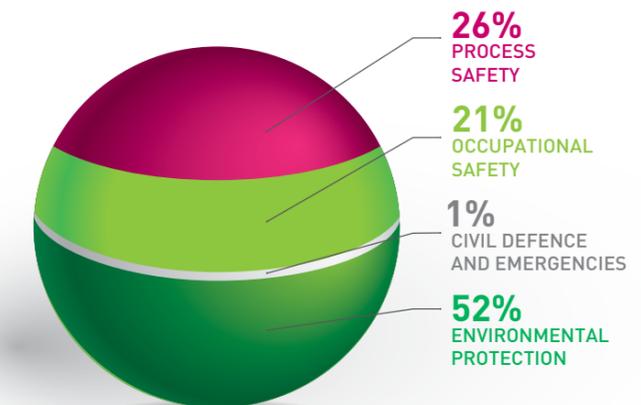
TOTAL BUDGET EXPENDITURE ON ENSURING PROCESS AND ENVIRONMENTAL SAFETY

In 2011, the financing of target programmes aimed at ensuring occupational safety, Civil Defence, process safety and environmental protection totalled **1.2 billion roubles**. Almost 80% of these funds were allocated for ensuring process and environmental safety. This year, the Group plans to increase the total budget in the main areas by a factor of 2.5. Overall, as part of the planned activities up to the end of 2015, the total expenditure on the implementation of the five-year Functional strategy is expected to amount to 16.44 billion roubles.

BUDGET OF THE TARGET HSE PROGRAMMES IN 2011 AND 2012, MILLION ROUBLES



AREAS OF TARGET FINANCING IN 2011, %



HEALTH, SAFETY AND ENVIRONMENT (HSE)

● MAIN AREAS OF ENSURING ENVIRONMENTAL SAFETY

Bashneft ranks in the top ten oil companies in Russia, which objectively determines the level of impact of its operations on the environment (the atmosphere, the water bodies, the land).

THE ENVIRONMENTAL IMPACT OF THE OIL PRODUCTION COMPLEX

Operations related to oil production have a strong negative impact on the environment, posing permanent risks of man-made disasters and pollution. This is true of the entire oil and gas industry. Experience suggests that all stages of oil and gas field development (drilling of exploration and production wells, field development and production at the field, the demolition of field facilities) involve geochemical processes that affect the environment.

The threat of environmental stress caused to the territories (atmosphere, soil and water) as a result of the human impact in the areas affected by the operation of oil and gas processing facilities is exacerbated by the moral and physical depreciation of production assets and high capital intensity of programmes aimed at the replacement of property, plant and equipment spe-

cific to the oil production complex of the Russian Federation in general.

The above factors should be regarded as objectively inherent in the entire fuel and energy sector. However, along with objective factors, there are subjective ones that contribute to mitigating this impact on the level of individual oil and gas companies.

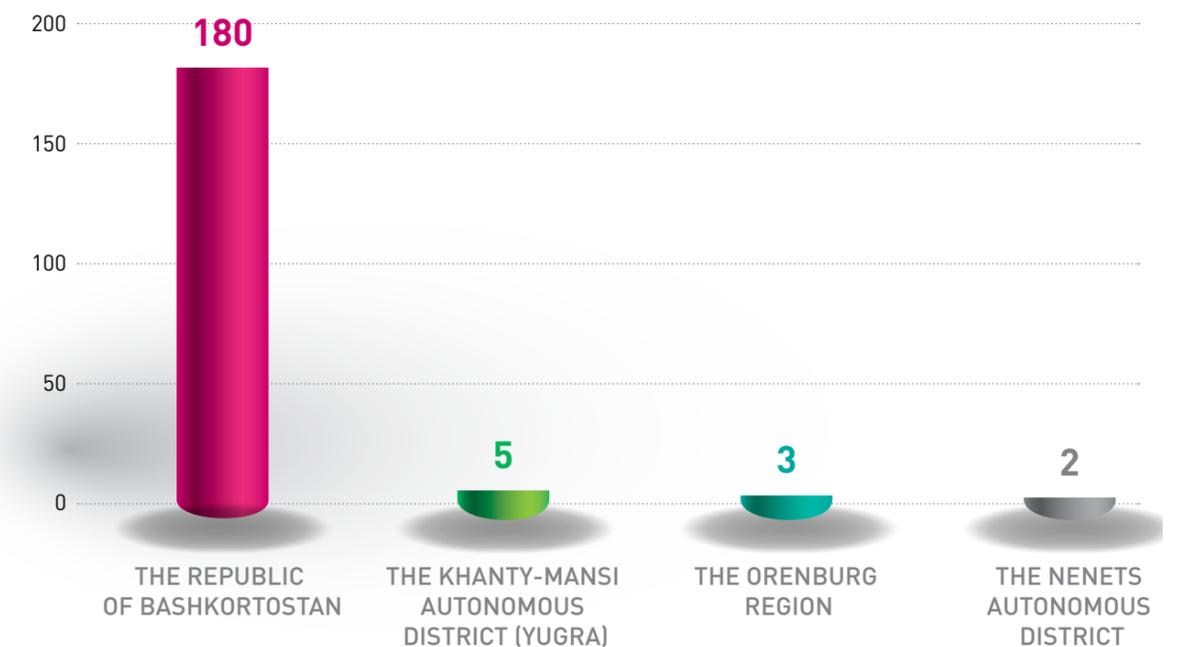
These factors include corporate social responsibility, efficient use of natural resources and having an efficient **environmental management system**. JSOC Bashneft is currently implementing such a system. The Group allocates significant resources for ensuring compliance with industry standards and regulations and for **rigorously abiding by environmental laws**. In 2011 supervisory and regulatory bodies in the area of mineral rights did not carry out checks on the Group's compliance with license and environmental requirements; there were no complaints concerning the fulfillment of these requirements, no penalties for non-compliance were imposed on the Group.

REGIONS AND FACTORS OF THE ENVIRONMENTAL IMPACT OF PRODUCTION

Reducing the negative environmental impact is the goal of our environmental policy in all of our operating regions. We view it as our task to promote this reduction by reducing the volume of accumulated oil sludge, the levels of harmful emissions and the number of pipeline failures and increasing the associated gas utilization rate.

The Group's environmental safety measures are aimed at protecting all components of the environment: the atmosphere, the water resources, the soil, flora and fauna.

THE NUMBER OF OILFIELDS DEVELOPED BY THE GROUP IN ITS OPERATING REGIONS AS OF DECEMBER 31, 2011



HEALTH, SAFETY AND ENVIRONMENT (HSE)

● MAIN AREAS OF ENSURING ENVIRONMENTAL SAFETY

REGIONS AND FACTORS OF THE ENVIRONMENTAL IMPACT OF PRODUCTION

As of December 30, 2011 the Group had 190 oilfields on its balance sheet, including 180 in the Republic of Bashkortostan. Oil refining, including 4 refineries in Ufa, was also centred in Bashkortostan. The geographic footprint of the Group's marketing enterprises is described in detail in Section 1 'Bashneft: keys to business efficiency and sustainable development (Geographic footprint)'.

The concentration of industrial production in the Republic of Bashkortostan exceeds the national average; this is especially true of oil-producing, refining and petrochemical companies. A complex of chemical and petrochemical plants is spread over an area of 270 km along the Belaya River between Meleuz and Blagoveshchensk.

THE LEVEL OF THE ENVIRONMENTAL IMPACT OF PRODUCTION BY REGION AND TYPE OF OPERATIONS

EXPLORATION

The implementation of geological exploration projects is a vital prerequisite for achieving the Group's strategic goals of replenishing the resource base and improving the recovery factor at existing oil fields. These projects include seismic surveys, deep exploration drilling, geochemical studies and specialized research. At the same time, to determine the targets for exploration drilling more precisely, we widely use 3D seismic surveys (CDP). When conducting geological exploration, we pay special attention to ensuring full compliance with the regulators' requirements for environmental safety and the wide use of modern

technologies ensuring this safety. The primary goals of the policy on nature conservation and environmental protection in the regions of oilfield development include ensuring environmental safety in the course of exploration activities and reducing the impact of seismic surveys and exploration drilling on the environment.

The main factors affecting the environment during the process of geological exploration activities include: seismic surveys, exploratory drilling (excavation), drilling of new wells, additional exploration drilling, coring, formation testing, 3D seismic surveys and additional tests of previously drilled exploratory wells, development (deepening and

testing), industrial and household waste accumulated during well development, and drilling waste (sludge).

The main regions affected by geological exploration activities include:

- the Republic of Bashkortostan,
- the Nenets Autonomous District,
- the Khanty-Mansi Autonomous District,
- the Orenburg Region.

OIL PRODUCTION

Oilfield development affects the environment at major oilfields where the Group produces hydrocarbons. The primary aims of the policy on nature conservation and environmental protection in regions of commercial oil production include: compliance with environmental safety rules during the operation of oil wells and carrying out enhanced oil and gas recovery operations; upgrading pumping equipment, engineering and technical measures for optimizing the pumping equipment; systematic measures for the maintenance and repair of oilfield equipment and pipelines; improving the capacity of treatment facilities; constructing and upgrading biological treatment facilities; increasing the rate of processing accumulated sludge and eliminating oil sludge pits, the introduction of new technologies

and methods of associated gas utilization and increasing the energy efficiency of oil production by reducing industrial energy consumption.

The main factors affecting the environment in the course of oil production include:

perforation and re-perforation of the soil during well drilling, including cluster wells; waterflooding and fluid withdrawal; hydraulic fracturing; associated gas flaring at the oilfields; oil contamination of the soil in the course of oilfield development; contamination of run-off water (rainwater and meltwater) with pollutants from contaminated soils; drilling waste (oil sludge) and industrial and household waste accumulated during the operation of wells.

The main regions affected by oil production include:

- the Republic of Bashkortostan,
- the Khanty-Mansi Autonomous District,
- the Orenburg Region,
- the Republic of Tatarstan.

HEALTH, SAFETY AND ENVIRONMENT (HSE)

● MAIN AREAS OF ENSURING ENVIRONMENTAL SAFETY

THE LEVEL OF THE ENVIRONMENTAL IMPACT OF PRODUCTION BY REGION AND TYPE OF OPERATIONS

REFINING

When transporting and storing petroleum products, we attach special importance to ensuring the environmental safety of the storage tanks, using modern methods of CO₂ capture and storage (vapour recovery systems) and introducing technologies for reducing the working loss of hydrocarbons. For details see Section 4 'Industrial and environmental responsibility'. The issue of the greenhouse effect can be viewed as central in terms of the environmental impact of oil refining. It is common to all oil refineries and all parts of the production chain and is addressed comprehensively by using automated systems for emission control; air sampling; using laboratory and rapid testing methods for monitoring the concentration of pollutants in industrial emissions; ensuring the compliance of fuel production with international environmental standards. Energy conservation is another important task in both oil production and refining.

The main factors affecting the environment in the course of oil refining include: emissions (and leakage) of industrial fumes, gases, and industrial wastewater containing environmentally harmful substances. Some of them are present in the crude oil that serves as the raw material, while others are the product of the refining process. Atmospheric emissions include light hydrocarbons, hydrogen sulphide, sulphur dioxide, nitrogen oxides and carbon monoxide. Wastewater typically contains hydrocarbons, dissolved materials, suspended solids, phenols, ammonia, sulphides, acids, alkalis and other pollutants. Requirements for the treatment and recycling of industrial waste produced in the course of oil refining are set out in the government's technical regulations, sanitary and environmental regulations. The Group and sanitary and environmental services monitor the compliance with these requirements.

The main regions affected by oil refining:

- Ufa, Bashkortostan.

TRANSPORTATION AND MARKETING

Environmental safety during the storage and transportation of liquid hydrocarbons is ensured by upgrading property, plant and equipment at our oil refineries, oil storage facilities, filling stations and transshipment terminals, and equipping them with vapour recovery units and systems designed for reducing emissions of hydrocarbon vapours and returning the product into the storage tanks using the recovery method.

The main impacts:

Apart from performing their core functions related to the production and distribution of petroleum products, all oil refineries, oil storage facilities, oil terminals and filling stations are facilities that pollute the atmosphere and are direct and indirect sources of pollution, (mainly atmospheric pollution). When loading and unloading petroleum products, pressure inside the storage tanks and atmospheric pressure is equalized through breather vents installed in the storage tanks. When the tank is filled, the product pumped into storage tanks displaces a mixture of hydrocarbon vapours, which are emitted through the breather vents into the atmosphere, which results in air pollution (for details, see Section 4 on reducing carbon dioxide emissions and further in this section and in the context of Bashneft's practice).

HEALTH, SAFETY AND ENVIRONMENT (HSE)

● MAIN AREAS OF ENSURING ENVIRONMENTAL SAFETY

KEY RESOURCES FOR REDUCING THE ENVIRONMENTAL IMPACT OF THE FUEL AND ENERGY SECTOR

DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS

IMPROVEMENT OF THE ASSOCIATED GAS UTILIZATION RATE

An important area for reducing atmospheric emissions from oil production facilities is the implementation of Decree No. 7 of the Government of Russia of January 8, 2009 on Measures to Stimulate the Reduction of Air Pollution from Associated Gas Flaring.

In 2010, the Group approved the Programme on Enhancement of Associated Gas Utilization for 2010-2013. The implementation of special measures will increase the associated gas utilization rate to 95% by 2013. For details on the Group's methods of associated gas utilization see Section 6 'Efficient use of natural resources and energy efficiency'.

Associated gas, a by-product of oil production, is one of the most valuable raw materials used in chemical manufacturing and a high-efficiency fossil fuel. In March 2009 Russia signed the Kyoto protocol to the UN Framework Convention on Climate Change and took on commitments on reducing harmful industrial emissions; since then the industry in general has witnessed a positive trend in associated gas utilization. According to the Skolkovo Energy Centre, exclud-

ing the volume of associated flaring at the Vankorskoye field (operated by OJSC Rosneft), in 2011 Russia saw a decrease in flaring from 22% of the total production volume in 2009 to 17%.¹

However, as the refining infrastructure is underdeveloped, oil companies still flare a significant share of the associated gas. According to the most conservative estimates of the Federal Supervisory Natural Resources Management Service (as of 2012), more than 20 billion cubic meters of associated gas per year is flared at Russian oilfields, which is the source of harmful atmospheric emissions, including 100 million tonnes of carbon dioxide (CO₂), as well as the thermal impact on the environment that is felt at a distance of 5 km from the gas flare. In addition to the huge financial losses incurred by Russian oil and gas companies (estimates vary from US\$ 40.8 billion to US\$ 54.4 billion per year), both of these factors aggravate the greenhouse effect and cause climate change both in the regions of oil production and on a global scale.²

1. Associated gas utilization: the problem of 2012, Skolkovo Energy Centre, February 2012

2. Report on associated gas utilization in Russia: the current situation and prospects, the Federal Supervisory Natural Resources Management Service, Moscow, 2012

REDUCTION IN HYDROCARBON LOSSES AND THE GREENHOUSE EFFECT

In recent years, the attention of the international community has been focused on **global climate change**, which, according to experts, is caused mainly by the **greenhouse effect**. These changes are associated with an increase in harmful atmospheric emissions, mainly carbon dioxide (CO₂) emissions and other substances, as a result of the increase in global energy production and consumption.

The National Inventory Report of the Russian Federation on the Anthropogenic Emissions [...] published in 2012 under the Kyoto Protocol to the UN Framework Convention on Climate Change states that the most significant source of emissions in the industrial sector is the steel industry, whose share in the total volume of **industrial greenhouse gas emissions** in 2010 amounted to 53.6%. The next largest source is the manufacturing of mineral products (including hydrocarbons). This sector's share in the total emissions amounts to 27.1%. Emissions from chemical plants (including petrochemical plants) amount to 12.6%.

Every year, according to different estimates, 50 to 90 million tonnes of hydrocarbons are emitted into the atmosphere and oil refining and petrochemical enterprises account for a significant part of these emissions. **The unit loss of hydrocarbons** that comes about because of their evaporation at oil refining enterprises of different countries totals 1,1 – 1,5 kg per 1 tonne of product.²

1. The National Inventory Report of the Russian Federation for 1990-2010: sources of anthropogenic emissions that are not regulated by the Montreal Protocol and carbon sinks, the Department of Scientific Programmes, International Cooperation and Information

2. Protection of the atmosphere from hydrocarbon emissions from oil and petroleum products storage and transportation tanks, V.G. Tsegelsky, P.N. Ermakov, V.S. Spiridonov, Health and Safety, No. 3, 2001

HEALTH, SAFETY AND ENVIRONMENT (HSE)

● MAIN AREAS OF ENSURING ENVIRONMENTAL SAFETY

KEY RESOURCES FOR REDUCING THE ENVIRONMENTAL IMPACT OF THE FUEL AND ENERGY SECTOR

CARBON CAPTURE AND STORAGE TECHNOLOGIES

Emission of hydrocarbon vapours into the atmosphere may be reduced in various ways: by using hermetically sealed containers; by reducing the absolute temperature of the vapour space and stored products, as well as by decreasing the amplitude of their fluctuation; by reducing the vapour space in the container; by capturing formed hydrocarbon vapours in the tanks.¹

Other means that are used in refining for reducing evaporation losses by **capturing light hydrocarbons** include: external and internal floating roofs (the reduction in hydrocarbon emissions ranges from 70% to 95%), gas equalizing systems (from 60% to 90%), sorption systems (from 90% to 96%), compression systems (up to 98%) etc.². The systems for capturing light fractions that are most commonly used abroad include external and internal floating roofs. They ensure a significant loss reduction and are relatively cheap and simple. The share of external and internal floating roof tanks abroad exceeds 60% of the total number of tanks. In our country, the share of external and internal floating roof tanks is about 20%; however, these tools of loss reduction are among the most common, as there

is still a large number of tanks that are not equipped with any means of reducing evaporation losses.³ For more detail on the Group's practices and reductions achieved, see Section 6 'Efficient use of natural resources and nature conservation'.

1,2,3. Protection of the atmosphere from hydrocarbon emissions from oil and petroleum products storage and transportation tanks. V.G. Tsegelsky, P.N. Ermakov, V.S. Spiridonov, Health and Safety, No. 3, 2001

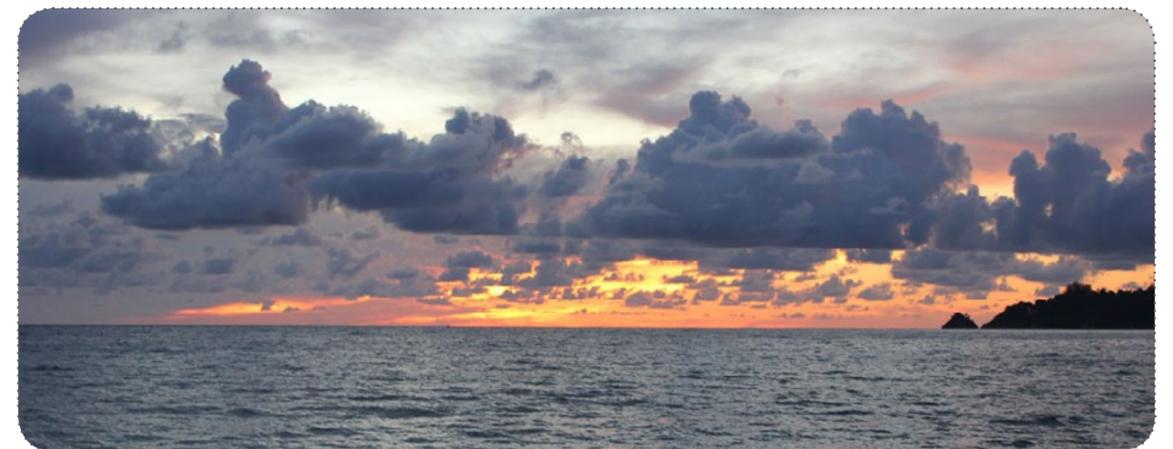


HARMFUL ATMOSPHERIC EMISSIONS AS PART OF CAR EXHAUSTS

Another **source of harmful atmospheric emissions** are car exhausts, which are produced by oxidation and incomplete combustion of hydrocarbon fuels.

Exhaust emissions are the main reason why concentration of toxic substances and carcinogens in the atmosphere of large cities exceeds permitted levels. **Environmental standards** maintained by the government serve for regulating harmful emissions. Since January 1, 2011 all vehicles in the Russian Federation must meet the requirements of Euro 3 standards, and the transition to Euro 4 standards is scheduled for 2014. In the European Union, Euro 5 standards are mandatory since 2009.

The transition to Euro 4 standards will allow Russia to reduce harmful emissions by 40% as compared to Euro 3, and would allow to reduce the carbon monoxide emissions by a factor of 2.3, benzene emissions by a factor of 2, and almost halve nitric oxide emissions at the national level (the limits listed here are set by the Euro 4 standards for fuel for gasoline engines, and are different for diesel fuel). For details, see Appendix IV to Section 8: 'Environmental standards for engine fuels'.



HEALTH, SAFETY AND ENVIRONMENT (HSE)

● MAIN AREAS OF ENSURING ENVIRONMENTAL SAFETY

EVALUATION OF RISKS RELATED TO GLOBAL CLIMATE CHANGE

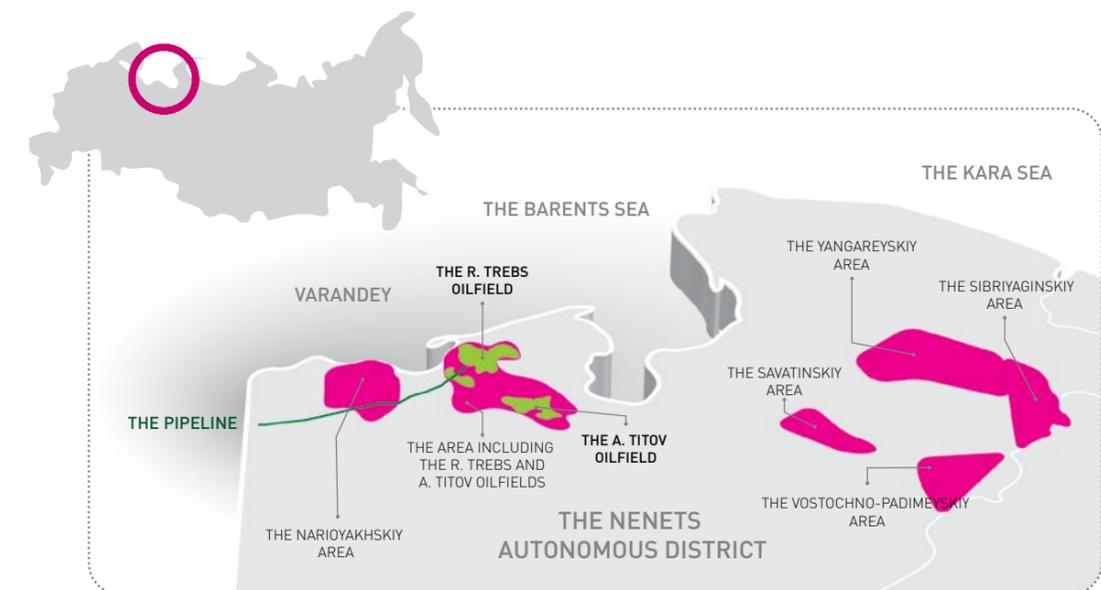
Bashneft holds licences for oil and gas fields located in the Timan-Pechora Basin of the Yamalo-Nenets Autonomous District, where the R. Trebs and A. Titov oilfields and the Yangareyskiy, Sabriyaginskiy, Savatinskiy and Vostochno-Padimeyskiy subsoil areas are situated. The district is located primarily in three climatic zones: the arctic and subarctic zone and the zone of the northern part of the West Siberian Plain. The climate of the arctic and subarctic zones is determined by the proximity of the cold Kara Sea and the existence of permafrost, which is sensitive to human impacts, so the risks associated with climate change are material to the Group.

Under the scenario involving global warming, a potential risk may consist in the transformation of cryogenic soils with a high probability of thermal erosion, melting and waterlogging of soils. Therefore, even a slight increase in the temperature in the permafrost regions may cause partial damage to the infrastructure of production facilities, accidents and failures in the pipeline transportation system, undermine the foundations or result in the sinking of facilities. Main pipelines are the most vulnerable in this respect, as these processes lead to displacement and deformation of pipelines and a high probability of accidents¹.

To manage and adapt to this risk, the Group conducts periodic cryological monitoring at production facilities; the results of the monitoring indicate that the current risk of permafrost degradation is negligible, so the Group does not take any other measures in this area. Oilfield development projects also include measures for preventing other thermal impacts and subjective factors that are not related to climate change, such as the impact of facilities on cryotic soils.

1. The study and monitoring of permafrost with the use of space imagery data, Kornienko S. G., Oil and gas, 2010

THE RISK GROUP: OILFIELDS LOCATED IN THE ARCTIC REGION



THE ANTICORRUPTION POLICY

adopted on October 3, 2011

FINEXPERTIZA

The audit of financial statements prepared in accordance with RAS

DELOITTE & TOUCHE CIS

The audit of IFRS financial statements

1.72 BILLION ROUBLES

invested in communities, including charity

US\$ 367.9
MILLION

SAVINGS from the introduction of procurement procedures

QUARTERLY REPORTING ACCORDING TO IFRS

started in 2010

ANALYST DATABOOKS

issued on a quarterly basis

OVER **US\$ 2.5**
BILLION

Bashneft paid IN TAXES in 2011

5.5%

of net income is allocated for SOCIAL PROGRAMMES AND COMMUNITY INVESTMENTS, incl. charity

CREDIT RATINGS

Moody's Ba2 and Fitch BB, outlook 'Stable'

26

OPERATING REGIONS, incl. production, refining and marketing

2 YEARS

of e-commerce in B2B-Center

ZERO TOLERANCE

towards corruption

22ND PLACE

in the KWD ranking of Russian corporate websites

US\$ 346
MILLION

The volume of electronic procurement done during the year

 JSOC BASHNEFT: CONTRIBUTION TO THE EFFECTIVE COOPERATION BETWEEN BUSINESS, SOCIETY AND THE GOVERNMENT

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

● CSR: OBJECTIVES AND PRINCIPLES

THE MAIN PRINCIPLE OF THE GROUP'S SOCIAL POLICY IS RESPONSIBILITY; WHEN IMPLEMENTING THIS POLICY, THE GROUP RESPECTS THE INTERESTS OF ALL OF ITS STAKEHOLDERS AND BEHAVES RESPONSIBLY TOWARDS THEM. THE GROUP'S MANAGEMENT AND OUR PRINCIPAL SHAREHOLDERS TAKE A PROACTIVE SOCIALLY RESPONSIBLE ATTITUDE. WE DO NOT SEPARATE THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

FROM THAT OF SUSTAINABLE DEVELOPMENT AND WE CONSIDER THE EFFECTIVE IMPLEMENTATION OF LONG-TERM COMPREHENSIVE SOCIAL PROGRAMMES, WHICH ARE AIMED NOT ONLY AT INTERNAL CORPORATE DEVELOPMENT, BUT ALSO AT THE SOCIAL DEVELOPMENT OF SOCIETY AT LARGE, TO BE ONE OF THE MOST IMPORTANT COMPONENTS OF THE GROUP'S INVESTMENT ATTRACTIVENESS AND SUSTAINABLE DEVELOPMENT.

THE GOAL OF JSOC BASHNEFT'S SOCIAL POLICY IS TO CONTRIBUTE TO SUSTAINABLE DEVELOPMENT



RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

We acknowledge our social responsibility. We are aware that the perception and evaluation of the efficiency of our policy in the area of social responsibility may affect, among other things, Bashneft's competitive advantage in the industry and on the petroleum products market; its ability to attract and retain employees, customers, users of our products and services; improvement of corporate culture; the prestige of the Group as an employer; our business reputation among business partners, suppliers, the financial community and other Russian oil and gas companies; the attractiveness of our Group in the eyes of the investment community and our shareholders; our relationships with the government bodies, the media, local communities in our operating regions and society as a whole.

The Group has created and put into operation an **infrastructure** that allows to plan a CSR strategy, make decisions promptly, efficiently coordinate and manage the fulfilment of daily tasks needed for communicating with stakeholders and rapidly exchanging information in all areas of activity in this field. We strive to ensure that our policy conforms to **international norms of responsible behaviour**, first and foremost with the International ISO / FDIS 26000 Standard 'Guidance on social responsi-

bility', as well as the general principles of the UNGC Corporate Sustainability in the field of human rights, employment, environment and anti-corruption.

We subscribe to and put in practice the principle of 'systematic dialogue based on mutual **respect of interests, values, attitudes and differences of key stakeholders**', as outlined in the Social Charter of Russian Business joined by Bashneft in 2010.

The continuous improvement of interaction with the Group's shareholders, investors, creditors, business partners, employees and other stakeholders is a fundamental principle of corporate social responsibility, which was reflected in the **Policy on Corporate Social Responsibility**. Moreover, socially responsible behaviour is a standard for all of the Group's employees and managers, which is set out in JSOC Bashneft's Code of Corporate Conduct.

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

● CSR: OBJECTIVES AND PRINCIPLES

Risk assessment and management during running the business of the Group is one of the components of the management's policy on corporate social responsibility. We see our responsibility for the sustainable development of the

Group's business not only in planning the development, but also in ensuring the effectiveness of the processes of strategic and business planning. This is what the Group's efforts in the risk management field are aimed at.

SOCIAL RESPONSIBILITY

RESPONSIBILITY OF AN ORGANIZATION FOR THE IMPACTS OF ITS DECISIONS AND ACTIVITIES (INCLUDING PRODUCTS, SERVICES AND PROCESSES) ON SOCIETY AND THE ENVIRONMENT THROUGH TRANSPARENT AND ETHICAL BEHAVIOUR THAT:

- contributes to sustainable development, including health and the welfare of society;
- takes into account the expectations of stakeholders;
- complies with applicable law and is consistent with international norms of behaviour;
- is integrated throughout the organization and practised in its relations with stakeholders within its sphere of influence

International ISO / FDIS 26000 Standard

124

CORPORATE SOCIAL RESPONSIBILITY OBJECTIVES:

- Improving the quality of stakeholders' life;
- Creating a social environment which is favourable for achieving strategic business objectives;
- Encouraging a positive attitude towards the Group, its subsidiaries and affiliates on the part of the representatives of the federal, regional and local authorities;
- Increasing confidence in the Group and strengthening its reputation;
- Improving the quality of life of employees of the Group and its subsidiaries and affiliates;
- Effectively cooperating with the government and society in addressing social issues;
- Improving corporate governance practice;
- Engaging in a constructive dialogue and promoting cooperation between the Group and its key stakeholders;
- Ensuring occupational safety and talent development;
- Protecting the environment.

CORPORATE SOCIAL RESPONSIBILITY PRINCIPLES:

- Upholding the supremacy of law;
- Awareness of our social responsibility;
- Ethical behaviour and business integrity;
- Respecting the interests of stakeholders;
- Identifying stakeholders and cooperating with them;
- Compliance with international norms of business conduct;
- Respect for human rights;
- Protection of the environment.

125

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

● CSR: POLICY AND STRUCTURE

The Group's CSR policy is aimed at aligning the approaches to managing the social aspects of the Group's operations and regulates: personnel management; CSR management standards for the subsidiaries and affiliates; the management of internal and external communications, including communications with the business and investment community; occupational and process safety and the management of charity and sponsorship projects.

THE POLICY ON CORPORATE SOCIAL RESPONSIBILITY

To achieve its goals, the Group has adopted and follows the **Policy on Corporate Social Responsibility** of JSOC Bashneft, an internal document, which determines the priorities and areas of the Group's activity in the field of CSR; regulates the duties and the procedure for cooperation of the Group's executives in charge (including all departments, branches and subsidiaries).

When implementing a socially responsible corporate policy we are faced with **three primary tasks**:

- institutionalizing the CSR management system in the Group and its subsidiaries and affiliates;
- achieving the target values of key CSR indicators;
- creating an effective tool for monitoring the progress of the Group and its subsidiaries and affiliates in the field of CSR.

CSR MANAGEMENT STRUCTURE

The main divisions of the Group that are in charge of the implementation of CSR policies are:

- Corporate Communications Department
- HR Department
- Investor Relations Department

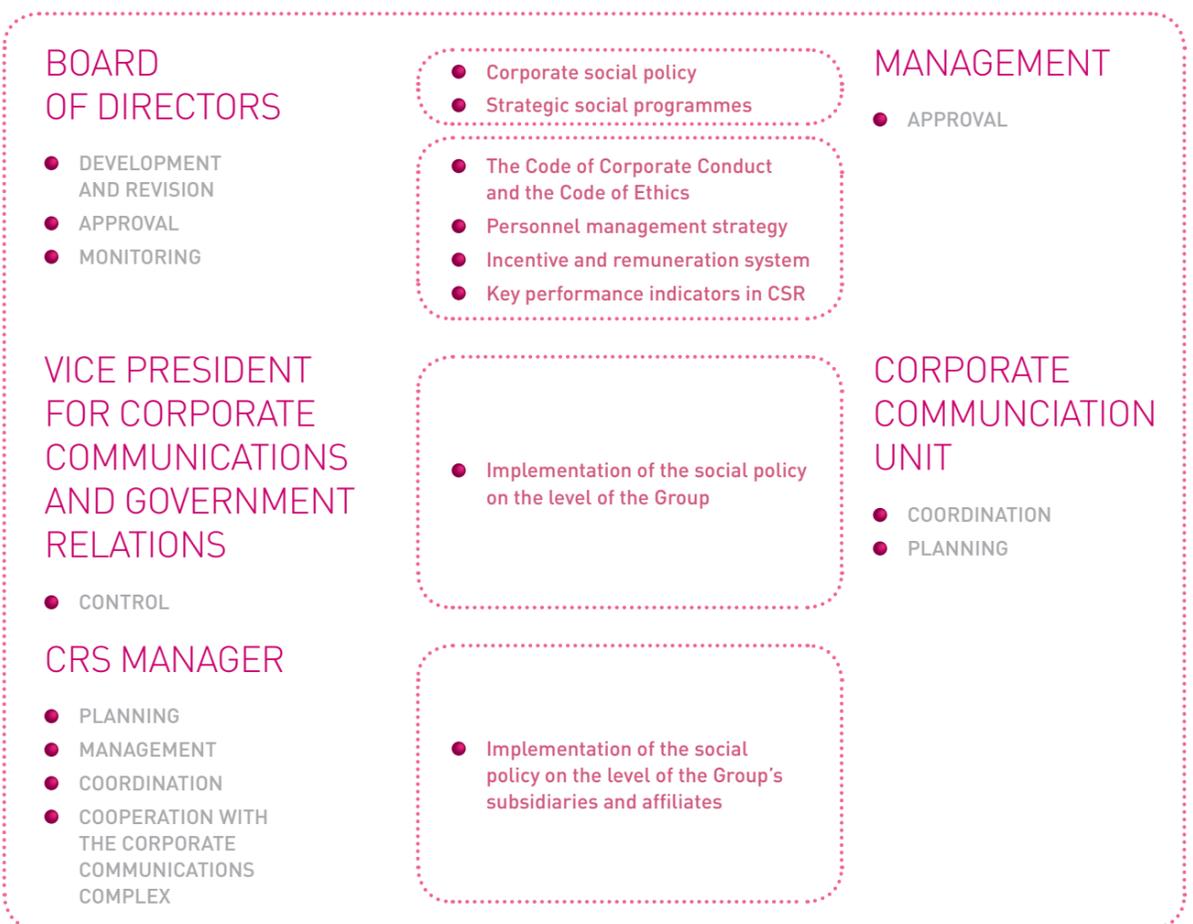
while the task of the overall coordination of CSR projects is performed by the **Corporate Communications Unit**, and the Vice President for Corporate Communications and Government Relations.

At the same time, each subsidiary appoints **CSR managers**, who are responsible for coordinating CSR activities and cooperating with the Corporate Communications Unit.

The development and revision of social policy, monitoring of its implementation, decision-making on issues of social policy and monitoring the efficiency of its implementation is within the competence of the Board of Directors.

The Board of Directors regularly monitors the consistency and efficiency of the implementation of social policy.

CSR ORGANIZATIONAL CHART



RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

CSR: POLICY AND STRUCTURE

KEY OBJECTIVES OF THE IMPLEMENTATION OF SOCIAL PROGRAMMES

The efforts of CSR management divisions are aimed at the following:

- Analyzing and improving the Group's activities and practices in the sphere of social responsibility;
- Integrating social responsibility throughout the Group;
- Identifying the Group's stakeholders and cooperating with them;
- Improving the Group's corporate culture and social responsibility;
- Improving the confidence of the market and stakeholders in JSOC Bashneft in the field of social responsibility;
- Efficient systematic exchange of information on social responsibility ;
- Identifying voluntary initiatives and tools pertaining to social responsibility;
- Evaluating voluntary initiatives on social responsibility.

AT THE SAME TIME THE GROUP'S EFFORTS IN THE SPHERE OF SOCIAL RESPONSIBILITY ARE FOCUSED ON TWO AREAS, INCLUDING:

1

INTERNAL SOCIAL POLICY

2

EXTERNAL SOCIAL POLICY

For details on how we put in practice corporate social responsibility and what measures were taken in 2011 in each of these areas, see Section 7 'Corporate social programmes and investments'.

THE POLICY OF CORPORATE SOCIAL RESPONSIBILITY: GOALS, PRINCIPLES AND AREAS

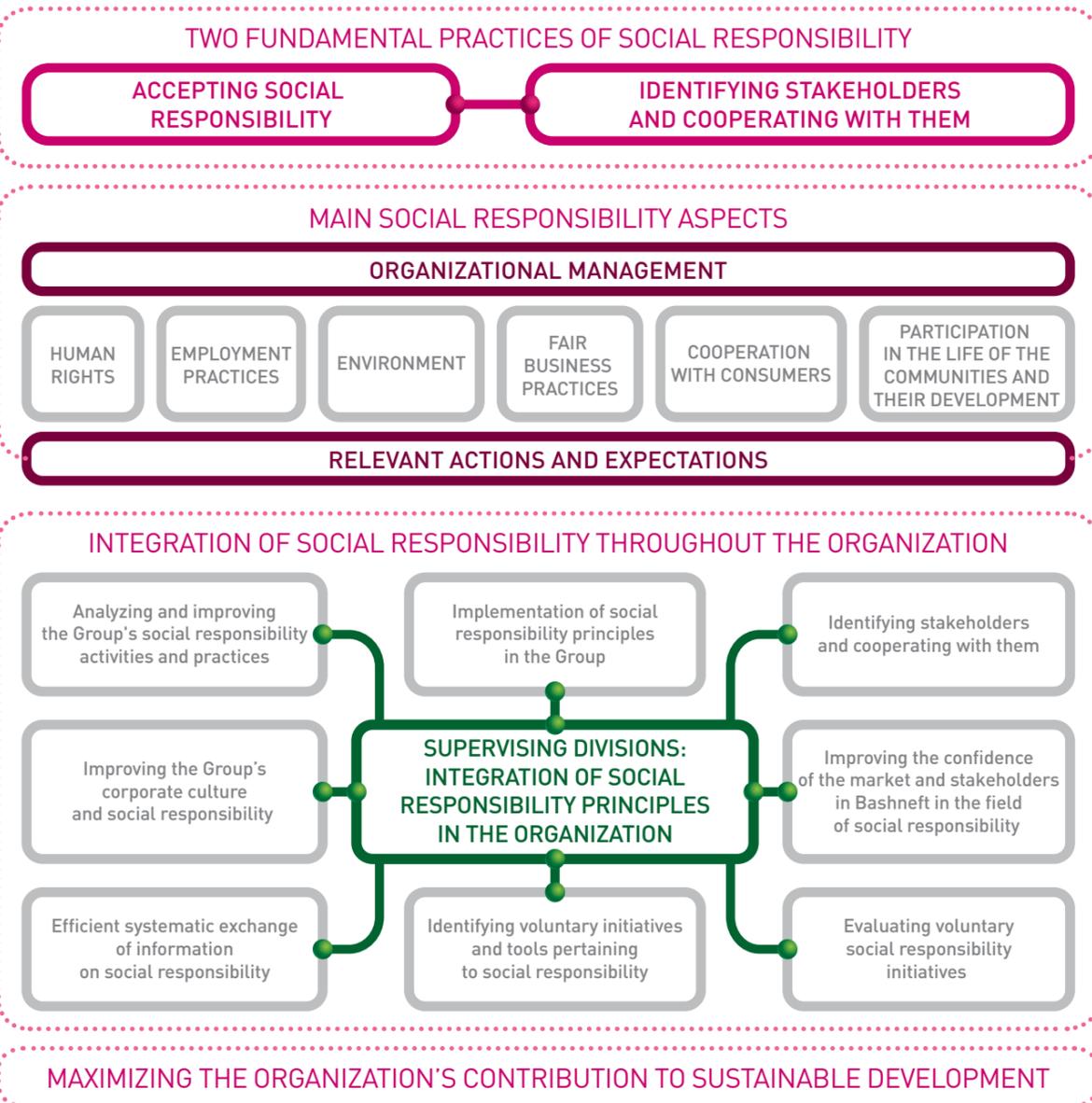
	INTERNAL SOCIAL POLICY	EXTERNAL SOCIAL POLICY
MAIN PRINCIPLES AND AREAS	<ul style="list-style-type: none"> • occupational and process safety; • talent development; • personnel training and development; • salary management and the creation of an efficient incentive system; • cooperation with trade unions; • development of corporate culture and corporate values; • search for ideas and suggestions within the Group so as to improve the efficiency of social programmes 	<ul style="list-style-type: none"> • cooperation with government bodies, trade unions and non-governmental organizations; • fulfilment of obligations concerning tax payments to the budgets of all levels; • development and implementation of target social and charity programmes and projects aimed at social, economic and cultural development of the territories of the Group's strategic interests in cooperation with regional authorities and regional communities; • communication support of the Group's development strategy; • communication support of the Group's social and charity programmes.
GOALS AND OBJECTIVES	<ul style="list-style-type: none"> • achieving a high level of top management's administrative competence; • efficient use of human resources; • improvement of the remuneration and incentive system, increasing the employees' motivation; • improving the employees' skills to meet the requirements of the market; • creation of an integrated training, promotion, development and employee evaluation system; • development of a corporate culture that allows employees not only to cooperate effectively (development of internal communications), but also helps the new employees to adapt as soon as possible; • improving the quality of employees' life and creating of favourable and healthy working conditions; • forming social partnership, responsibility and trust relationships; • ensuring staff loyalty and the stable and positive social environment 	<ul style="list-style-type: none"> • creating a favourable environment and social climate for the Group's sustainable development; • enhancing the image of a socially responsible Group and bringing social projects to the federal level; • creating and promoting the Group's social brand; • enhancing the prestige of the Group as the most attractive employer; • establishing mutually beneficial strategic partnerships with government bodies of all levels so as to ensure the social, economic and cultural development of the Group's operating regions; • increasing the loyalty of the population and government bodies towards the Group.

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

● CSR: POLICY AND STRUCTURE

MAIN TASKS RELATED TO THE IMPLEMENTATION OF SOCIAL PROGRAMMES

INTEGRATION OF SOCIAL RESPONSIBILITY THROUGHOUT THE GROUP



RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

● STAKEHOLDER ENGAGEMENT

As has already been mentioned above, we view CSR and sustainable development as interrelated concepts, recognizing that sustainable development and the achievement of strategic business goals may only be achieved if the interests of all stakeholders are respected and if the Group behaves responsibly to-

wards them. The Group regards its employees, shareholders, investors, consumers of its products and services, partners, suppliers of goods and services and non-governmental and government organizations as the main stakeholders.



MAIN STAKEHOLDERS: FORMS AND MEANS OF COOPERATION

SHAREHOLDERS, INVESTORS (PARTNERS):	GOVERNMENT BODIES:	SUPPLIERS AND CONTRACTORS:
<ul style="list-style-type: none"> regular dialogue with shareholders; consultations, face to face meetings and conference calls with investors so as to discuss the financial results; reports on the Group's activities; partnership and membership in trade associations; participation in industry initiatives, participation in and knowledge exchange through professional forums; support for the development of local supply systems 	<ul style="list-style-type: none"> participation in government working groups; expert and advisory participation in the preparation of laws and regulations; participation in the meetings of committees and commissions of legislative bodies and local authorities; signing of agreements on cooperation in the social and economic development of the regions; consultations on matters concerning the interests of the regions; regular reports on the Group's activities; participation in conferences and seminars 	<ul style="list-style-type: none"> absence of preferences and a tendering system (procurement policy); non-discriminatory approach and due diligence checks
<p>EMPLOYEES:</p> <ul style="list-style-type: none"> development programmes; healthcare programmes; educational and training programmes; employee participation in committees; meetings between the management and the employees; corporate press and intranet; anonymous hotlines; 	<p>LOCAL COMMUNITIES:</p> <ul style="list-style-type: none"> meetings and consultations with local authorities; participation in local events; support for social welfare programmes and initiatives; emergency response; annual reports on the Group's activities; corporate website 	<p>CONSUMERS OF SERVICES AND GOODS:</p> <ul style="list-style-type: none"> consumer surveys on their level of satisfaction with product quality; hotlines for consumer complaints; regular reports on the Group's activities in the field of quality assurance; fair marketing practices based on providing objective information; customer service and support and the resolution of claims and disputes; data protection and preserving consumer privacy
		<p>NON-GOVERNMENTAL AND GOVERNMENT ORGANIZATIONS:</p> <ul style="list-style-type: none"> meetings and consultations; support for social initiatives; charity programmes; reports on the Group's activities

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

STAKEHOLDER ENGAGEMENT

APPROACHES TO STAKEHOLDER ENGAGEMENT

Engaging stakeholders in a wide-ranging dialogue and efficiently cooperating with them on the basis of the balance of interests implies mutual responsibility on the part of both the Group and the stakeholders, as well as adherence to a number of principles, including ethical and moral ones. Therefore, the Company divides its stakeholders into several groups and adopts an individual approach to cooperation with each of them.

SHAREHOLDERS

INFLUENCE OF SHAREHOLDERS ON DECISION-MAKING

The main shareholders' tool for influencing decision-making is their participation in the General Meetings of Shareholders. We provide shareholders with the opportunity to make informed and balanced decisions and we consequently seek to disclose information on all agenda items to be considered at the meeting fully and in a timely manner in the materials prepared for the meeting. All the Group's shareholders have the right and possibility to choose between attending the shareholder's meeting

in person and participating by absentee voting, and equal rights for voting in person and absentee voting. Ballots for absentee voting are sent to shareholders no less than 30 days prior to the date of the meeting. Shareholders who participate in the meetings in person have the additional opportunity to speak freely and ask questions at the meeting.

IR POLICY AND TRANSPARENCY

The Group provides the timely and complete disclosure of information on all of its activities (except when the information is a commercial secret).

Besides, the Group's management regularly meets with the shareholders and conducts conference calls and press conferences. At the request of a shareholder, the Group shall provide copies of its internal documents, documents and materials pertaining to the General Meeting of Shareholders, lists of affiliated persons and other documents in accordance with the Federal Law on Joint-Stock Companies.

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

STAKEHOLDER ENGAGEMENT

INVESTORS AND BUSINESS PARTNERS

The Group's management follows a policy of openness and accessibility aimed at maintaining the reputation of a reliable business partner in the eyes of the investment community. We consider representatives of the investment community as potential shareholders.

The main channel for corporate and financial communications is JSOC Bashneft's corporate website (www.bashneft.ru - Russian version, www.bashneft.com - English version), which contains information on material facts, events, the management structure, the results of the Group's financial and business operations.

The content of the corporate website is regularly updated. In 2011 Bashneft significantly improved its position in the ranking of corporate Internet sites compiled annually by KWD. The Group's website rose by 26 positions, gaining 23.75 points, and ranked 463rd among 950 European companies included in the Financial Times Europe 500. In the ranking of corporate websites of Russian companies Bashneft's site ranked 22.

The stock market plays an important role in the performance evaluation of the management. Our company is analyzed and recommended by oil and gas analysts at 18 investment companies. Our rating has improved, seeing as the Group's shares have been included in the MICEX-RTS industry index (MICEX O & G, an index of oil and gas companies). However, this requires us to assume additional responsibility to maintain this rating. So as to meet the conditions of stock trading, we follow all the requirements of the stock market on information disclosure. We strive to respond quickly to all requests for information on the part of investors and analysts. We publish an analyst databook on our website on a quarterly basis (together with the quarterly financial results); the databook contains information on the Group's key indicators. We are open to contacts with the investment community, and the Group's representatives actively participate in industry conferences and investment forums held in Moscow, in the regions and abroad.

The Group is also a member of the following industry and other business associations:

- Non-profit partnership SRO National Association for Subsoil Use Auditing;
- The Russian National Committee of the World Petroleum Council;
- The Union of Oil and Gas Producers of Russia;
- The Association of Refiners and Petrochemical Producers;
- The Russian Union of Industrialists and Entrepreneurs (which is a member of the subcommittee on taxation in the oil and gas complex of the RSPP Committee on Energy Policy and Energy Efficiency);
- The Interregional Oil and Gas Exchange;
- The St. Petersburg International Mercantile Exchange;
- MICEX-RTS (the Moscow Exchange).



RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

STAKEHOLDER ENGAGEMENT

EMPLOYEES

We are proud to say that Bashneft employs almost 27 thousand people. A large team is a big responsibility for the management.

HUMAN RESOURCES POLICY

We strive to create an appealing working environment, providing our employees with the opportunities for professional development and career advancement. Bashneft's corporate culture is based on mutual respect among the employees and is focused on creating an environment conducive to achieving an overall positive result. The fundamental principles and approaches to personnel management are listed in the Group's Human Resources policy adopted in 2010. The adherence to the principles and norms of Russian and international labour law, mutual respect and consideration for the opinion of all parties are fundamental principles of the Group's human resources policy.

HUMAN RESOURCES POLICY GOALS:

- timely provision of the Group with highly qualified personnel, who are capable of accomplishing the tasks necessary to achieve business goals;
- creation of the environment for long-term mutually beneficial cooperation between the employees and the Group by providing employees with strong incentives;
- employee training and development;
- performance evaluation;
- development of corporate culture.

Internal regulations governing the working relationships and stakeholder engagement:

- The Group's Human Resources Policy
- The Regulations on Incentives and Remuneration of Employees
- The Policy on Health, Safety and Environment
- The Regulations on Social Protection of Employees
- The Strategy on Human Resources Management
- The Policy on Cooperation with NPOs
- The Policy on Cooperation with Government Bodies
- On the Charity Commission of JSOC Bashneft

RECRUITMENT AND WORKING RELATIONSHIPS

When hiring new employees, the Group uses transparent selection criteria. Candidates are selected on a competitive basis and are assessed upon their professional and management skills and the overall potential for development. Decisions on recruitment are made regardless of the sex, age, ethnic and national background of the candidates. When determining the employees' salary level, the Group does not take gender and cultural differences between the employees into consideration.

In 2011 the Group adopted the Code of Ethics and the Code of Corporate Conduct, which 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, and other non-standard forms of employment that directly or indirectly reduce the level of social protection of employees.

The current legislation and the Labour Code regulate the working relationship between the Group and its workforce. A new collective agreement, which will run till 2013, was signed in 2011. The main change consisted in the increase in payments for retired employees of the Group. The collective agreement covers all of the employees (100%). The occupational safety section is present in all collective agreements.

In accordance with section IV 'Employment protection' of the collective agreement, in case of the liquidation or reduction in the workforce, the Group shall personally notify employees two months before their dismissal. Also, at least two months prior we notify the Employee Council, the divisions of the primary trade union organization of the oil and gas production departments and local employment agencies of the planned reductions (in the case of mass redundancies at least three months prior to the dismissal). Consultations with local employment agencies are held for the employment of redundant workers.

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

STAKEHOLDER ENGAGEMENT

EMPLOYEES

Employees have the possibility to fully exercise their right to freedom of association. Trade unions have been created and are functioning freely at the enterprises of the Group. When collective agreements are being signed, the management and the unions hold meetings and discussions. The Group has not established special procedures for local hiring, but in the Group's key operating regions, including the Republic of Bashkortostan, most of the employees, including the middle managers, are locals.

EMPLOYEE DEVELOPMENT AND SOCIAL PROTECTION OF EMPLOYEES

Realizing that the quality of human resources is a prerequisite for the Group's sustainable development, we strive to provide opportunities for fully developing the potential of our employees. The Group has formed an integrated system of continuous training for all categories of staff and has developed a long-term programme of cooperation with the leading universities in the industry. Since 2010, the Group has been implementing a KPI-based incentive and employee evaluation system. For details see Section 7 'Corporate social programmes and investments'.

FEEDBACK AND THE EMPLOYEES' METHODS OF LEVERAGE

To improve the efficiency of the cooperation between the employees and the management, as well as among the employees of the various subsidiaries, an intranet portal has been created, where the Group regularly publishes news, the Group's regulatory and administrative documents and background information, as well as information on the work of the committees and working groups. Meetings between the Group's senior executives and the employees are held regularly.

FULFILLING THE OBLIGATIONS RELATED TO PENSION PLANS

All of the Group's business units (the parent company, its subsidiaries and affiliates) registered in the Russian Federation are obliged to contribute to the Pension Fund of the Russian Federation at the set rate. Contributions to defined contribution plans are deducted from the salaries.

GOVERNMENT BODIES

Our Group does not fund the activity of political parties. However, we pay significant attention to engaging in dialogue with the government bodies and to discussing the current situation in the industry, as we believe that our proactive attitude influences both this situation and the development prospects of the national fuel and energy sector. In 2009 the Group created the Government Relations Department. The government noted the work of the Group's management. In May 2012 the Russian President Vladimir Putin awarded a commendation to the President of the Group, Alexander Korsik, for his achievements and long-standing diligent work.

We follow a transparent and law-abiding tax policy and regularly pay all taxes, considering it part of our social responsibility towards the state and a contribution to the development of the country's social welfare. In 2011 Bashneft paid more than US\$ 2.5 billion of taxes (including income tax, mineral extraction tax, contributions to non-budgetary funds, property tax, etc.), which is 45% more than in the preceding year. Tax payments transferred to federal and regional budgets exceeded US\$ 2.3 billion (or nearly 92% of the total amount of taxes). Apart from the property tax, which fell in 2011, all other tax payments increased.

TAXES

TAXES, US\$ MILLION.	2010	2011	CHANGE, %
INCOME TAX	404	494	22
MINERAL EXTRACTION TAX	1,108	1,754	58
CONTRIBUTIONS TO NON-BUGETARY FUNDS	156	213	37
incl. social taxes and contributions	104	136	31
PROPERTY TAX	58	57	-2
OTHER	25	28	12
TOTAL	1,751	2,546	45

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

● STAKEHOLDER ENGAGEMENT

GOVERNMENT BODIES

COOPERATION WITH THE MINISTRY OF ENERGY ON ASSOCIATED GAS UTILIZATION

We actively participate in the meetings of the working group of the Ministry of Energy on associated gas utilization in order to reduce associated gas flaring and increase the associated gas utilization rate in the sector to 95%. Our participation consists of the following:

- coordination of joint projects of oil and gas companies on the efficient associated gas utilization;
- exchange of information on the present-day and emerging technologies of associated gas utilization;
- formulating the Group's position on the improvement of the legal framework which stimulates efficient associated gas utilization. For details see Section 6 'Efficient use of natural resources and nature conservation'.

COOPERATION WITH THE HEAD OF THE REPUBLIC

The main tool for cooperating with the regional authorities and efficiently resolving social issues is the five-year Cooperation Agreement between the Republic of Bashkortostan and JSFC Sistema, which was signed in early 2009.

Thanks to the Agreement, implemented projects are in line with JSFC Sistema's social strategy and at the same time follow the tradition of corporate social responsibility that has been formed at the oil companies of Bashkortostan.

Over the past three years the Chairman of the Board of Directors Alexander Goncharuk has been a member of the Presidential Council of the Republic of Bashkortostan, a permanent advisory body, which was created to develop proposals determining the main trends of the Republic's government policy, proposals on how to improve the performance of the Republic's government and various other tasks. Representatives of the Group V. A. Litvinenko and M.E. Stavskiy participated in the work of the 4th and 5th Legislative Assembly of the Yamal-Nenets Autonomous District; V. A. Gantsev is a member of the State Assembly (Kurultay) of the Republic of Bashkortostan. A representative of the Group is a member of the Scientific and Technical Council of the Department of Subsoil Use in the Republic of Bashkortostan of the Federal Subsoil Resources Management Agency.

140

LOCAL COMMUNITIES AND NON-PROFIT ORGANIZATIONS

Bashneft's participation in the life of communities and their development are an integral part of the Group's sustainable development. As we see it, this participation implies **the improvement of the quality of life and acknowledging the value of the community**. We realize that the Group's contribution to the development of local communities in our operating regions helps promote the well-being of both the community and society as a whole. We assume that participation in the life of local communities is not confined to cooperation with stakeholders directly connected with our operations. We believe that it is equally important to recognize the values of the community as a whole, support the communities and develop a relationship with them.



Our social policy in our operating regions is focused on the active participation in the social and economic development of these regions. We strive to promote this development, both through dialogue and cooperation with regional and local authorities and through interacting with the local non-profit associations and non-governmental organizations. In addition to providing employment in the regions, our participation in the life of communities in these regions covers areas such as fostering social, economic and cultural development and preserving and developing facilities of social, historical, religious, cultural and environmental value.

We cooperate with regional authorities and the public and actively invest a significant amount of funds in the development of the economic and social infrastructure in our operating regions.

141

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

STAKEHOLDER ENGAGEMENT

LOCAL COMMUNITIES AND NON-PROFIT ORGANIZATIONS

DESCRIPTION OF SIGNIFICANT INDIRECT ECONOMIC IMPACTS

We recognize and accept equal responsibility for direct and significant indirect economic impacts of Bashneft's business operations in the territories and regions of its presence, and we make major efforts and allocate considerable resources for ensuring that our socially responsible behaviour contributes to the development of local communities. Our social projects and investments may be unrelated to the Group's core operations, but they are aimed at supporting the development of local communities and improving the relations between the Group and communities.

The areas of community development that we seek to fund through social investment include expanding educational and skill development programmes, promoting and preserving culture and the arts, promoting physical education and sports.

In addition to this, our contribution to community development consists in creating wealth and income through job creation and local employment, support for local agricultural producers, development of the water supply system in the regions, etc.

We see our contribution to the institutional strengthening of the community in supporting cultural, social and environmental programmes and local public benefit associations. For details see Section 7 'Corporate social programmes and investments'.



142

CONSUMERS

As a company that provides a broad range of products and services, and has a wide retail network and works directly with consumers, Bashneft has a high responsibility towards consumers and customers. We bear the same responsibility for both the quality of products, and for their timely delivery.

However, we strive not only to meet the need of the regions for high-quality products and their timely delivery, but also to create a steady demand for our products. We respect the rights of our customers and consumers of our products to safety, access to information and the opportunity to choose; the opportunity to be heard, compensation for damages; raising awareness through providing information and reasonable warning; environmental safety; protection of private information and the equality of all customers, regardless of gender and cultural traits. This is what our marketing policy and our approaches to cooperation with consumers are aimed at. At the same time, we ensure that our advertising, promotion, and sponsorship activities meet universal standards common for the holding Company, its subsidiaries and affiliates, and fully comply with regulatory requirements.

Marketing policy objectives:

- Fair marketing practices based on providing unbiased information;
- Protection of the health and safety of consumers;
- Steady demand;
- Customer service and support, the resolution of claims and disputes;
- Protecting and ensuring the privacy of customer data;
- Reliable information.



143

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

STAKEHOLDER ENGAGEMENT

CONSUMERS

PRODUCT RESPONSIBILITY

We assume our responsibility towards consumers by providing the market with accurate information about our products, using only fair practices of signing sales contracts and following honest marketing and advertising policies that generate steady demand, so that our retail buyers would come back to us, and wholesale buyers would renew their contracts with us. All the information about the properties of our products and services which is provided in promotional materials, contracts, invoices, on our website and other public sources, as well as all disclosure procedures fully comply with the disclosure requirements of regulators. All our products are subject to such requirements. In 2011 there were no cases of non-compliance of the quality of our products with regulations and voluntary codes concerning the impact of products and services on the health and safety of consumers.

Our responsibility also involves minimizing risks that may arise from using our products and services; this includes formulating and providing information about products, establishing technical support services and procedures for recalling and returning defective goods. Our cooperation with our customers in this sphere includes:

- hotlines for consumer complaints,
- after-sale service and customer support and resolving complaints and disputes,
- consumer satisfaction surveys.

When concluding a contract, our local customer services work with customer information, collect or process personal data. We realize that we are responsible for protecting personal data and privacy of our customers and ensuring security of this data against unauthorized distribution.

SUPPLIERS AND CONTRACTORS

The Group's procurement system is organized on a competitive basis. Bashneft is committed to the principles of openness, transparency and accessibility of information on the ongoing procurement procedures. Any company that complies with the requirements for the procurement documentation and that offers products that meet the requirements of the Group may apply to participate in the competition. The criteria for the selection of suppliers, agents and contractors include product quality, prices of the offered products and services and financial stability of the supplier. In 2011 alone, our estimated budget savings from procurement procedures totalled 10.250 billion roubles or 13.79% of the planned budget.

One of the procedures that is part of the Group-wide risk management system (ERM) is due diligence, which includes the assessment of tolerance of counterparties to bribery (see details about the ERM system below in the 'Risk Management' section).

A TRASPARENT SYSTEM FOR SALES AND PROCUREMENT

In order to increase the transparency of business, the Group makes extensive use of the B2B-Bashneft electronic marketplace, created as part of the B2B-Center e-commerce system. Bashneft has launched the 'Free participation in bidding on sales' initiative specifically for its potential partners.

The transition to electronic commerce and the monitoring of these processes contributes to increasing the transparency of sales and procurement and the number of business partners, and are important tools for fighting corruption. By the end of 2011 the volume of electronic procurement done by the Company and its subsidiaries and affiliates amounted to 10.165 billion roubles. The Group views active participation in electronic commerce as a contribution to the formation of a civilized market based on the principles of fair competition.

The Group's corporate website (www.zakupki.bashneft.ru) contains publicly accessible information on the purchases and sales of materials and equipment by JSOC Bashneft and its subsidiaries.

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

● RISK MANAGEMENT SYSTEM

The Group's management assumes responsibility for the long-term sustainable development of the Group and is therefore committed to ensuring it by means of an efficient integrated risk management system, which includes risk monitoring, assessment and management, as well as a system for economic and process safety planning.

In 2010 the Group introduced an integrated risk management system (ERM), created a Risk Committee, established internal procedures and appointed employees in charge. (Regulations and procedural guidelines on risk management have been developed in accordance with the COSO ERM - Integrated Framework standard). Within this framework Bashneft systematically monitors possible risk events related to current operations and investment projects and uses various methods for managing identified risks.

The priority in the risk management system is to keep down costs and to assess inflation risks when developing investment projects. The Finance Department is responsible for **managing and closely monitoring liquidity**: the Group has established and now follows procedures for detailed budgeting and forecasting the cash flow that is required for covering liabilities on time.

The Group is continuously monitoring changes in the legal framework in the **field of currency regulation and control**. The management's policy in this area consists in the strict adherence to all regulatory norms and rules and to the legitimate recommendations of supervisory bodies.

Bashneft continually monitors changes in **tax legislation**, assesses and predicts the level of the possible negative impact of changes in tax legislation. Significant efforts are made to minimize risks associated with such changes.



146

Bashneft pursues a balanced policy on the **use of equity and debt capital**. As of the end of 2011, its debt/equity ratio remained virtually unchanged as compared to 2010 and amounted to about 48%. The total debt to OIBDA ratio amounted to 1.1 and 1.4 as of the end of 2011 and 2010 respectively. The net debt to OIBDA ratio as of the end of 2011 decreased compared to 2010 - from 0.84 to 0.60.

Bashneft's Legal Department regularly monitors decisions taken by supreme courts and assesses **trends in law enforcement practices**, which are formed on the level of the district commercial courts, actively using them when defending the Group's legitimate interests in court and for resolving legal issues that may arise from the Group's operations.

Bashneft follows all the customs control rules, prepares all the documentation required for both export and import operations in a timely manner, and has sufficient financial and human resources to comply with **customs rules and regulations**.

To minimize the risks associated with damage to the environment and human health, Bashneft uses an **integrated insurance system**, which includes property insurance, liability insurance, etc. This system is considered to be one of the most important mechanisms ensuring the Group's steady strategic development in the long term and protecting the Group against non-refundable financial losses resulting from industrial accidents and other emergencies.

Bashneft's insurance activities are comprehensive: the Group has introduced a system for monitoring insurance risks, insurance contracts and the quality of insurance coverage, based on a list of requirements and criteria for determining the reliability of insurance companies and their products.

147

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

● RISK MANAGEMENT SYSTEM

Furthermore, the Group's process safety system involves continuous equipment monitoring, an equipment upgrade programme, taking precautionary measures for **preventing industrial accidents** and further reduction of the overall level of risk. Thanks to the ongoing work on the management of these risks, Bashneft is provided with adequate insurance, which enables the Group to respect all the rights and property interests of the shareholders related to the security of the property and the avoidance of non-refundable losses from industrial accidents.

When implementing investment projects related to oilfield development, the upgrade of refining capacities, construction of filling stations, etc., Bashneft pays special attention to managing this operational risk by carefully preparing projects, **selecting reliable suppliers and contractors** and getting guarantees that they will fulfil their obligations, as well as building partner relationship with infrastructure operators. For details see the 2011 Annual Report, the 'Main risk factors' section.



148

RESPECT FOR INTERESTS AND RESPONSIBLE COOPERATION

● FAIR BUSINESS PRACTICE

Our business practice is based on the principles of respect for property rights, fair competition, anti-corruption, responsible participation in politics and advocacy of social responsibility at all stages of production and marketing of our products (value creation: from the oil well to the filling station).

JSOC Bashneft follows a 'zero tolerance' policy towards all forms and manifestations of corruption. The Group's President and senior executives establish an ethical standard of zero tolerance for all forms and manifestations of corruption at all levels, setting an example with their own behaviour. The employees' behaviour in regard to corruption is regulated by the current Code of Corporate Conduct and Anti-corruption Policy.

ANTI-CORRUPTION POLICY AND PRACTICE

The Group has adopted the Anti-corruption Policy, which defines the internal rules, standards and guidelines for detecting, preventing and combating corruption and bribery.

Bashneft has set up a hotline to receive reports on any known cases of committed or potential violation.

Starting from 2011, the Group has been continuously monitoring corruption risks; besides, it has created a system for countering corporate fraud, which includes the Policy, fraud classifier, as well as a set of procedures for implementing the Policy. As part of the anti-corruption policy, Bashneft has also established internal procedures for identifying and preventing fraud; these include the analysis of our suppliers and counterparties. 100% of our employees working in areas involving interaction with suppliers, consumers, contractors, etc., (the risk group) were trained in anti-corruption policies and procedures. All our organizations and business units are analysed by a responsible service for potential corruption-related risks.

149

190

OILFIELDS ON THE BALANCE SHEET

1,264

MONITORING WELLS comprising the environmental monitoring service network

16.4 KWH

Unit power consumption for PRODUCING A TONNE OF FLUID

21.1 KWH

Unit power consumption for REFINING A TONNE OF CRUDE OIL

23 THOUSAND TONNES PER YEAR

OIL SLUDGE PROCESSING

US\$ 73 MILLION PER YEAR

Expenditure on environmental protection

US\$ 5 MILLION PER YEAR

Cost savings from ENERGY EFFICIENCY MEASURES

81.9%

The average ASSOCIATED GAS UTILIZATION RATE of the Group

18.32%

The share of the products meeting the EURO 4 and EURO 5 STANDARDS

4%

The annual UTILIZATION RATE of accumulated oil sludge

2012:

JSOC Bashneft's ENVIRONMENTAL POLICY was adopted

US\$ 11 MILLION PER YEAR

allocated for the ENGINEERING OPERATIONS aimed at reducing the number of failures in the flowline system in 2011

63.2 THOUSAND TONNES

Reduction in atmospheric emissions during the year

1,886.5 MILLION ROUBLES

to be allocated for reducing the amount of ASSOCIATED GAS FLARING TO 5% in 2011-2013

5%

The target level of associated gas flaring to be achieved by 2013

95%

The target level of ASSOCIATED GAS UTILIZATION to be achieved by 2013

JSOC BASHNEFT IS AN ENVIRONMENTALLY CONSCIOUS OIL AND GAS COMPANY AND A RESPONSIBLE SUBSOIL USER

INITIATIVES FOR REDUCING THE ENVIRONMENTAL IMPACT OF BASHNEFT'S PRODUCTS AND SERVICES

OUR AIM IS TO PRESERVE THE ENVIRONMENT OF BASHKORTOSTAN FOR FUTURE GENERATIONS, AND THE GROUP WILL MAKE EVERY EFFORT TO ACHIEVE IT.

Our environmental measures are aimed at protecting all the components of the environment and include land conservation, protection of the atmosphere and water resources, energy efficiency.

The Group constantly seeks to reduce the environmental impact of its operations. We are aware that the effectiveness of our environmental consciousness is reflected by tangible results, such as the reduction in the pollution of soil, surface waters and groundwater and the atmosphere with liquid and gaseous petroleum products, wastewater and chemicals, and, at the same time, an increase in energy efficiency, improvement of waste disposal and associated gas utilization and their recycling.

Measures taken as part of the Functional Strategy are aimed at the efficient use of lands and fresh water, as well as at preventing and minimizing the impact of our operations. More detail on the areas covered by the Strategy is given in the 2011 Annual Report in the 'Health, Safety and Environment' Section. Below we give a brief description of the key areas of the Group's measures for environmental protection; further on we will take a close look at the main results achieved in 2011 and our further plans in the following areas:

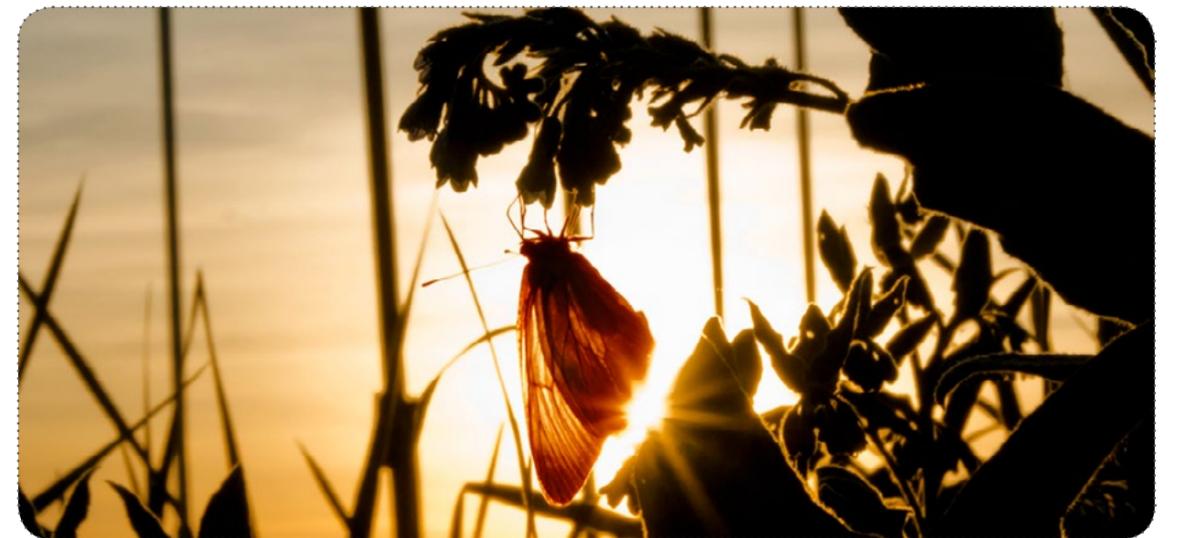
- improvement of associated gas utilization rate;
- reduction of harmful atmospheric emissions;
- industrial waste disposal and treatment;
- reduction of the impact of our operations on water resources;
- increase of the energy efficiency of our operations.

PRACTICAL MEASURES FOR ENSURING ENVIRONMENTAL FRIENDLINESS OF PRODUCTION INCLUDE:

- **REDUCTION IN THE AMOUNT OF ASSOCIATED GAS FLARING TO 5%**
In accordance with the Government's order on the increase of associated gas utilization rate, the Group plans to increase the level of associated gas utilization to 95% at all oil-producing enterprises of Bashneft by 2013. Thanks to advanced methods of associated gas utilization introduced by Bashneft, the gas utilization rate currently exceeds 95% at a number of oilfields. In 2011 the average figure within the Group was 81.9%.

- **THE USE OF SEALED HYDROCARBON VAPOUR COLLECTING (RECOVERY) UNIT**

Vapours from oil and lubricant storage facilities are the main sources of air pollution in the oil industry. This problem can be tackled by strictly following the rules for operating the storage facilities, primarily by ensuring that they are sealed properly. To achieve this, the Group has taken a number of measures, which include the development and construction of vapour recovery systems and units.



INITIATIVES FOR REDUCING THE ENVIRONMENTAL IMPACT OF BASHNEFT'S PRODUCTS AND SERVICES

● IMPLEMENTATION OF MEASURES FOR REDUCING THE NUMBER OF FAILURES IN THE FLOWLINE SYSTEM

The reduction of environmental risk related to our operations is among our priorities. We attach special importance to monitoring the condition of wells and oilfield equipment, as well as to repairing the equipment at wells and pipelines. To prevent accidents, in 2011, 310 million roubles were allocated for a major overhaul of pipelines. The five-year programme stipulates a 20% reduction in the number of pipeline failures by 2017.

● PREVENTING THE CONTAMINATION OF SOIL, POTABLE SURFACE WATER AND GROUNDWATER WITH WASTEWATER IN THE COURSE OF NORMAL TECHNOLOGICAL OPERATIONS

This wastewater may contain toxic and dangerous chemicals, which are used in production both for enhanced oil recovery and for other purposes.

Drilling methods that are currently used by JSOC Bashneft ensure that no brine contaminates the aquifers. After mechanical treatment, industrial wastewater from all plants undergoes biological treatment at OJSC Ufaneftekhim; its treatment facilities

enable to reduce the contamination of water with petroleum products by a factor of 100.

● WATER CONSERVATION AND USAGE OF THE WATER RECIRCULATION SYSTEM

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. With overall water consumption decreasing during the reporting period, water reuse increased by 700 cubic metres, mainly due to the implementation of a closed water recirculation system at the enterprises of LLC Bashneft-Dobycha.

● FULL UTILIZATION OF INDUSTRIAL WASTEWATER AT OILFIELDS

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.

● COLLECTION, TREATMENT AND REUSE OF INDUSTRIAL WASTEWATER AT OIL STORAGE FACILITIES

Newly commissioned filling stations and oil storage facilities are equipped with sewerage systems that collect industrial wastewater and rainwater. Wastewater is processed at SUPER-PEK treatment facilities and subsequently used in the companies' operations.

● CONSTRUCTION OF OIL SEPARATORS ON SECTIONS OF THE RIVERS USED FOR OIL TRANSPORTATION

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.



INITIATIVES FOR REDUCING THE ENVIRONMENTAL IMPACT OF BASHNEFT'S PRODUCTS AND SERVICES

- **ENVIRONMENTAL MONITORING OF WATER RESOURCES AND CREATION OF A NETWORK OF CONTROL FACILITIES TO MONITOR THE COMPOSITION OF SURFACE AND GROUND WATERS**

In accordance with the approved single plan of the laboratory of the R&D centre and the schedules of inspections at monitoring wells, the laboratories of Bashneft's subsidiaries and affiliates monitor the environment at the plants. Bashneft's environmental monitoring service network consists of 1,264 monitoring wells, 60% of which are used for monitoring surface waters, and 40% for groundwater monitoring.

- **THE USE OF ANTI-CORROSION COATINGS AND INHIBITORS TO PREVENT SCALE DEPOSITION AND CORROSION OF OILFIELD EQUIPMENT**

As most failures are caused by the natural deterioration of the pipeline infrastructure and the corrosion of pipes, in order to prevent accidents anti-corrosion monitoring of the pipelines is conducted at oil production facilities; besides, corrosion inhibitors are pumped into pipes, and steel pipes are replaced with corrosion proof ones. Thus, JSOC Bashneft's corrosion proof pipelines are

over 9.484 thousand kilometres long (42.4% of the total length of pipelines).

- **FAST OIL SPILL CLEANUP**

Thanks to a number of measures being implemented to prevent accidents at production facilities, the number of failures at infield pipelines is continuously decreasing, and, as a result, smaller areas are contaminated.

- **PROCESSING OF OIL-CONTAMINATED SOLID WASTE**

Oil sludge (oil production and refining waste) is JSOC Bashneft's main type of waste. One of the most important environmental protection issues is the maximal processing and treatment of oil sludge. Currently, the Group has created special sites with up-to-date equipment where 20 to 25 thousand tonnes of oil sludge are processed annually. At present, oil sludge is produced at the same rate as it is processed; therefore, it does not present an environmental risk.

- **ELIMINATION OF SLUDGE PITS AND LAND RESTORATION**

Currently, the programme for the elimination of sludge pits and site restoration is being implemented, and the biological land restoration is being carried out at 11 former oil sludge storage sites in the Tuimazinsky District. At LLC Bashneft-Dobycha, oil-containing waste is processed using the Alfa Laval oil sludge processing unit with the capacity of five tonnes per hour. In 2011 the unit processed over 23 thousand tonnes of oil sludge at oil production facilities. This allowed us to eliminate two sludge pits in 2011 and subsequently restore the sites where they had been located. The project "Oil sludge utilization using the new biological product 'Consortium'" is an important innovative development in the area of oil-containing waste treatment.

- **RESOURCE CONSERVATION AND WASTE RECYCLING**

JSOC Bashneft's oil refineries attach great importance to the treatment and recycling of resources. Petroleum products that are filtered at mechanical treatment facilities of plants and used oils are recycled at Bashneft's own process units.

- **REDUCING ENERGY COSTS AND INCREASING ENERGY EFFICIENCY**

Associated gas utilization is, undoubtedly, one of the best ways to reduce energy costs in oil production. The Group actively implements such measures as the use of associated gas together with natural gas as fuel at boiler stations and small power plants; decommissioning wells with a high degree of water cut; reducing the amount of associated water by using enhanced oil recovery methods; the use of secondary resources and other energy saving technologies.

EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

INITIATIVES FOR REDUCING THE ENVIRONMENTAL IMPACT OF BASHNEFT'S PRODUCTS AND SERVICES

INITIATIVES FOR THE REDUCTION OF THE NEGATIVE ENVIRONMENTAL IMPACT

INITIATIVES IN 2011	OBJECTIVES
Development and implementation of a unified HSE management system harmonized with OHSAS 18001-2007 and ISO 14000	Organization of an efficient vertically integrated HSE management structure that meets international standards
Implementation of measures for reducing the number of failures in the flowline system (major overhaul)	Environmental protection, minimizing the risk related to industrial operations, and the reduction in the number of pipeline failures by 30% within five years (by 2016)
Implementation of a comprehensive programme for associated gas utilization at oil production facilities	Increasing associated gas utilization rate to 95% by 2013
Modernization of the process units at oil refineries so as to completely switch over to producing light products that meet the Euro 4 and Euro 5 standards	Expanding the range of environmentally friendly products
Conducting feasibility studies for upgrading the biological treatment facility complex at OJSC Ufaneftekhim	Construction (upgrade) of a biological treatment facility complex
Construction of Bashneft's own oil sludge processing and treatment units	Reduction in the amount of previously accumulated oil sludge
Construction of sites for biological oil sludge treatment	Treatment and processing of solid oil production waste, protection and land restoration
Dismantling and removing untreated wastewater pipelines from the water protection area of the Belaya River	Reduction in the amount of pollutants in industrial wastewater and protection of water resources
Elimination of sludge pits, oil sludge processing and land restoration	Reduction in the amount of accumulated solid oil production waste and land protection
Measures for improving energy efficiency of operations	Energy saving and a reduction in energy costs
Total amount to be allocated in 2011-2015	6.1 billion roubles

EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

INCREASING ASSOCIATED GAS UTILIZATION: RESULTS AND PLANS FOR THE FUTURE

- IN 2011 THE GROUP PRODUCED 494.8 MILLION CUBIC METRES OF ASSOCIATED GAS
- ASSOCIATED OIL GAS UTILIZATION TOTALLED 405.2 MILLION CUBIC METRES, AND THE UTILIZATION RATE AMOUNTED TO 81.9%
- THE PROGRAMME FOR INCREASING ASSOCIATED GAS UTILIZATION FOR 2011-2013 INVOLVES INCREASING THE UTILIZATION RATE TO 95% BY 2013

Compliance with Decree No.7 of the Government of the Russian Federation On Measures to Stimulate Reduction of Air Pollution from Associated Gas Flaring of January 08, 2009, is important for reducing atmospheric emissions at oil-producing enterprises.

In 2010, the Group approved the **Programme for Increasing Associated Gas Utilization** for 2010-2013 and increasing the utilization rate to 95% by 2013.

As part of the Functional HSE Strategy, Bashneft plans to allocate approximately 1,886.49 million roubles for the implementation of projects on associated gas utilization during the period from 2011 to 2013.

To increase associated gas utilization, it is planned to repair and construct over 200 kilometres of additional gas-gathering systems, which allow the transportation of gas to places where it is used; introduction of WAG is planned at several oilfields.

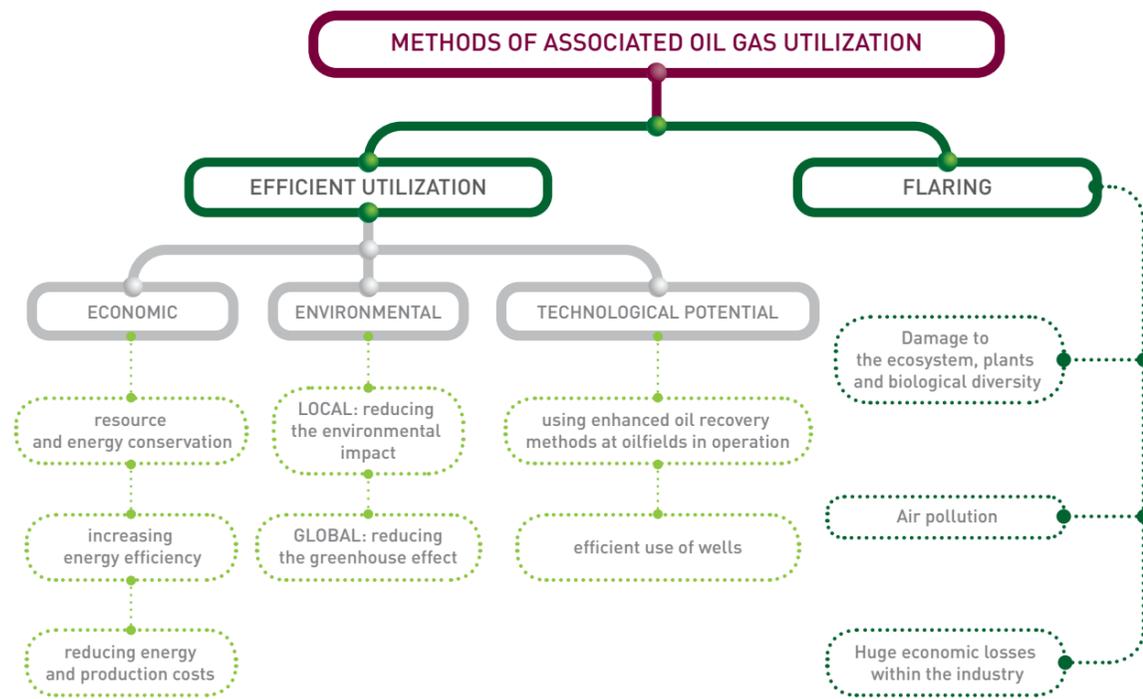
In 2011, 164 million roubles were allocated for measures that increase associated gas utilization. These included the following: equipping flare units with devices measuring associated gas flaring; the construction of the Akhta Booster Pumping Station (BPS) – Chermasan OGS oil and gas pipeline, the construction of the Saitovo OGS – intersection with the Karacha-Yelga OGS – Salpar OGS gas pipeline, expansion of BPS-9, implementation of associated gas desulphurization system, etc.

The Group's plans for 2012 include both a threefold increase in the financing of target investment programmes in this area and capital expenditure amounting to 992 million roubles.

EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

INCREASING ASSOCIATED GAS UTILIZATION: RESULTS AND PLANS FOR THE FUTURE

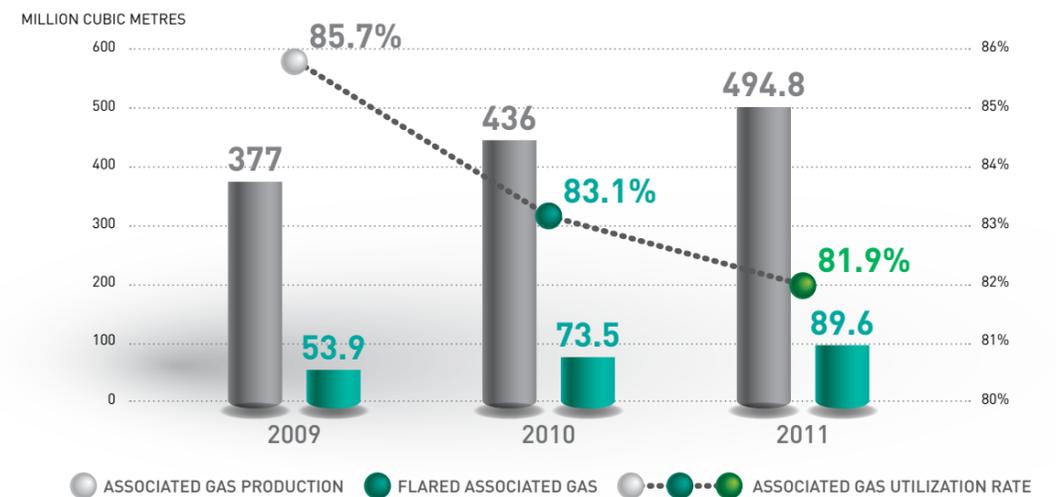
METHODS AND EFFICIENCY OF ASSOCIATED GAS UTILIZATION



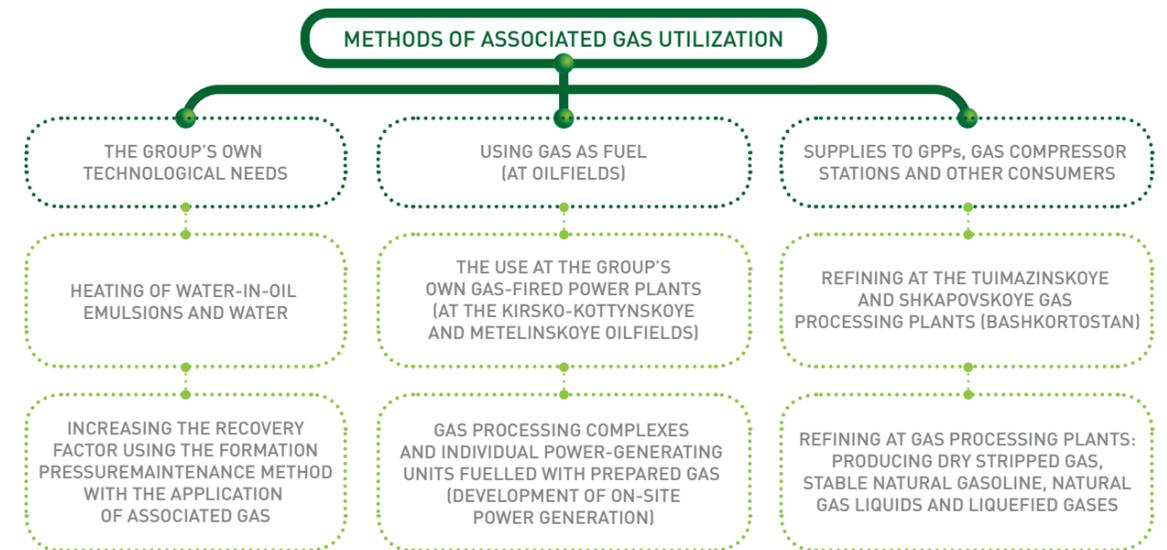
METHODS OF USING THE PRODUCED ASSOCIATED GAS

- The Group's own technological needs:
 - heating;
 - heating of water-in-oil emulsions and water;
 - pumping into the formation so as to enhance oil recovery;
- Refining at the Tuimazinskoye and Shkapovskoye gas processing plants;
- The use at Bashneft's own gas-fired power plants at the Kirsko-Kottynskoye and the Metelinskoye (in the future) oilfields;
- Flaring.

CHANGES IN ASSOCIATED GAS UTILIZATION FROM 2009 TO 2011



METHODS OF ASSOCIATED GAS UTILIZATION



EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

INCREASING ASSOCIATED GAS UTILIZATION: RESULTS AND PLANS FOR THE FUTURE

METHODS OF ASSOCIATED GAS UTILIZATION

THE USE OF ASSOCIATED GAS FOR ENHANCED OIL RECOVERY

WAG injection into producing formations so as to maintain formation pressure is one of the ways to utilize associated gas. Today this is one of the most efficient EOR methods.

In 2011, 103.1 million cubic metres of gas were pumped; the amount of associated oil gas, which is much cheaper than natural gas, totalled 99.6 million cubic metres. This allowed not only to use associated gas efficiently, but also to gain considerable economic benefit due to a change in production costs.

The method involving WAG injection into oil-bearing formations using multiphase booster pumps was first used in Russia at the Ilishevskoye field. In 2011 gas injection was used at the depleted reef reservoirs of the oilfields of the Ishimbayneft oil and gas production department of LLC Bashneft-Dobycha.

BASHNEFT'S OWN INNOVATIONS

A gas ejection device designed by LLC BashNIPIneft allows us to optimize the formation pressure maintenance method and significantly decrease the cost of ejection. This device operates with minimum pressure in the gas line using the existing pumping equipment without making significant changes to the system of field facilities. It is much more cost-effective than alternatives such as stoves, multiphase and booster pumps and dozens of times more cost-effective than gas pipeline construction. The volume of utilization achieved with the gas ejection device ranges between one million and ten million cubic metres per year (depending on the individual site where formation pressure is maintained). This invention was first put into full-scale operation at Bashneft's Arlanskoye field.

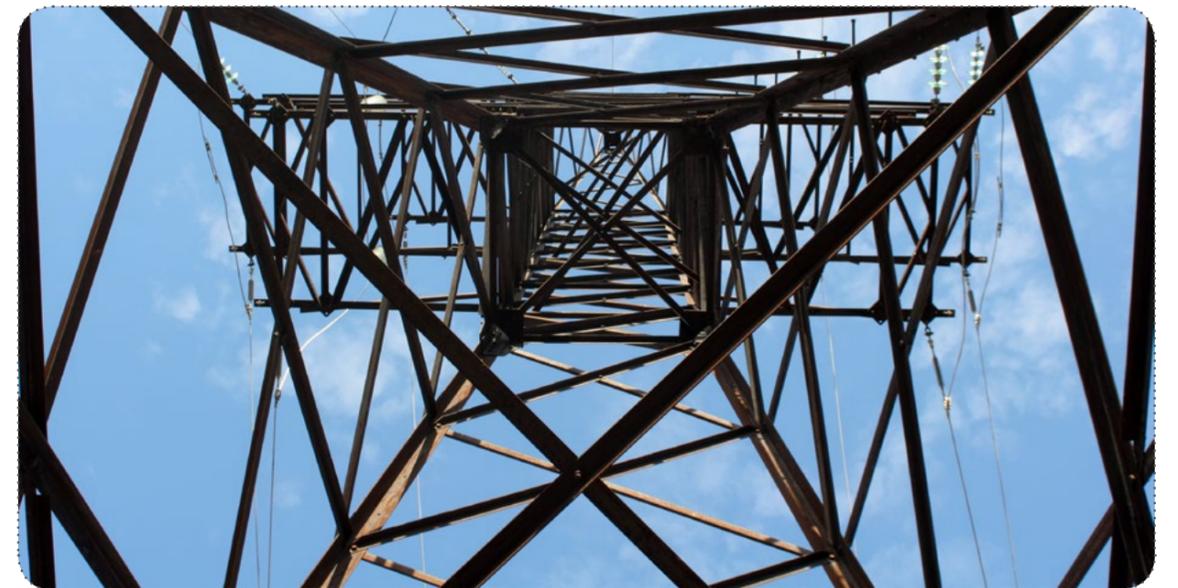
162

ASSOCIATED GAS UTILIZATION AND THE DEVELOPMENT OF THE GROUP'S OWN ON-SITE POWER GENERATION

The construction of individual gas-fired power plants fuelled with prepared gas condensate at JSOC Bashneft's oilfields is another way to efficiently utilize associated gas. For instance, the construction of a gas-fired power plant at the Kirsko-Kottynskoye oilfield in the Nizhnevartovsk District of the Khanty-Mansi Autonomous District (Yugra) enabled us to increase the associated gas utilization rate from 18% to 83.1% as early as by the end of 2009, lowering

the cost of production by using our own electricity. After we started supplying gas from the Lyukpayskoye field to this gas piston power plant in 2010, the associated gas utilization rate at the Group's fields in Western Siberia exceeded 96%.

The development of on-site power generation with the use of associated gas enables simultaneously to increase energy efficiency of operations and enhance associated gas utilization. For more details, see 'Methods and technologies for reducing power consumption: oil production'.



163

EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

● THE REDUCTION OF HARMFUL ATMOSPHERIC EMISSIONS

In order to reduce harmful atmospheric emissions, Bashneft has implemented a number of measures in its core business areas, such as:

- **UPSTREAM OPERATIONS:** Using jet compressors at flare units at all oilfields to collect and utilize flare gas, associated gas, as well as other low-pressure gases.

- **OIL REFINING:** Flare gas recovery systems for subsequent compression and reuse of the gas at the flares are being implemented at all refineries.
- **MARKETING:** Using vapour recovery units together with sealed light petroleum product loading facilities for tank cars at the Group's refineries.

INITIATIVES FOR GREENHOUSE GAS EMISSION REDUCTION AND THE ACHIEVEMENTS IN THIS AREA

As a result of installing a straight-run gas treatment facility at the CDU/VDU-6 unit, at the Ufimsky refinery plant alone hydrocarbon emission fell by 92 tonnes per year.

Equipping the main storage facilities with up-to-date sealed vapour recovery systems is another of our priorities. Thus, equipping the feed tank with an aluminium pontoon at OJSC Novoil led to the fall in hydrocarbon emissions by 0.250 thousand tonnes per year.

Currently, all oil processing units are equipped with vapour recovery systems, which allows us to significantly reduce the environmental impact and loss of hydrocarbons.

To reduce the amount of harmful atmospheric emissions from the Group's refineries we plan to implement technical measures worth 67 million roubles, which will allow us to reduce sulphur dioxide and hydrocarbon emissions by 600 and 250 tonnes per year, respectively.

164

THE RESULTS OF MEASURES FOR REDUCING HARMFUL ATMOSPHERIC EMISSIONS, THOUSAND TONNES



165

EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

● THE REDUCTION OF HARMFUL ATMOSPHERIC EMISSIONS

PRODUCTION OF FUEL THAT MEETS INTERNATIONAL ENVIRONMENTAL STANDARDS

Car exhausts have a considerable impact on the air in the cities; according to the Ministry of Natural Resources and Environment of the Republic of Bashkortostan, they account for over 65% of harmful atmospheric emissions in the Republic. Despite the fact that the legislation sets the air quality standards in towns and cities, today there are no effective mechanisms ensuring that due to car exhausts these limits are not exceeded.

We do our best to be a modern company and to increase the share of environmentally friendly high-octane gasolines that meet the Euro 4 and Euro 5 standards in our product range, being aware of the fact that the environment and health of our customers depends on the quality of our products. In order to expand the range of environmentally friendly products, new units are being constructed at the Ufa refineries and the existing ones are being upgraded; this will ensure that 100% of the engine fuel we produce meets new environmental standards. For more detail, see also Appendix IV 'Environmental standards for engine fuels'.



166

RANGE OF ENVIRONMENTALLY FRIENDLY PRODUCTS

In accordance with the Technical Regulations, starting from January 1, 2016, the sale of engine fuels that meet Euro 5 standards will be mandatory in Russia. Meanwhile, continuous upgrades at the Ufa refineries already enable Bashneft to provide Russian consumers with environmentally friendly fuel.

The share of Euro 4 and Euro 5 gasolines produced by OJSC Ufaneftekhim and OJSC Ufimsky refinery plant increased from 10.98% in 2010 to 18.32% in 2011. Besides, OJSC Ufaneftekhim produces low-sulphur diesel fuel. OJSC Novoil continues to produce engine fuels that meet the Euro 3 and Euro 4 standards and plans to start producing gasoline that meets the Euro 5 standard in the near future. The plant plans to completely switch over to producing fuel that meets the Euro 5 standard by 2015.

In order to completely switch over to producing fuel that meets the Euro 4 and Euro 5 standards, in 2011 the Group's enterprises continued to upgrade their property, plant and equipment and construct new production capacities. Thus, in 2011 the construction of a catalytic cracking gasoline hydrotreater for removing sulphides continued at Ufimsky refinery plant. In 2012 we plan to launch a sulphuric acid alkylation unit at OJSC Novoil and a facility for gasoline separation at OJSC Ufimsky refinery plant and OJSC Ufaneftekhim.

In 2011 the gasoline of the 'Premium Euro-95' grade produced by OJSC Novoil, 'summer' Euro 4 diesel fuel manufactured by OJSC Ufaneftekhim and 'winter' Euro 4 diesel fuel produced by OJSC Ufimsky refinery plant won the 14th National Competition, '100 Best Goods of Russia' in the 'Goods for Industrial Purposes' category.

167

EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

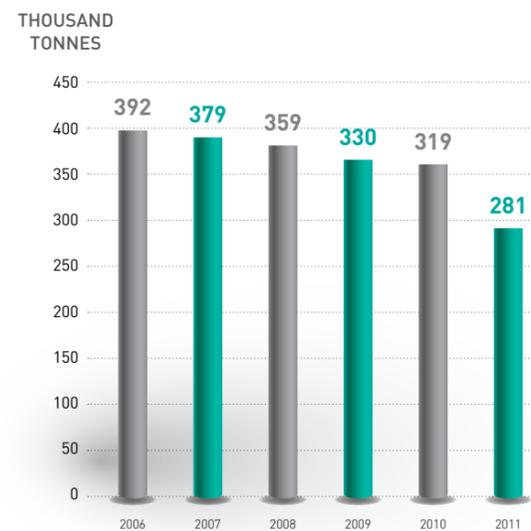
● PROCESSING AND TREATMENT OF INDUSTRIAL WASTE

As a result of the Group's operations approximately 200 types of waste are produced, about 30 of which are processed by specialized companies under agreements concluded with Bashneft Group. The main type of waste resulting from JSOC Bashneft's oil production and refining is oil sludge.

A considerable amount of oil sludge and oil refining waste has accumulated in Bashkortostan. During the last two or three years the Group has processed all produced oil sludge, which is approximately 20 to 25 thousand tonnes per year. Besides, 17 oil sludge pits remaining from Soviet times have recently been eliminated, and land restoration has been carried out. The Group plans to process 4% of accumulated oil sludge per year on average, which will allow it to reduce accumulated hazardous solid industrial waste by 38 thousand tonnes during the next five years.

Even if the volume of oil sludge is successfully reduced, there remains a considerable amount of sludge, especially in oil refining. To tackle this issue and to completely eliminate accumulated waste, the Group plans to construct an up-to-date unit for processing and treating oil sludge. The unit with a capacity of 80 thousand tonnes per year is to be constructed at OJSC Ufaneftekhim and will allow us to process all accumulated waste in compliance with Russian and international environmental requirements.

CHANGES IN ACCUMULATION OF OIL SLUDGE, THOUSAND TONNES



THE GROUP'S OWN INNOVATIONS IN OIL SLUDGE PROCESSING

Long experience combined with the results of laboratory research have allowed the specialists of LLC BashNIPneft Institute to develop a new way of processing oil sludge based on processing the hydrocarbon fraction and decomposing oil in the bottom sediments by using the 'Consortium' biological product at special sites. The 'Consortium' biological product is a special naturally occurring group of microorganisms that effectively decompose petroleum products.

'Consortium' is much more effective than the similar manufactured products, and its use allows us to considerably reduce the environmental impact of oil production. In December 2009 the 'Consortium' biological product developed by the Group won the Sixth National Environmental Award in the category 'Science for the Environment'.

FURTHER PLANS IN THE AREA OF PROCESSING INDUSTRIAL WASTE

The Functional HSE Strategy of JSOC Bashneft involves considerable target financing for the further reduction of the environmental impact of industrial waste (including the construction of our own oil sludge processing unit with the capacity of 80 thousand tonnes per year, which will enable us not only to process

newly produced oil sludge, but also to gradually eliminate previously accumulated sludge), which is extremely important for us. The project is to be implemented between 2011 and 2015.



EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

● REDUCING THE IMPACT OF THE GROUP'S OPERATIONS ON WATER RESOURCES

JSOC Bashneft's enterprises strive to use water resources as efficiently as possible, as water is used at practically all stages of oil production and refining. Both oil production and refining have a considerable impact on the ecological balance and water resources, as large amounts of fresh water are used for industrial needs and wastewater from oil refineries is not treated properly.

During the 80 years of oil production in Bashkortostan, environmentally unfriendly methods of oil production used in the Soviet times had a negative impact on groundwater in a number of oil producing areas, as brine contaminated several aquifers. This is why today we have to deal with problems that have been accumulating for decades.

Industrial activity in the Republic affects first and foremost the regions of the Belaya and Tairuk Rivers, as well as their groundwater sources that provide the main supply of fresh water. Besides, at some places pipelines cross the beds of these rivers. Certain parts of oilfields are also close to the Termen-Yelga and Saraj Rivers.

LLC Bashneft-Dobycha is the largest consumer of water and accounts for almost 56% of water use. A 10% year-on-year increase in water consumption in this area in 2011 is related to the growth of production and the extensive use of hydraulic fracturing in order to increase the well production rate. Oil producers use both fresh and treated water. The measures taken by us are aimed at improving the quality of wastewater treatment and increasing the use of recycled water in all types of operations.

170

TOTAL ANNUAL USE OF FRESH WATER, MILLION CUBIC METRES

TOTAL ANNUAL USE OF FRESH WATER	2009	2010	2011	SHARE IN 2011, %
UPSTREAM OPERATIONS	28.63	23.07	25.41	55.8
OIL REFINING AND PETROCHEMICALS	22.05	23.86	20.10	44.1
MARKETING AND LOGISTICS	0.03	0.03	0.02	0.1
TOTAL USE OF FRESH WATER	50.711	46.955	45.527	100

EFFICIENT USE OF WATER RESOURCES

So as to ensure the efficient use of water resources and ensure environmental safety, the Group launched several large-scale programmes in 2011. The most important of them include the following:

- wastewater treatment units that remove vanadium salts from water were tested and commissioned at facility 400 'Synthetic rubber production' of OJSC Ufaneftekhim;
- the wastewater collecting and pumping system is being reconstructed and a fuel gas treatment system at L-24-5 catalytic gas production unit was commissioned; repair works at wastewater treatment facilities at Bashneft-Ufimsky refinery plant branch started;
- free water treatment equipment was installed and launched at various process units of OJSC Novoil.



171

EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

● REDUCING THE IMPACT OF THE GROUP'S OPERATIONS ON WATER RESOURCES

FURTHER PLANS FOR REDUCING THE IMPACT OF THE GROUP'S OPERATIONS ON WATER RESOURCES

OIL REFINING AND PETROCHEMICAL PRODUCTION: Mechanical wastewater treatment facilities, which have been installed at all of the Ufa refineries, reduce the concentration of petroleum products in industrial wastewater by a factor of 100, from approximately 1,000 mg/l at the inlet to less than 10 mg/l at the outlet. Wastewater from all plants is transported to the integrated biological treatment facilities of OJSC Ufaneft-ekhim, from which 63% of treated water is sent back to the plants, and 37% is discharged into the Belaya River.

So as to improve the quality of the treatment of water that is discharged into the Belaya River, biological treatment facilities of the Ufa Refinery Group will be upgraded from 2011 to 2015. As OJSC Ufimsky refinery plant and OJSC Novoil are located in the water protection area, their pipelines will be dismantled and removed in 2011-2013 to ensure that no untreated wastewater is discharged and contaminates the river due to pipeline failure.

MARKETING: To reduce the negative impact on surface water and groundwater, all of the Group's filling stations and storage facilities are equipped with storm and industrial drainage systems. Wastewater is processed at the SUPER-PEK treatment facility and is subsequently reused for technical purposes.

The first floating filling station for small ships in the Ural Region operates at the Pavlovskoye reservoir. Before the station was commissioned ship fuelling involved a significant risk of water pollution. This floating station has all the necessary equipment to prevent the contamination of water with petroleum products. This includes up-to-date fuel dispensers, reliable double-walled fuel tanks, water treatment equipment, containment booms and an absorbent for containing oil spills. Water pollution is impossible in normal operating conditions.

172

EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

● INCREASING THE ENERGY EFFICIENCY OF OPERATIONS

Following the best practices and international standards, the Group intends to consistently reduce its power consumption and increase the energy efficiency of its operations. Not only will this allow us to make production more cost-effective, but also to reduce the environmental impact.

The Group has adopted and is now implementing the Power Supply Policy and the Regulations on Energy Efficiency. These documents define Bashneft's main goals in this area.

The Group's strategic energy conservation goals include:

- 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 with the use of associated gas.

POWER CONSUMPTION OPTIMIZATION AND ITS RESULTS

EFFORTS FOR POWER CONSUMPTION OPTIMIZATION ARE FOCUSED ON SEVERAL SPHERES, INCLUDING:

1

THE REDUCTION IN POWER CONSUMPTION OF PRODUCTION

2

THE REDUCTION IN DISTRIBUTION GRID LOSSES

173

EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

INCREASING THE ENERGY EFFICIENCY OF OPERATIONS

POWER CONSUMPTION OPTIMIZATION AND ITS RESULTS

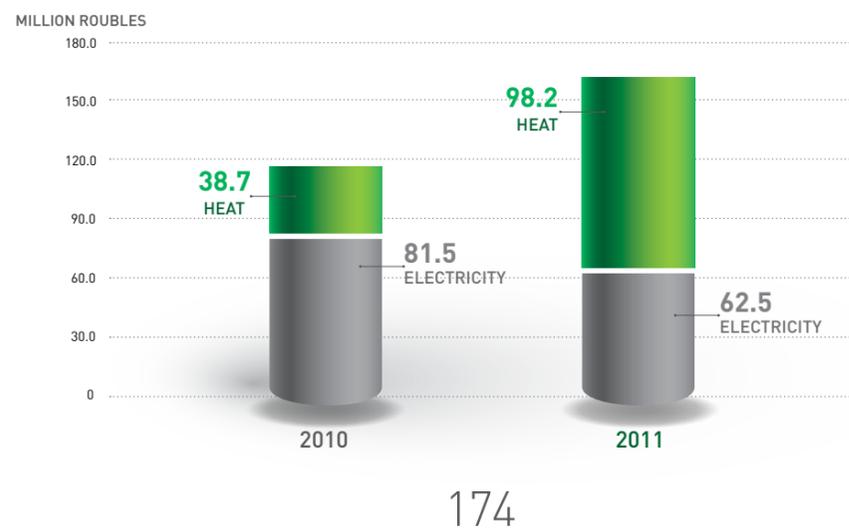
As part of this work a number of measures have been taken to upgrade the existing metering and monitoring system; Bashneft is also introducing automated equipment and up-to-date power and heat consumption management systems. Thanks to power supply programmes, for the third consecutive year we have managed to reduce unit heat and electricity consumption and gain a substantial economic benefit in each area of our operations.

In 2011 the decrease in production costs of energy resources totalled 161 million roubles, compared to 120 million roubles in 2010. Thus, the total economic

benefit of energy conservation and energy efficiency improvement measures over two years amounted to 281 million roubles.

However, we continue our efforts. In 2011 we began conducting an energy audit in the 'Upstream' and 'Refining and Marketing' business segments. The energy audit is aimed at developing a comprehensive target Energy Efficiency Programme that will include a list of indices and measures to be implemented at business departments for the optimization of power consumption, and projects on introducing new energy efficient methods and equipment.

ECONOMIC BENEFIT FROM ENERGY EFFICIENCY PROGRAMMES IN 2010 AND 2011, MILLION ROUBLES

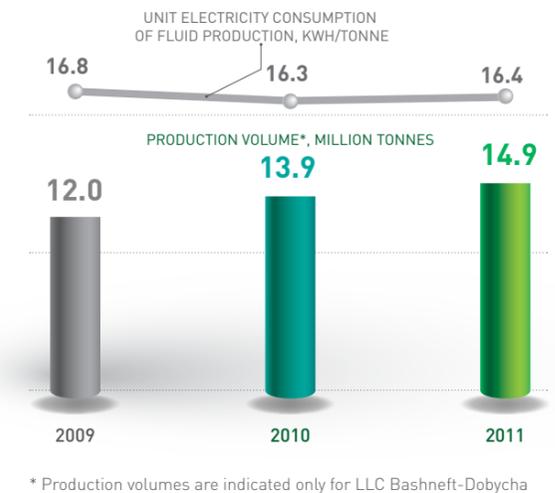


CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT IN PRACTICE:
RESULTS OF 2011 AND PLANS FOR THE FUTURE

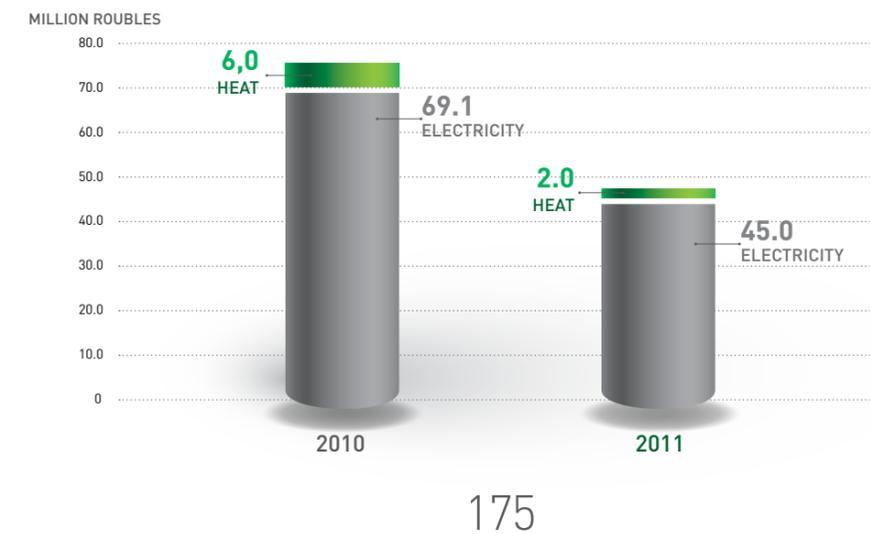
ENERGY EFFICIENCY: OIL PRODUCTION AND DRILLING

In 2011 the total energy consumption of oil production enterprises amounted to 2,788 million kWh, which is comparable to the level of 2010 (2,792 million kWh); at the same time the production of fluid increased by 1.7%. The energy efficiency measures allowed us to reduce the unit electricity consumption per tonne of produced oil by 16.3% as compared to 2009, while the unit electricity consumption per tonne of produced fluid decreased by 6.7%. The implementation of administrative and engineering measures for ensuring energy efficiency in oil production allowed us to save 122 million roubles in 2010-2011.

CHANGES IN ELECTRICITY CONSUMPTION IN OIL PRODUCTION AND DRILLING, MILLION TONNES



THE REDUCTION IN ENERGY CONSUMPTION IN OIL PRODUCTION AND DRILLING, MILLION ROUBLES



CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT IN PRACTICE:
RESULTS OF 2011 AND PLANS FOR THE FUTURE

EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

INCREASING THE ENERGY EFFICIENCY OF OPERATIONS

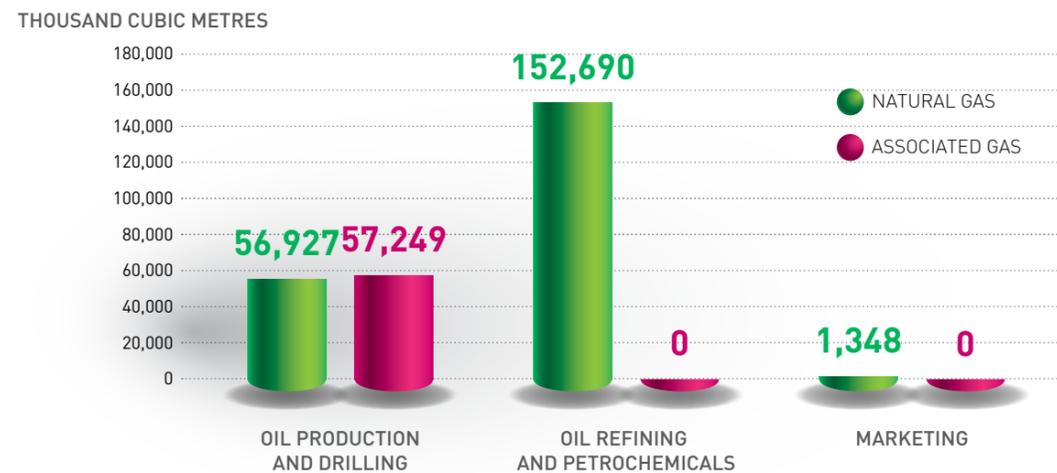
POWER CONSUMPTION OPTIMIZATION AND ITS RESULTS

METHODS AND TECHNOLOGIES FOR REDUCING POWER CONSUMPTION: OIL PRODUCTION

The most important measures are connected with the use of energy-efficient EOR methods and with enhancing the efficiency of existing facilities and equipment. As most oil production processes require a lot of energy, energy efficiency measures affect the whole production chain: formation pressure maintenance, oil recovery, oil gathering and transportation, crude oil treatment and other processes.

Associated gas utilization is undoubtedly one of the most efficient ways of reducing energy consumption in oil production. The efficient use of associated gas along with natural gas as fuel at boiler stations, at small power plants is not only aimed at optimizing the Group's energy consumption, but is also our contribution to the development of the oil and gas industry and the fulfilment of Russia's international obligations under the Kyoto Protocol.

ENERGY CONSUMPTION: THE USE OF NATURAL GAS AND ASSOCIATED GAS AS FUEL BY BASHNEFT GROUP IN 2011, THOUSAND CUBIC METRES



The use of in-line separators for gathering fluid at wells allows us to separate produced water from the oil without pumping it twice, which considerably saves energy.

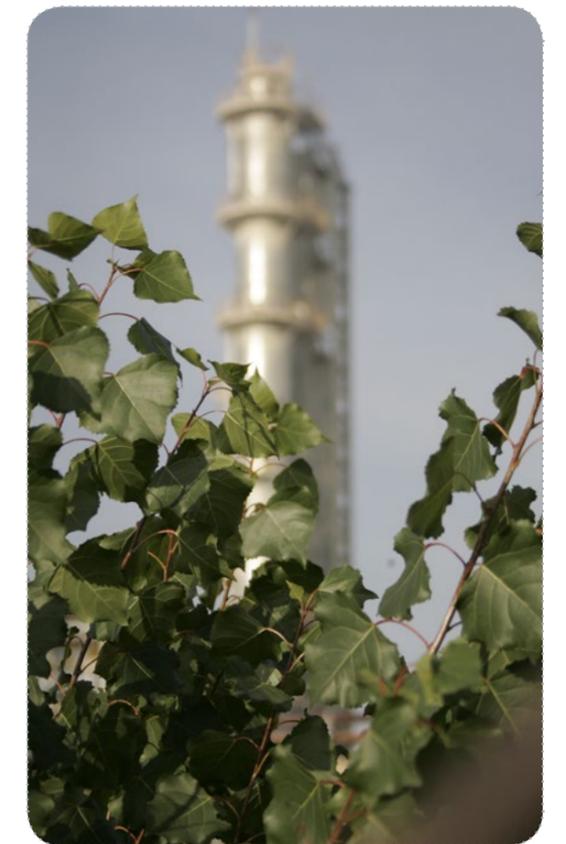
ENERGY EFFICIENCY IN OIL REFINING AND PETROCHEMICAL PRODUCTION

Oil refining and petrochemical production is the most power-consuming segment of production. The Ufa refineries account for 49% of the total electricity consumption, 72% of natural gas and 96% of heat consumption. In 2011 associated gas was used as fuel only in the upstream segment.

In 2011 energy consumption of oil refineries and petrochemical enterprises totalled 2,763 million kWh, which is 0.3% less than in 2010. In 2010-2011 there was a 1.7% reduction of unit energy consumption at the refineries thanks to an increase in oil refining volumes and more regular oil supplies.

The implementation of the Energy Efficiency Programme for 2010-2013 at the facilities of OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim and OJSC Ufaorgsintez resulted in saving 159 million roubles, including:

- electricity savings – 30 million roubles;
- heat energy savings – 129 million roubles.

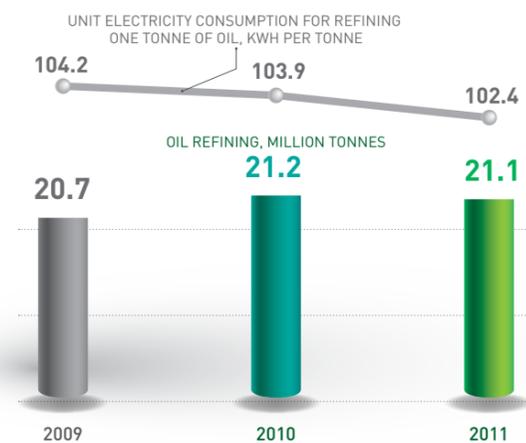


EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

INCREASING THE ENERGY EFFICIENCY OF OPERATIONS

POWER CONSUMPTION OPTIMIZATION AND ITS RESULTS

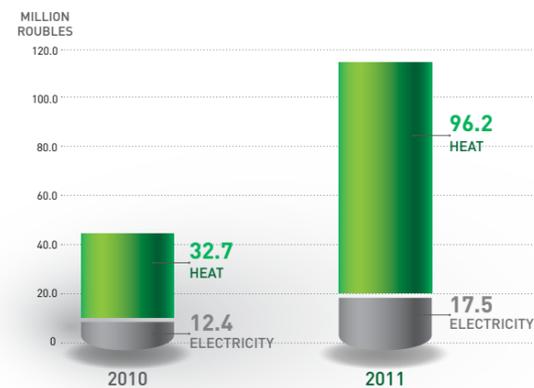
CHANGES IN ELECTRICITY CONSUMPTION IN OIL REFINING, MILLION TONNES



METHODS AND TECHNOLOGIES FOR REDUCING POWER CONSUMPTION: OIL REFINING

To achieve energy efficiency when manufacturing petroleum products, up-to-date pumps and compressors, variable frequency drives, energy-saving lamps, secondary energy resources and other relevant technologies are used.

THE REDUCTION IN ENERGY CONSUMPTION IN OIL REFINING, MILLION ROUBLES



Currently, the companies of Bashneft Group are among the leaders in terms of energy efficiency in Russia. For instance, OJSC Ufimsky refinery plant is a rare example of an oil refinery that has its own boiler station and therefore does not purchase heat energy from CHPPs.



ENERGY EFFICIENCY: MARKETING

In 2011 OJSC Bashkirnefteprodukt and LLC Bashneft-Udmurtia, the marketing companies selling petroleum products retail, consumed 27 million kWh. Due to the growth of the retail network and

the acquisition of OJSC Orenburgnefteprodukt, electricity consumption in this segment is expected to increase to 34 million kWh in 2012. The share of the Group's marketing companies heat consumption in Bashneft's total heat consumption is minimal.

EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

● INCREASING THE ENERGY EFFICIENCY OF OPERATIONS

POWER CONSUMPTION OPTIMIZATION AND ITS RESULTS

A REDUCTION IN ENERGY CONSUMPTION IN THE MARKETING SEGMENT

In 2011 energy efficiency measures in the marketing segment mainly consisted in the gas supply and repair of the heating systems at the Group's facilities, maintenance and replacement of boilers with energy efficient models. Besides, the Group took effective energy efficiency measures which did

not involve expenses, including turning off or reducing the number of outside lights at filling stations and oil storage facilities, controlling temperatures and switching off electrical equipment and lights at production facilities on time. The implementation of these measures allowed us to considerably reduce fuel and energy consumption as compared to previous years.

FUEL AND ENERGY CONSUMPTION OF BASHNEFT GROUP IN 2011

	TOTAL	INCLUDING:		
		OIL PRODUCTION AND DRILLING	OIL REFINING AND PETROCHEMICALS	MARKETING
Electricity, thousand kWh	5,612,989.84	2,821,979.65	2,763,932.60	27,077.59
Heat, Gcal	7,347,199.51	260,001.93	7,079,657.50	7,540.08
Natural gas (as fuel), thousand cubic metres	210,965.39	56,927.42	152,689.50	1,348.47
Associated gas (as fuel), thousand cubic metres	57,248.64	57,248.64	0.00	0.00

180

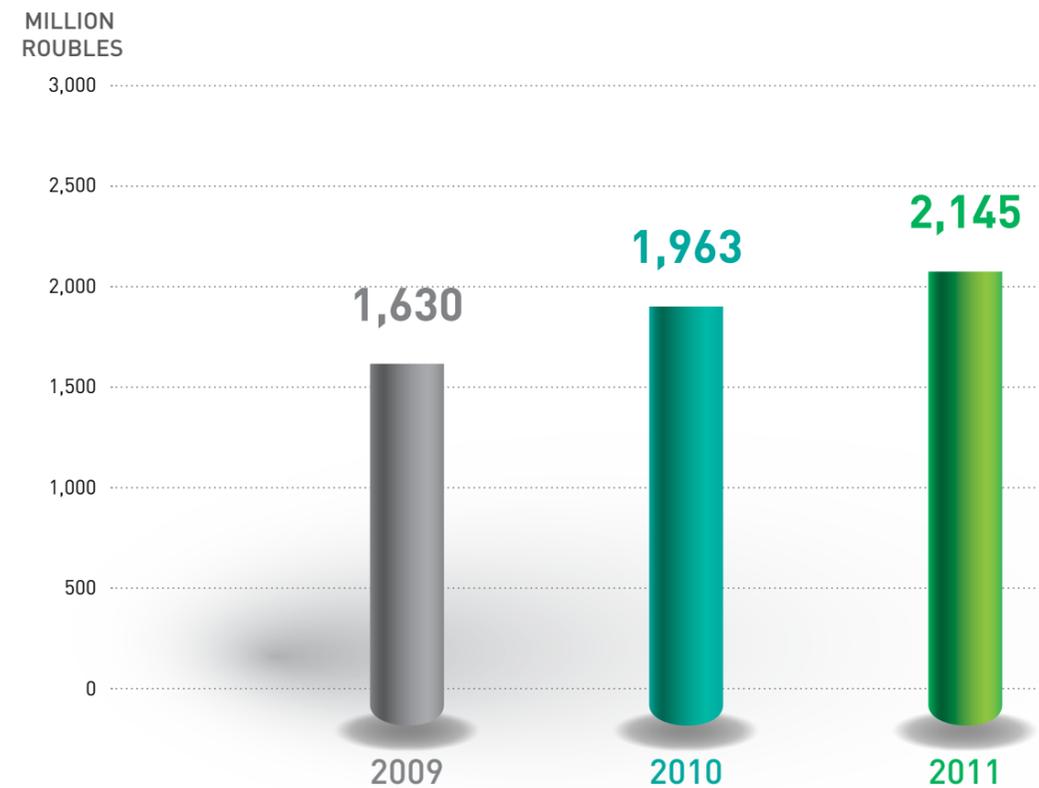
EFFICIENT USE OF NATURAL RESOURCES AND NATURE CONSERVATION

● ENVIRONMENTAL PROTECTION: FINANCIAL RESULTS

Overall, in 2011, JSOC Bashneft's departments allocated 2, 14 billion roubles for environmental measures

{+9% as compared to 1.96 billion roubles in 2010}.

JSOC BASHNEFT'S EXPENDITURE ON ENVIRONMENTAL PROTECTION, MILLION ROUBLES



181

2011

The winner of the Ninth Annual National 'IT LEADER' award

2010

The winner the national 'BEST CORPORATE MEDIA' competition

2010 The second place in the 'BEST WORKING CONDITIONS AND SAFETY PERFORMANCE' competition held by the Trade Union Federation of the Republic of Bashkortostan and the Ministry of Labour and Social Protection of the Republic of Bashkortostan (the Ishimbayneft oil and gas production department)

2010

A member of THE SOCIAL CHARTER OF RUSSIAN BUSINESS OF THE RUSSIAN UNION OF INDUSTRIALISTS AND ENTREPRENEURS

2010 The winner the charity programme competition of the Ministry of Economic Development of the Russian Federation in the category 'BEST PROGRAMME CONTRIBUTING TO THE DEVELOPMENT OF LOCAL COMMUNITIES AND IMPROVEMENT OF THE SOCIAL ENVIRONMENT IN THE COMPANY'S OPERATING REGION'

2010

The third place in the Social Responsibility Ranking of Russian companies compiled by the Trud newspaper (the 'HIGH SOCIAL RESPONSIBILITY' category).

2010

The ninth place in the Social Responsibility Ranking of Russian companies compiled by the Trud newspaper (the 'HIGHEST SOCIAL RESPONSIBILITY' category)

2010 The winner of the Annual National Competition of the Russian Union of Industrialists and Entrepreneurs 'Best Russian Companies: Development, Efficiency, Responsibility' in the 'SOCIAL RESPONSIBILITY' category

2010

The 'Hero of Our Time' regional public award in the 'SPONSOR OF THE YEAR' category

2011

The ANTI-CORRUPTION POLICY was adopted

2009

JSOC Bashneft's innovative technology for oil sludge treatment won the Sixth National Environmental Award in the 'SCIENCE FOR THE ENVIRONMENT' category

2010

The CORPORATE SOCIAL RESPONSIBILITY POLICY was adopted

2011

Non-corporate SOCIAL PROJECTS and investments accounted for 3.4% of net income and 115 roubles for each tonne of produced oil

2011

The first class certificate of the UfaPromExpo 'FOR LAUNCHING NEW COMPETITIVE PRODUCTS'

A new version of the CODE OF CORPORATE CONDUCT and the CODE OF ETHICS

OUR AWARDS AND ACHIEVEMENTS IN THE AREA OF CSR AND SUSTAINABLE DEVELOPMENT

CORPORATE SOCIAL PROGRAMMES AND INVESTMENTS

THE FINANCING OF SOCIAL PROGRAMMES AIMED AT HUMAN RESOURCE DEVELOPMENT COVERS TWO MAIN AREAS:

1

CORPORATE SOCIAL PROGRAMMES

2

SOCIAL PROJECTS AND INVESTMENTS IN THE SOCIAL FACILITIES OF THE REGION

MAIN AREAS OF THE SOCIAL BUDGET:

AREAS OF FUNDING, MILLION ROUBLES	2011
CORPORATE SOCIAL PROGRAMMES	1,075
PARTICIPATION IN THE LIFE OF COMMUNITIES AND THEIR DEVELOPMENT	1,722
TOTAL	2,797



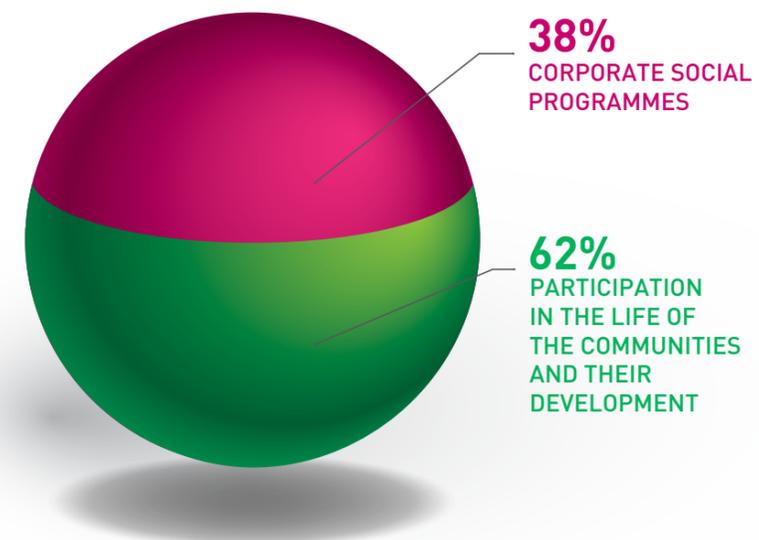
CORPORATE SOCIAL PROGRAMMES are aimed at the **social development and protection of the employees**, including employment relations, employee development, vocational trainings, development of corporate culture and promoting a healthy lifestyle and encouraging the Group's employees to do sports.

SOCIAL PROJECTS AND INVESTMENTS are aimed at the **social support of local population** and the development of the social infrastructure of the region; they include participation in the life of communities, development of social part-

nership in the operating regions, participation in resolving social issues of these regions and development of corporate charity.

In 2011 Bashneft allocated approximately 5% of its annual net income for financing social programmes. The total budget of social programmes and investments amounted to 2.8 billion roubles; 62% of the funds were allocated for the development of local communities and social infrastructure of the operating regions and 38% for corporate social programmes.

THE BUDGET OF SOCIAL PROGRAMMES AND INVESTMENTS



CORPORATE SOCIAL PROGRAMMES

The principles and approaches to personnel management are set out in the HR Policy, which was adopted in 2010.

The Group also implements the Functional Strategy on HR Management, which was adopted in 2011. Other regulations of our policy in this area include

- the Policy on Corporate Social Responsibility and
- the Policy on Charity of JSOC Bashneft.

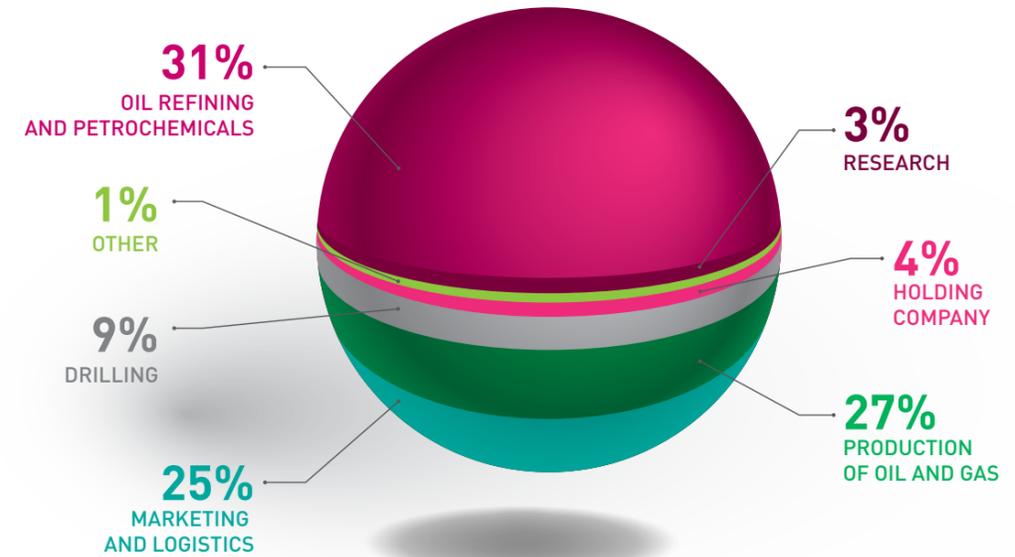
On the level of the holding company, social programmes and investments are managed and coordinated by the Corporate Communications Department and the HR Department.

PERSONNEL NUMBERS AND STRUCTURE

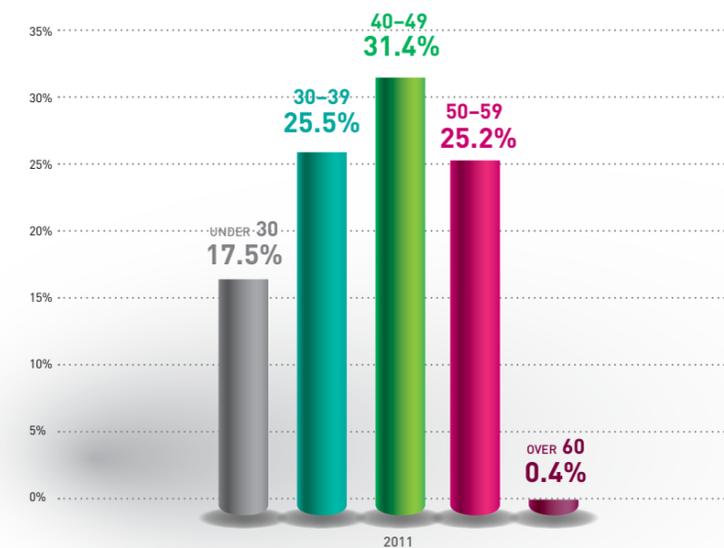
Human resources are one of the Group's main strategic resources, seeing as our employees ensure the Group's competitiveness and sustainable business development. Our HR policy strictly complies with the principles and norms of Russian and international labour laws and is based on mutual respect, consideration for the opinions of all parties and social protection of employees.

As of December 2011 the average headcount in Bashneft Group was 26,754 (as compared to 28,245 in December 2010).

PERSONNEL STRUCTURE, %



EMPLOYEE AGE DISTRIBUTION IN 2011, %



CORPORATE SOCIAL PROGRAMMES

PERSONNEL NUMBERS AND STRUCTURE

CHANGE IN THE AVERAGE HEADCOUNT BY BUSINESS TYPES, PEOPLE

NO.	BUSINESS TYPE	2010	2011	CHANGE, %
1	Holding company	854	1,025	20
2	Drilling	4,489	2,528	-44
3	Production of oil and gas	7,931	7,202	-9
4	Oil refining and petrochemicals	8,173	8,195	0
5	Marketing and logistics	5,659	6,619	17
6	Research	882	914	4
7	Other	257	271	5
	TOTAL	28,245	26,754	-5

In 2011 the Group's organizational structure was streamlined and the headcount decreased by 1,491 (5%). This was achieved mainly by reducing the workforce of the drilling departments due to restructuring oilfield service companies. At the same time the Holding company and the marketing business unit saw an increase in headcount.

The **employee age distribution** is traditionally formed in such a way that two thirds of the employees are between 30 and 50, which ensures an optimal combination of good physical form and professional experience. In 2011 the average employee age continued decreasing due to the implementation of succession planning programmes, the creation of a talent pool and the hiring of young specialists; by the end of 2011, it amounted to 40.8 years (as compared with 41.2 years at the end of 2010). The level of staff turnover has also improved: in 2011 it amounted to 4.28% of the average headcount as compared to 5.41% and 5.36% in 2010 and 2009, respectively.

WORKING CONDITIONS AND SOCIAL PROTECTION (BENEFITS PACKAGE)

Seeing as Bashneft's management considers the employees' health to be one of the priorities of its policy and a prerequisite for the sustainable development of the Group it allocates significant sums from the Group's budget for healthcare, optional health insurance and resort therapy for the employees. Apart from remuneration and benefits required by the law, the Group provides its employees with a benefits package according to their position.

In addition to the health and safety fund in 2011 the Group allocated 845.1 million roubles for **other social expenses** at seven of the Group's enterprises: this sum covered the cost of holidays, food, transportation of shift workers and other components of the **employees benefits packages**. For more detail, see Section 4 'Industrial and social responsibility'.

RESORT THERAPY AND RECREATION

The Group allocates funds from the corporate social programmes' budget to subsidize its employees' preventive treatment and recreation and covers from 50% to 85% of the actual cost of resort therapy and recreation of employees and 90% of the actual cost of holidays at summer camps for employees' children. Retired employees of the Group are also entitled to a discount for their holidays in health resorts. The recreation facilities available to employees and their families include five children's camps, seven health resorts and three recreation centres.

Under the collective agreement with Bashneft, employees of JSOC Bashneft and its subsidiaries pay only part of the actual cost of holidays at children's summer camps, health resorts and recreation centres.

Overall in 2011 Bashneft allocated 176.7 million roubles for resort therapy and holidays at health resorts for employees of the Group and its subsidiaries and affiliates.

CORPORATE SOCIAL PROGRAMMES

WORKING CONDITIONS AND SOCIAL PROTECTION (BENEFITS PACKAGE)

EMPLOYEE TRAINING AND DEVELOPMENT

In 2011 the Group continued to implement the **Functional Strategy in the area of HR Management**, which is aimed at the continuous recruitment of young specialists. This policy allows a growing number of employees to receive various kinds of further training and development:

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

According to the labour legislation apart from **compulsory training** employees can also undergo **development training** under corporate development programmes implemented in cooperation with and hosted by specialized institutes, including the Ufa State Petroleum Technological University, the Corporate University of OJSC JSFC Sistema, the Russian-Canadian Training Centre for Oil and Gas Technologies, the Moscow Institute of Modern Business, the Graduate School of Management of St. Petersburg State University and others.

From 2009 to 2011 under the professional development and retraining system 63.8 thousand courses aimed at the development of professional and managerial qualities and skills were provided to employees (measured by the number of recipients of the courses). This includes 40 thousand courses in 2011, which overall in terms of the number of employees amounted to 1.5 courses per employee.

In 2011 the Group continued the successful implementation of training programmes for the top and middle management: from 2010 the **distance training programmes** are implemented by Bashneft in cooperation with the **Corporate University of OJSC JSFC Sistema**. These include webinars and training seminars that are aimed at the development of professional and personal skills. The Group financed training under the MBA programme, as well as vocational training for managers and specialists in oil and gas production and refining.

In 2011 the corporate managerial development programme for members of the Group's 'talent pool' was implemented and it was hosted by the **Graduate School of Management of St. Petersburg State University**.

All together within three years (2009-2011) Bashneft allocated 247.6 million roubles for the financing of target corporate programmes of vocational training and professional development of employees.

THE DEVELOPMENT OF CORPORATE CULTURE

Corporate culture determines the relationship among employees and influences the general process and success of the Group. Bashneft's corporate culture is based on the principles of mutual respect of employees regardless of their position; its goal is to create an environment favourable for achieving a common result. Our efforts at the development of corporate culture within the Group are aimed at forming corporate loyalty, traditions, norms of cooperation, common moral and spiritual values shared by all employees, as well as creating working conditions that are attractive for employees and providing equal opportunities for professional and career development.

A major role in this process belongs to the **internal communications system**, which is introduced across the Group in order to increase employees' awareness of current and future goals, achieved results and the management's expectations. The '**Bashkir oil**' newspaper is the corporate print media. It has been

issued twice a month since 2010 and informs the employees about important events, the achievements of their colleagues and the rich in traditions history of the Group. The channel of communication allows the management to receive feedback from staff and allows the employees to participate in competitions, forums and other events of the Group's non-production activities.

PROMOTING A HEALTHY LIFESTYLE WITHIN THE GROUP

The factors that form the team spirit and corporate culture also include **corporate cultural events** aimed at developing the team spirit of the Group, promoting a healthy lifestyle, encouraging the employees to do sports and creating an environment for social dialogue and communication between the management and staff. **Sporting events** are an important part of forming corporate culture and promoting a healthy lifestyle in the Group. The Group holds an annual futsal championship and the 'Golden Autumn' cross-country race. Winter and summer sports festivals (Spartakiads), ski races, the Kandrykul Games, volleyball, football and chess tournaments and snowmobile races are very popular among the employees. In 2011 Bashneft's team placed first in the Summer Spartakiad organized by OJSC JSFC Sistema.

CORPORATE SOCIAL PROGRAMMES

THE DEVELOPMENT OF CORPORATE CULTURE

In 2011 the Group allocated 240 million roubles for **sporting events and support of a healthy lifestyle**.

As sporting events take place in new cities the number of participants grows. Thus the Group is systematically creating a culture of sports and healthy lifestyle. Substantial funds are allocated for **promoting a healthy lifestyle within the Group**: the employees of all the oil and gas production departments and members of their families can visit rented swimming pools and sports centres. The employees of the Ufa refineries can visit gyms.

FORMING CORPORATE TRADITIONS

The Group considers acknowledging the achievements of each employee and encouraging them as a powerful incentive. In 2011 distinguished employees were given JSOC Bashneft's corporate award for the second time. The awards were given during a concert in celebration of the Oil and Gas Worker Day. Bashneft's corporate award ceremony has become an annual tradition in the Group, and we aim to maintain it in the future.

The Group regularly celebrates Victory Day, the Oil and Gas Worker Day, Knowledge Day and organizes New Year family celebrations. In 2011 the Group introduces a new tradition: corporate KVN (Club of the Cheerful and Sharp-witted) games among the Group's enterprises.

Other corporate events that are becoming a tradition include:

- the annual New Year lottery among the employees of the Group;
- events for the employees' children;
- corporate training seminars for young specialists;
- sporting events for employees, including the JSOC Bashneft Cup futsal competition and the participation of JSOC Bashneft's team in the Spartakiad organized by OJSC JSFC Sistema;
- meetings between the management and employees;
- the 'JSOC Bashneft's Corporate Award' competition;
- corporate events forming part of New Year celebrations in Ufa and in Moscow.

CORPORATE EVENTS MARKING BASHNEFT'S ANNIVERSARY

The Group's budget plans for 2012 include increasing the fund for **corporate events**, which is to be done in connection with celebrations marking **Bashneft's 80th anniversary**. These celebrations included a number of corporate events and meetings between the management and employees held in May and June 2012; employees were awarded certificates of appreciation; the **'Distinguished Shift'**, a republic-wide socially important event, was held at the first oil well to commemorate the 80th anniversary of the discovery of oil in the Republic of Bashkortostan and was attended by veterans, young specialists, the management of the Group, government representatives and by the mass media; a meeting of the veteran workers and young specialists of the Group and its subsidiaries and affiliates took place as part of the **Mentoring Project**.

To mark its 80th anniversary, Bashneft also organized a photography competition among the Group's employees, announcement of the results of the 'Corporate Award' competition and the relevant events, and celebrations of the Oil and Gas Worker Day including the annual Corporate Award ceremony.

INCENTIVE SYSTEM AND PERFORMANCE EVALUATION

An efficient incentive system helps us attract and retain staff. Thus, the Group maintains a salary level that is higher than the industry average in the region (51,016 roubles against 40,000 roubles, respectively).

The Group has developed and adopted a procedure for the annual comprehensive employee evaluation that allows us to assess the level of professional competence, the development of skills and the achievement of **key performance indicators (KPIs)**. Employees' remunerations are calculated under this procedure and consist of a fixed part (including salary, additional payments for health risks and a regional coefficient) and a variable part (a bonus). The latter is calculated at the end of a month/quarter/year taking into account the achievement of KPIs and serves as a **tool of performance evaluation and an incentive for employees**. The ratio of the bonus to fixed part that make up the remuneration of a certain employee depends on their position and for ordinary employees the bonus part amounts to 15 % of the annual salary.

CORPORATE SOCIAL PROGRAMMES

INCENTIVE SYSTEM AND PERFORMANCE EVALUATION

The KPI-based system for evaluating the performance and career development applies to all the employees of the holding company. **The achievement of KPIs** is used as a basis for planning and organizing employee training, selecting members of the 'talent pool', preparing proposals for Bashneft's management concerning salary reviews for individual employees and other administrative decisions.

Also since 2009 the Group has been using a new modern approach to paying salaries to the employees in order to increase the Group's performance. It is a **system based on grades**. It assesses the importance of each performed function and reflects the differences between the employees according to their contribution to the business, the level of responsibility and other factors important for the Group. A grade is a group of positions of comparable importance for the Group. The size of the salary, or the salary range, corresponding to each grade may be reconsidered from time to time, but the grade system itself remains invariable. The grading method is aimed at adequately assessing the contribution of each employee to the achievement of the business goals.

The new salary system allowed Bashneft to attract high-class specialists in different areas that are essential for the sustainable development of the Group's business processes. In 2011 Bashneft introduced the concept of an 'additional bonus', which is awarded to the employees who have distinguished themselves in exceptional cases. The bonus is paid for accident prevention and emergency response activities at the Group's production facilities, as well as for participation in new projects that are essential for the Group, and does not exceed an employee's basic salary.

FINANCING CORPORATE SOCIAL PROGRAMMES

Bashneft seeks to compete with other companies in the industry for the right to be considered the most attractive employer. In order to do this, the Group not only pays its employees salaries

that are higher than the industry average and gives them social protection in accordance with statutory regulations, but also provides substantial funding for internal corporate social programmes.

THE BUDGET OF CORPORATE SOCIAL PROGRAMMES AMOUNTED TO 1,074.9 MILLION ROUBLES, OR MORE THAN 2% OF THE NET INCOME FOR 2011.

The Group's strategy on health, safety and environment stipulated substantial funding for these issues. In 2011 the Group allocated 229.8 million roubles for **ensuring occupational safety and protecting the health of employees and**

845.1 million roubles for other social expenses, such as holidays in health resorts, meals, transportation of shift workers and other components of **the employee's benefits packages**.



PARTICIPATION IN THE LIFE OF COMMUNITIES AND THEIR DEVELOPMENT

As a responsible corporate citizen Bashneft together with its major shareholder OJSC JSFC Sistema finances target social projects aimed at improving social infrastructure, developing culture, education and sports, creating jobs for the population and protecting the environment in all of our operating

regions in cooperation with regional authorities and local communities (including the society and local non-profit and non-governmental organizations). The major aim of the Group is to produce an important social impact meeting the Group's business interests.

MAJOR CRITERIA FOR SELECTING TARGET PROGRAMMES FOR SOCIAL INVESTMENTS:

1

PROGRAMMES SHOULD BE COMPREHENSIVE AND LONG-TERM

2

SOCIAL INVESTMENTS SHOULD BE TRANSPARENT AND PUBLIC

3

IMPLEMENTATION OF THESE PROGRAMMES SHOULD GENERATE ADDITIONAL VALUE

INVESTMENTS IN THE DEVELOPMENT OF SOCIAL INFRASTRUCTURE

In 2011 investments in the development of the infrastructure of the Republic of Bashkortostan and other social programmes (including charity) amounted to 3.4% of the Group's net income for the year, or 1.722 billion roubles in absolute terms. As part of this budget within the year over 30 projects in the sphere of corporate social responsibility were

implemented, including investments in the development of social infrastructure in the Republic of Bashkortostan, which is our strategic region. The expenses totalled 1.499 billion roubles, which is 18% more than in 2010.

Most social and charity programmes in the Republic of Bashkortostan are funded through the branch of the Charity Fund Sistema. In 2011 1,449 million roubles were allocated through this Fund.

196

In 2011 Bashneft financed the construction of 20 social facilities in seven districts of the Republic, including the city of Ufa. The list of facilities to be funded is made in cooperation with the Republic's authorities.

CONTRIBUTION TO THE DEVELOPMENT OF THE INFRASTRUCTURE AND ECONOMY OF THE REGIONS THROUGH CORE BUSINESS

In March 2011 the Group and the Government of the Republic of Bashkortostan signed an Agreement on reducing or maintaining the prices for certain types of fuels and lubricants sold to agricultural producers of the Republic of Bashkortostan in 2011. In accordance with Government Decree No. 66 from February 11, 2011 Bashneft reduced the price of diesel fuel for agricultural consumers by 30% of its market price. Preferential prices were set for 163 agricultural producers.

In March 2012 LLC Bashneft-Polyus, which held the development licence for the R. Trebs and A. Titov oilfields, and the Administration of the Nenets Autonomous District signed an Agreement on cooperation stipulating investment in the development of the social and economic infrastructure of the Nenets Autonomous District, as well as in job creation and charity projects.

TARGET SOCIAL PROJECTS AND INVESTMENTS

Priority areas:

- health and sports,
- promoting the well-being of the population of our operating areas (social projects),
- education and culture,
- projects on environmental protection and environmental awareness.

197

● PARTICIPATION IN THE LIFE OF COMMUNITIES AND THEIR DEVELOPMENT

INVESTMENTS IN THE DEVELOPMENT OF SOCIAL INFRASTRUCTURE

TARGET SOCIAL PROJECTS AND INVESTMENTS: PRIORITY AREAS

SPORTS PROGRAMMES	<ul style="list-style-type: none"> ● SPONSORSHIP OF THE PROFESSIONAL FOOTBALL CLUB CSKA ● SUPPORT FOR THE DEVELOPMENT OF SPORTS FOR CHILDREN
SOCIALLY ORIENTED PROGRAMMES	<ul style="list-style-type: none"> ● SUPPORT FOR THE DISADVANTAGED SOCIAL GROUPS (DISABLED, LOW-INCOME AND DEPRIVED PEOPLE) ● DEVELOPMENT OF THE SOCIAL INFRASTRUCTURE ● PROGRAMMES IN THE AREA OF HEALTHCARE ● PROGRAMMES IN THE AREA OF SOCIAL ACTIVITY OF THE YOUTH
EDUCATIONAL PROGRAMMES	<ul style="list-style-type: none"> ● PROGRAMMES OF COLLABORATION WITH THE LEADING UNIVERSITIES OF THE COUNTRY ● PROGRAMMES IN THE AREA OF DEVELOPMENT OF INNOVATIVE TECHNOLOGIES AND SCIENTIFIC POTENTIAL ● SUPPORT FOR CHILDREN'S AND SCHOOLCHILDREN'S CREATIVE ACTIVITIES ● DEVELOPMENT OF SCHOOL AND VOCATIONAL EDUCATION
PROJECTS ON ENVIRONMENTAL PROTECTION AND AWARENESS	<ul style="list-style-type: none"> ● PROJECTS AIMED AT SOLVING ENVIRONMENTAL PROBLEMS IN GROUP'S OPERATING REGIONS ● PROMOTING A RESPONSIBLE ATTITUDE TO THE ENVIRONMENT AND RAISING ENVIRONMENTAL AWARENESS ● PROJECTS MINIMIZING THE ENVIRONMENTAL RISKS OF PRODUCTION

HEALTH AND SPORTS

DEVELOPMENT OF CHILDREN'S FOOTBALL

Bashneft has launched a social initiative for developing children's football in the Republic of Bashkortostan. In 2011 the Group assisted in organizing several events that took place in Ufa and were aimed at supporting children's football and the development of children's football on the basis of children's Sports schools.

For instance two workshops for the coaches of youth football teams were organized. In April young players were selected for the CSKA youth team. One of them passed the selection and is now a member of the CSKA youth team. Eight teams from Bashkortostan's sports schools participated in JSOC Bashneft Cup futsal tournament for children. The Company also organized an exhibition futsal match with the children from the Ufa orphanage No.9.

A "My Football" drawing contest was held in the Ufa Special (Corrective) Boarding School No.92. Footballs were made in accordance with the winning designs and these balls were presented to players of the Professional Football Club CSKA.

A number of events hosted by sports schools for children are to be held in Ufa as part of the programme in the future. These include:

- Workshops for coaches and young sportsmen;
- Organization of away exhibition matches of the youth team of the Sports school;
- Organization of workshops and professional development seminars for the football coaches of Bashkortostan;
- Coaches and students of the Sports schools attending matches of professional football clubs.

● PARTICIPATION IN THE LIFE OF COMMUNITIES AND THEIR DEVELOPMENT

HEALTH AND SPORTS

CONSTRUCTION OF SPORTS FACILITIES

In November 2011 the opening ceremony of the second stage of the Ufa Arena sports complex took place. Under the Agreement between OJSC JSFC Sistema and the Government of the Republic of Bashkortostan Bashneft Group covered more than 20% of the construction costs; 105 million roubles were allocated for this purpose in the last two years.

Also in 2011 the Group funded the construction of an indoor skating rink with artificial ice in the city of Tuimazy, the overhaul of the Dulkyn swimming pool in the city of Yanaul, the construction of sports and recreation centres in the villages of Verkhneerkeyevo and Chishmy and several other facilities.

PROMOTING THE WELL-BEING OF THE POPULATION

SOCIAL EVENTS FOR EMPLOYEES' CHILDREN

JSOC Bashneft's social policy also covers the families of the Company's employees, particularly the children. The Group organizes festivals for employees' children, including New Year, Children's Day, and Knowledge Day events on a regular basis. Approximately 1,000 children and their parents partici-

pate in these holiday events. Neftyonok (a little beaver-oilman), the corporate mascot, is always present at all of these events. The corporate drawing contest 'My Family Are Oil Workers', which is a contest for children under 14, is very popular and up to 1,000 drawings are submitted each year. The results are announced in June and the young artists receive awards during a ceremony attended by the Group's management.



JOB CREATION AND DEVELOPMENT OF COMPUTER TECHNOLOGIES AMONG THE POPULATION

In our opinion, the programme for supporting disadvantaged social groups that is being implemented by the Group deserves a special mention. In 2011 a fully-equipped computer classroom was created in the secondary school No. 54 in Ufa and nine new jobs were created for the teachers. Funding was provided by the Group as a measure for organizing distance education. Year 5 and 6 students have been using this classroom to study information technology since last year. In addition to this the Group allocated funds from the budget of its target social programmes to purchase computer equipment for the students of this school. By September 1 the equipment was installed in the houses of 23 students of the Distance Education Centre. The Centre caters for the needs of disabled children who have to study at home. This programme is also aimed at helping the students' parents, allowing them to check on their children's progress and to communicate with teachers and psychologists online.

Other socially oriented projects implemented by the Group in 2011 are listed in the general list of all projects and programmes. For more detail see Appendix 1 to Section 8: Components of our responsibility are factors of our sustainable development.

EDUCATION AND CULTURE

SCHOLARSHIP PROGRAMME FOR USPTU STUDENTS

The Cooperation Agreement between JSOC Bashneft and the Ufa State Petroleum Technological University (USPTU) stipulates a scholarship programme for students. In 2011 49 students of the university received personal scholarships from JSOC Bashneft after successful interviews with employees of Bashneft's HR Department. The best students will be offered a position in the Group on completing their studies. Scholarships range from 1,500 to 2,500 roubles a month; the funds allocated for the scholarship programme in the 2011/2012 school year total 1.5 million roubles.

PARTICIPATION IN THE LIFE OF COMMUNITIES AND THEIR DEVELOPMENT

EDUCATION AND CULTURE

VOCATIONAL GUIDANCE

As part of the Cooperation Agreement between JSOC Bashneft and the Ufa State Petroleum Technological University (USPTU) a number of vocational guidance programmes took place in 2011. The agreement stipulates specialized contract training of students for jobs required in Bashneft, professional development programmes for our employees, collaboration in research and development and engaging our specialists in giving lectures to students.

SUMMER PRACTICAL TRAINING FOR STUDENTS

Senior students take part in summer practical training at the Group's enterprises that helps acquire practical knowledge of the production process and the basic professional skills that it requires.

SUMMER SCHOOL FOR SENIOR SCHOOL STUDENTS

In 2011 as part of the vocational guidance programme a 'summer school' for senior school students was organized. For several days schoolchildren listened to lectures by USPTU lecturers and participated in quizzes.

'I WANT TO BECOME AN OILMAN' WEB-PROJECT

In 2011 the Group continued developing an interactive educational project, the www.neftyanik-school.ru web portal. This is the first Russian educational resource for senior students that is completely dedicated to careers in the oil industry. The main goal of this project is to attract more attention to technical disciplines, such as chemistry, mathematics, geology, mining etc. and help future graduates with the choice of a profession. Site visitors participate in various online competitions and quizzes, solve problems and are awarded prizes for the best results.

PROJECTS ON ENVIRONMENTAL PROTECTION AND ENVIRONMENTAL AWARENESS

SPRINGS OF BASHKIRIA

In 2011, the restoration of 25 springs in the Ishimbaysky, Bizhbulyaksky, Belebeyevsky, Tuimazinsky, Iglinsky, Blagoveshensky, Chekmagushevsky, Yanaulsky, Krasnokamsky and Dyurtyulinsky districts of Bashkortostan was

financed through charity funds. The Group understands the great importance of supplying the population with high-quality drinking water and not only restores springs, but also funds the construction and maintenance of water supply systems (water withdrawal facilities, water pipes etc.) as well as the drilling of new water wells in more than twenty villages and towns of the Republic of Bashkortostan. For instance in 2011 the Group started the construction of water pipes in the villages of Starye Tuimazy and Gorny (the Tuimazinsky district).

Overall, in 2011, Bashneft allocated more than 149 million roubles for measures related to the improvement of water supply in the Republic of Bashkortostan through the Charity Fund Sistema.

FORMING PUBLIC OPINION ON CORPORATE ENVIRONMENTAL RESPONSIBILITY

In April 2011 as part of the efforts to raise environmental awareness the Group organized a roundtable discussion in the Civic Chamber of the Russian Federation on the following subject: 'Is it possible to achieve industrial growth without damaging the environment, or How to align business interests with citizens' rights to a healthy and favourable environment?' The event was

aimed at exchanging experiences in this sphere and getting the opinions and recommendations of the representatives of the business, the government and NPOs on ways of solving environmental issues.

The participants discussed topical issues of corporate environmental responsibility and the role of the business in creating a favourable environment for the residents of operating regions; Bashneft presented a report on the latest developments in the area of associated gas utilization and the Group's experience in reducing harmful atmospheric emissions and the negative environmental impact of the Group's operations. The representatives of the Commission on civil society development, the Institute for Sustainable Development, the Civic Chamber, the Joint Programme of the United Nations Development Programme and the Global Environmental Facility, the representatives of the federal agencies supervising environmental issues and the heads of the leading industrial enterprises and public environmental organizations took part in the wide-ranging discussion of the relevant subjects.

NON-FINANCIAL REPORTING AND OTHER IMPORTANT INFORMATION

VOLUNTARY INITIATIVES, LISTING RULES AND REGULATORS' DEMANDS

NON-FINANCIAL REPORTING USING THE GLOBAL REPORTING INITIATIVE (GRI) FRAMEWORK

USING THE METHODOLOGY OF THE GLOBAL REPORTING INITIATIVE (GRI) GUIDELINES AND FRAMEWORK IS THE GROUP'S AND ITS SHAREHOLDERS' FREE WILL THAT WE HAVE BEEN DEMONSTRATING

FOR THREE YEARS ALONG WITH 3,900* OTHER COMPANIES ALL OVER THE WORLD, AND WE INTEND TO CONTINUE FOLLOWING THIS PRACTICE IN THE FUTURE.

WE WANT TO MAKE THE GENERAL PUBLIC AWARE THAT BY CHOOSING THE GRI BASHNEFT CHOOSES SUSTAINABLE DEVELOPMENT, WHICH WE FOSTER IN THE INTERESTS OF BUSINESS AND SOCIETY AND WITHOUT CAUSING HARM TO OUR GENERATION AND THE GENERATIONS TO COME.

INFORMATION ON THE GROUP'S SUSTAINABLE DEVELOPMENT PERFORMANCE

This year JSOC Bashneft is publishing its third annual Sustainability Report. Our first Report on this topic was published in 2009. In this Report we give an analysis of the Group's most important operating results in the area of sustainable development in 2011 and part of 2012 and evaluate the efficiency of the management's policy in this area. While preparing this Report we sought to

* Analysis: Global Reporting Initiative – G4-Force!, Ethical Corporation, May 2012

present the information on Bashneft's economic, environmental, social and corporate activities as fully as possible, in compliance with the main GRI recommendations.

Our analysis and evaluation are based on the third generation of the Sustainability Reporting Guidelines (GRI G3.1) and we used a set of non-financial performance indicators recommended specifically for oil and gas companies (Oil & Gas Sector Supplement Checklist). We present the results of this analysis in an Appendix to this Report – see Appen-

dix 2 to Section 8: Compliance with the GRI-3.1 (OGSS) Guidelines. We hope that the information presented in this Report will be a useful addition to the Group's Annual Report and will help us discuss the issues of Corporate social responsibility more thoroughly and provide the necessary information to all of Bashneft's stakeholders, which includes our shareholders and employees, business partners, suppliers and consumers, the investment community, government bodies, the media, members of local communities in our operating regions and society as a whole.

We intend to ensure that our practices meet international standards in order to be open for a wide circle of stakeholders both in Russia and abroad. We support the efforts of the Global Reporting Initiative to create a sustainable global economy where non-financial information disclosure will become standard practice along with the publication of financial statements.

In this Report we used a system of references to the corresponding sections of the Report, in which the information is disclosed in greater detail. The titles of the corresponding sections can be found in the column of the table opposite each indicator.



NON-FINANCIAL REPORTING AND OTHER IMPORTANT INFORMATION

VOLUNTARY INITIATIVES, LISTING RULES AND REGULATORS' DEMANDS

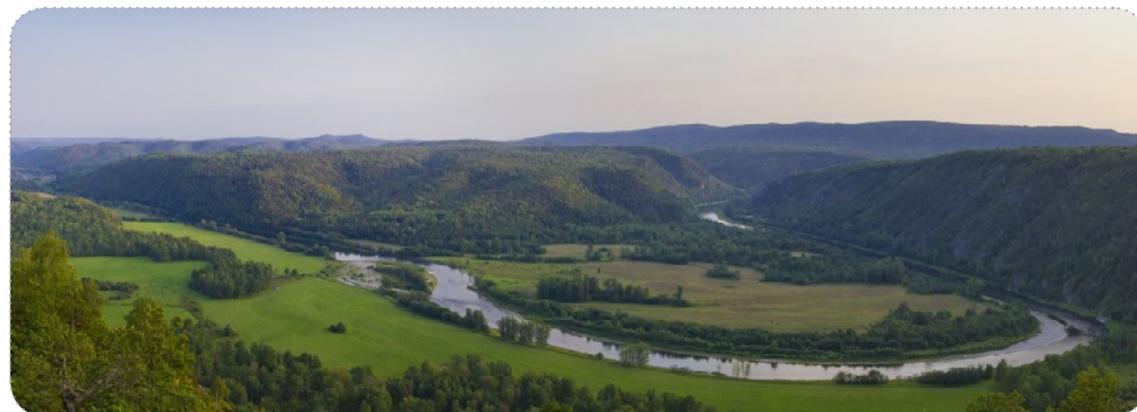
NON-FINANCIAL REPORTING USING THE GLOBAL REPORTING INITIATIVE (GRI) FRAMEWORK

With a few exceptions, the GRI Management leaves it to the Group's discretion as to decide what indicators it should use for self-appraisal. When making this form of self-appraisal, we do not review all the 140 GRI indicators. A number of GRI indicators are not applicable to the Group; and there are some indicators that we have not used for objective reasons, seeing as we believe that not all of the GRI indicators fully correspond to the Russian business practice.

At the same time, this year we have made an attempt to make the disclosure more complete by adding 16 new indicators to those that we disclosed in the last reporting period. In this Report, we fully or partly disclose 100 indicators, i.e. approximately 70% of the total

number. We realize that in order to present more comprehensive information, we have to perform a further analysis of the Group's policies and practices. We intend to continue our work in this area, and during the time that the structure of the VIC is being improved, we will try to promote cooperation between individual business units in all areas of economic, environmental, social and corporate activities.

Taking into account the conclusions we reached during the preparation of this Report as result of self-appraisal using the GRI framework we consider the efficiency of our management's policy on sustainable development to be very good and corresponding to the B level.



THE LISTING REGULATIONS AND CORPORATE GOVERNANCE REQUIREMENTS

INFORMATION ON COMPLIANCE WITH THE CODE OF CORPORATE CONDUCT

This section also contains the systematized information on the Group's compliance with the recommendations set out in the national Code of Corporate Conduct (the FFMS Code). The Group used the main provisions of this Code as a basis for the preparation of one of its internal documents, the Code of Corporate Conduct of JSOC Bashneft, which was adopted in 2011.

Also in February 2003 listing rules of the stock exchange were established and they include requirements for the compliance with the Code of Corporate Conduct. In accordance with these regulations, Bashneft, as an issuer whose shares are traded on the stock exchange, discloses information on the corporate governance practice adopted in the Group. This information is public and is available to the Group's shareholders, investors and all stakeholders.

In Appendix 3: Information on compliance with the Code of Corporate Conduct we present the full report that we submitted to the MICEX-RTS Stock Exchange (the Moscow Exchange) in the reporting period. (For a detailed description of the corporate governance system, see Section 3 of this Report).

THE GOVERNMENT TECHNICAL REGULATIONS AND ENVIRONMENTAL REQUIREMENTS

INFORMATION ON COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS FOR THE OPERATIONS OF OIL-PRODUCING COMPANIES

As a company engaged in oil production and refining Bashneft is obliged to comply with the strict environmental requirements imposed on all Russian oil and gas companies and set out in the Government Technical Regulations. These Regulations govern industrial production, mineral exploitation, harmful atmospheric emissions and water pollution at the oilfields and in the nearby areas and impose additional requirements for the disclosure of information on compliance with the regulators' demands. The Group's activity fully complies with the requirements set out by relevant laws and regulations.

APPENDIX 1: COMPONENTS OF OUR RESPONSIBILITY ARE FACTORS OF OUR SUSTAINABLE DEVELOPMENT

The following Table presents the main events of the reporting period
(APPENDIX TO SECTION 8: THE CALENDAR OF THE MAIN EVENTS CONCERNING CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT)

COOPERATION WITH STAKEHOLDERS		
1.	January 2011	Preliminary results in main areas of production for 2010 were published
2.	February 2011	A number of meetings with western portfolio investors and IR presentations were held during the Russia 2011 investment Forum (Sberbank/Troika Dialog)
3.	April 2011	Bashneft won the annual national competition 'Best Russian Companies: Development, Efficiency, Responsibility – 2010' in the 'Social Responsibility' category
4.	April 2011	The Group was awarded the national IT Leader award for an outstanding contribution to IT development in Russia in the 'Oil and Gas Companies' category
5.	May 2011	Bashneft was a general partner of the 'Big Chemistry' International forum in Ufa; during the event it presented a programme for the development of oil refining and petrochemicals
6.	May 2011	Bashneft was ranked ninth in the Social Responsibility Ranking of Russian companies published by the Trud newspaper
7.	June 2011	The first presentation Annual Report for investors, shareholders, partners and the investment community was published
8.	June 2011	The Annual General Meeting of Shareholders of JSOC Bashneft was held
9.	June 2011	A number of meetings with portfolio investors and IR presentations were held during the 'Oil & Gas Day 2011' Conference (Bank Credit Suisse), Moscow
10.	June 2011	A number of meetings with portfolio investors and IR presentations were held during the 'Top Picks ATON Conference' investment forum, Moscow
11.	June 2011	A number of meetings with portfolio investors and IR presentations were held during the Annual 1:1 Investor Conference (Renaissance Capital), Moscow
12.	July 2011	The Regulations on Dividend Policy of JSOC Bashneft were adopted. The document established the basic approaches to developing recommendations on the amount of dividends on the Group's shares, as well as the procedure and form of dividend payments
13.	October 2011	JSOC Bashneft adopted the Anti-corruption Policy, which defines the main principles and requirements for preventing corruption and complying with the anti-corruption legislation
14.	October 2011	A number of meetings with portfolio investors and IR presentations were held during the 'Russia Calling!' Investment Forum (VTB Capital), Moscow
15.	December 2011	The Group's IFRS financial results for the third quarter of 2011 were published
16.	February 2011	Bashneft participated in the commercial and industrial exhibition UfaPromExpo-2011. The Group was awarded with the first class certificate for Launching New Competitive Types of Products
17.	March 2011	Bashneft participated in the 'EuroArctic-2011' conference; an exhibition stand was set up and the Group's presentation was organized
18.	May 2011	Bashneft participated in the 'Gas. Oil. Technologies – 2011' industry conference, where the Group's exhibition stand was set up
19.	May 2011	The Group participated in the 'Big Chemistry' industry forum as its general partner
20.	June 2011	Bashneft participated in the roundtable discussion organized by the Russian Union of Industrialists and Entrepreneurs (RSPP) and presented a paper on the Group's social accounting system
21.	June 2011	A delegation of the Group's management participated in the St. Petersburg Economic Forum
22.	June 2011	The Group sponsored the 'Moscow International Oil & Gas (MIOGE) Exhibition 2011'. During the forum, the new brand of JSOC Bashneft was presented
23.	July 2011	The Group co-organized the draughts World Cup and the Draughts World Championship

24.	September 2011	Bashneft participated in the 17th International Exhibition 'Oil, Gas, Petrochemistry' as a sponsor. At the exhibition, the Republic of Bashkortostan had a display stand, and the Group's new brand was presented
25.	September 2011	The Group participated in the 10th International Forum 'Sochi-2011' as a sponsor. At the Forum, the Republic of Bashkortostan had a display stand, and Bashneft's new brand was presented
26.	December 2011	The New Year Party was attended by the shareholders, senior managers, business partners and government officials
27.	December 2011	The Group sponsored the participation of the delegation of RNC WPC in the 20th World Petroleum Congress in Doha, Qatar

SUPPORT OF THE DEVELOPMENT OF LOCAL COMMUNITIES

28.	February 2011	The sponsorship agreement with the PFC CSKA was renewed for a one-year period. Under this agreement, a number of campaigns aimed at supporting children's football and developing this sport in Bashkortostan were organized in Ufa in 2011
29.	March 2011	The Agreement on reducing the prices of certain types of fuels and lubricants was concluded with the Government of the Republic of Bashkortostan; preferential prices were set for 163 agricultural producers. The price of diesel fuel for agricultural consumers was reduced by 30%
30.	November 2011	The opening ceremony of the second stage of the Ufa Arena sports complex took place. Bashneft was the main sponsor of its construction
31.	February 2011	A futsal tournament for the children's teams of the Republic of Bashkortostan was held
32.	March 2011	A visit to the circus was organized for the patients of the Social Rehabilitation Centre for Children (Ufa) as part of patronage
33.	April 2011	An educational excursion to the Novoil refinery for the students of the Ufa Fuel and Energy College was organized as part of the social educational programme
34.	April 2011	A 'My football' drawing contest was organized for the disabled children from the No. 92 special boarding school
35.	April 2011	A friendly football match between the PFC CSKA's fans and the team of the No. 9 Orphanage was held as part of the project aimed at developing and supporting children's football in the Republic of Bashkortostan
36.	April 2011	The winners of the National Industry Talent Contest 'We Are the Children of Oilmen' received awards. The contest was organized by the Group with support from the Ministry of Natural Resources and Environment of the Russian Federation
37.	May 2011	The 'Football Academy' project, which is aimed at developing and supporting children's football: a seminar for the coaches of children's football teams of the Republic of Bashkortostan and selection of talented children for the PFC CSKA Sports school were organized
38.	May 2011	Educational events and entertainments for patients of the Social Rehabilitation Centre for Children (Ufa) were organized as part of the celebrations of the International Children's Day
39.	June 2011	The winners of the 1st interdisciplinary National Competition 'I Want to Become an Oilman' received awards
40.	June 2011	The Distance Education Centre for disabled children was created on the premises of the Ufa No. 54 school. Additional computer equipment was purchased and provided to 23 students
41.	June 2011	The presentation of the 'Black Gold' children's book took place in Ufa as part of the celebrations of the Day of the City
42.	August 2011	Bashneft assisted in organizing the city-wide event 'The Second Ufa Corporate Sports Competition for the Ufa District Administration Cup'
43.	September 2011	On Knowledge Day celebrations were held for children from the orphanage supported by Bashneft and the Group purchased presents for children
44.	October 2011	The USPTU students who had received personal scholarships from JSOC Bashneft received awards
45.	November 2011	JSOC Bashneft organized an Open Day for the winners of the republic-wide competitions; the programme included a business game and a visit to the Ufa refineries

SOCIAL CORPORATE PROGRAMMES FOR EMPLOYEES

46.	July 2011	The team of fuel and energy companies of the Republic of Bashkortostan won OJSC JSFC Sistema's Spartakiad, taking first place in team competitions
47.	September 2011	The ceremony of the Second Corporate Award of Bashneft was held as part of celebration of the Oil & Gas Worker Day
48.	May 2011	The visit to the USPTU Museum was organized for the children of employees as part of the celebration of the anniversary of Bashkir oil industry
49.	May 2011	The celebration of the Victory Day was organized for veterans and employees
50.	June 2011	The drawing contest for children 'My Family are Oil Workers: the Nature is a Priceless Gift' was organized in celebration of International Children's Day; the contest is aimed at raising environmental awareness
51.	June 2011	The Group's employees participated in the 'Small Monuments of the Great Victories' campaign as part of the international Day of Memory and Sorrow
52.	July 2011	The joint team of Bashneft and Bashkirenergo participated in the Ninth Summer Spartakiad organized by OJSC JSFC Sistema
53.	August 2011	The 'On the Way to Knowledge' children's event was organized
54.	September 2011	A corporate cultural event was held to celebrate the Oil Worker Day
55.	October 2011	Team-building training was organized for the Group's employees on the premises of the Energetik health resort and roller-skiing track
56.	November 2011	The first futsal tournament for JSOC Bashneft Cup was held in Ufa
57.	November 2011	The corporate event 'Thank you!' was organized for the employees. During the events, operating results for 2011 were announced
58.	December 2011	The results of the New Year Lottery for employees were announced. 26,909 of the Group's employees competed for valuable raffle prizes
59.	December 2011	The Family Recreation Day in Yakutov Park (Ufa) was organized for employees and their families; the programme included a wide variety of sporting events and entertainment

SUSTAINABLE DEVELOPMENT OF THE BUSINESS

60.	February 2011	The Federal Subsoil Resources Management Agency (Rosnedra) granted Bashneft a licence for the federal subsoil area that includes the R. Trebs and A. Titov oilfields
61.	February 2011	An Extraordinary General Meeting of Shareholders (EGM) of JSOC Bashneft was held. A new version of the Charter of JSOC Bashneft was approved
62.	March 2012	The reorganization of JSOC Bashneft started
63.	March 2011	Bashneft published the results of an independent audit of oil reserves. The audit was conducted by Miller and Lents, Ltd. according to the international PRMS classification as of December 31, 2010.
64.	March 2011	A new Collective agreement that was prepared and concluded in compliance with existing Russian legislation was signed
65.	April 2011	Bashneft signed an agreement with OJSC Lukoil on setting up a joint venture and on the terms of the implementation of the R. Trebs and A. Titov oilfields development project
66.	April 2011	Bashneft acquired over 94% of the authorized capital of OJSC Orenburgnefteprodukt, the largest regional marketing company in the Orenburg Region, from OJSC RussNeft
67.	April 2011	Alexander Korsik, who previously was the Vice President of OJSC JSFC Sistema and the head of the Fuel and Energy business unit, was appointed as the President of Bashneft
68.	May 2011	Bashneft (together with the SAP CIS Company and JSC SITRONICS) completed the implementation of the SAP ERP enterprise resource planning system at OJSC Ufaneftekhim, which is to be followed by the introduction of the system at other oil refining enterprises of the holding company
69.	July 2011	Bashneft gained control over the petroleum products business of LLC Aspec, which includes LLC Bashneft-Udmurtia and CJSC Bashneft-Region
70.	August 2011	The new membership of the Company's Management Board was approved. Bashneft completed the payout of dividends for 2010 to shareholders. The dividend payments amounted to 235.77 roubles per ordinary and preferred share

71.	August 2011	Series BO-01, BO-02, BO-03, BO-04 exchange-traded bonds of JSOC Bashneft were included in the MICEX Stock Exchange list of securities and were admitted to trading
72.	September 2011	It was decided to create OJSC United Petrochemical Company, a joint venture between Bashneft and Petrochemical Holding, so as to study and analyse the current condition and investment attractiveness of the Russian petrochemical industry as well as to develop projects and proposals on the development of the petrochemical business at JSOC Bashneft. Bashneft's stake in the joint venture is 75%
73.	October 2011	Bashneft acquired licences for the geological exploration, prospecting, surveying and production of hydrocarbons at three subsoil blocks in the Nenets Autonomous District: the Vostochno-Padimeyskiy, Savatinskiy and Nyarioyakhskiy blocks
74.	November 2011	JSOC Bashneft's shares were included in the list of non-listed securities admitted to trading on the MICEX Stock Exchange
75.	November 2011	Platts included Bashneft in the Top 250 Global Energy Company Rankings for 2011, the annual ranking of the fastest-growing oil companies (number 6 in the list of the world's fastest-growing energy companies and in the ranking of companies in the Exploration & Production sector; number 62 in the general rankings and number 31 among energy companies of the EMEA region)
76.	November 2011	The corporate Data Processing Centre (DPC) was put into operation; it will allow the Group to consolidate information resources in all of its operating regions and will become the centre of the Group's IT infrastructure
77.	December 2011	OJSC Lukoil acquired a stake (25.1%) in LLC Bashneft-Polyus, the holder of the development licence for the subsoil area that includes the R. Trebs and A. Titov oilfields, and concluded an agreement on creating a joint venture
78.	December 2011	LLC Bashneft-Polyus acquired 29 prospecting and exploration wells at the R. Trebs and A. Titov oilfields from LLC Lukoil-Komi
79.	December 2011	Bashneft won the licences for the Yelanskiy and Znamenskiy- 1 subsoil blocks and the rights for the geological exploration, surveying and production of hydrocarbons in these areas of the Republic of Bashkortostan
80.	December 2011	Bashneft produced the 15 millionth tonne of oil since the beginning of 2011, thus exceeding the target set in the Business plan. According to CDU TEK (the Central Dispatching Department of the Fuel and Energy Complex) Bashneft remained the Russian leader in terms of oil production growth in 2011 with a production growth rate of 6.8%
81.	December 2011	Bashneft acquired a 100% stake in LLC SKON Group of Companies, which owns an oil storage facility and a network of 25 filling stations in Yekaterinburg and the Sverdlovsk Region that are operated under the ERGO brand name
82.	December 2011	Bashneft adopted the Development Strategy until 2016; it is aimed at increasing Bashneft's value by increasing hydrocarbon production and building up oil and gas reserves, diversifying its assets, implementing its refinery upgrade programme, developing the Group's network of filling stations in various regions of Russia and enhancing the efficiency of the whole value chain

ENVIRONMENTAL RESPONSIBILITY AND PROJECTS AIMED AT RAISING ENVIRONMENTAL AWARENESS

83.	June 2011	Bashneft launched a spring rehabilitation programme in the Republic of Bashkortostan
84.	August 2011	Public consultations on the preliminary results of the environmental impact assessment (EIA) were held during the implementation of a construction project at the R. Trebs and A. Titov oilfields in the Nenets Autonomous District
85.	October 2011	The Federal Subsoil Resources Management Agency (Rosnedra) approved the pilot project at the R. Trebs and A. Titov oilfields, which was prepared by BashNIPIneft Institute
86.	November 2011	Gasoline of the 'Premium Euro-95' grade produced by OJSC Novoil, 'summer' Euro 4 diesel fuel manufactured by OJSC Ufaneftekhim and 'winter' Euro 4 diesel fuel produced by OJSC Ufimsky refinery plant were declared winners in the 'Technical Basic Assets Production' category of the 14th National competition '100 Best Goods of Russia'
87.	April 2011	The roundtable discussion 'Is it possible to achieve industrial growth without damaging the environment, or how to align business interests and the citizens' right to a healthy environment?' was organized in the Civic Chamber of the Russian Federation
88.	April 2011	Bashneft participated in the Russia & CIS Bottom of the Barrel Technology Conference

APPENDIX 2: COMPLIANCE WITH THE GRI-3.1 (OGSS) GUIDELINES

Table of standard disclosures and GRI performance indicators

1. STRATEGY	
1.1 Statement from the most senior decision-maker of the organization	Address by the Chairman of the Board of Directors of JSOC Bashneft. Address by the President of JSOC Bashneft
1.2 Description of key impacts, risks, and opportunities	See Section 1 (Sustainable development of business areas; Goals and objectives in the area of sustainable development)
2. ORGANIZATIONAL PROFILE	
2.1 Name of the organization	Short name of the Company: JSOC Bashneft Full name of the Company: Joint-Stock Oil Company Bashneft
2.2 Primary brands, products and/or services	See Section 1 (Structure of assets: business areas and types of operations; Types of products), Section 2 (Position in the industry and on the petroleum products market), as well as the Group's website, where a comprehensive list of petroleum products, petrochemicals and natural gas liquids is provided
2.3 Operational structure of the organization	See Section 1 (Structure of assets: business areas and types of operations)
2.4 Location of organization's headquarters	30 Karl Marx Street, Ufa, 450008, Republic of Bashkortostan, Russia
2.5 Number of countries where the organization operates	The Group operates in the Russian Federation. Other countries where subsidiaries and affiliates in which the Group holds more than 5% of the authorized capital were registered are: Kazakhstan, Switzerland, the Virgin Islands. See also Section 1 (Structure of assets: business areas and types of operations; Geographic footprint)
2.6 Nature of ownership and legal form	Shared ownership. Joint-stock company. See also Section 3 (Share capital structure)
2.7 Markets served by the organization (including geographic breakdown, sectors served, and types of customers/beneficiaries)	See Section 2 (Increasing the share in the domestic and foreign oil and gas market; A diversified export basket; Break-down of products)
2.8 Scale of the organization	See Section 2 (Position in the industry and on the petroleum products market; JSOC Bashneft's key indicators for 2011)
2.9 Significant changes during the reporting period regarding size, structure, or ownership	See Section 3 (Share capital structure), Section 3 (Reorganization)
2.10 Awards received in the reporting period	See 'Our awards and achievements in the area of CSR and sustainable development' divider in Section 7
3. REPORT PARAMETERS	
3.1 Reporting period	January 1 – December 31, 2011
3.2 Date of the most recent previous report (if any)	September 2011
3.3 Reporting cycle (annual, biennial)	The report is published annually

3.4 Contact point for questions regarding the report	JSOC Bashneft 5 1st Tverskaya-Yamskaya Street, Moscow, 125047, Russian Federation T: +7 (495) 228-15-96 F: +7 (495) 228-15-97 30 Karl Marx Street, Ufa, 450008, Russian Federation T: +7 (347) 261-61-61 F: +7 (347) 261-62-62 E-mail: IR@Bashneft.ru
3.5 Process for defining report content	See the Section 'Content of the Report' on pages 2-3
3.6 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). 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 are published in the 2009 and 2010 Reports.
3.7 Limitations on the scope or boundary of the report	The Report contains consolidated data: where necessary, we requested data from departments and business units and integrated these data into the content of the Report. At the same time, the Report does not contain information about separate business units, subsidiaries and service companies. When preparing this report, we tried to disclose as many items set out in the GRI Guidelines as possible, except for: <ul style="list-style-type: none"> · indicators that are not public information and thus cannot be disclosed; · indicators that are not applicable to the Group; · indicators that, in our view, do not fully correspond with business practices of the Russian oil and gas sector
3.8 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	In the Report we used data on the reportable segments that form the basis of accounting when preparing financial statements under Russian Accounting Standards and IFRS Consolidated financial statements. See also Section 3 (Financial discipline and reporting) that describes the accounting and reporting methods used in the Group.
3.9 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	When preparing this Report, we used various techniques for information processing and data analysis, similar to those we used when preparing the Group's Annual report for 2011. The sources of information used in both reports are the same. When preparing this report, we followed the third generation of the GRI Sustainability Reporting Guidelines (GRI G3.1) and used a number of non-financial performance indicators recommended for oil and gas companies (OGSS Checklist)

3.10 Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement	This Report primarily analyses data for the period from January to December 2011 and uses the same data as the Annual report for 2011. However, since this Sustainability report was being prepared for publication later and its preparation took several months, during which significant corporate events took place, certain events and data is beyond the reporting period and/or differ from the information provided in the Annual report for the reporting period. This includes the restructuring programme (Section 3), which was launched in the first quarter of 2012 and was in progress during the preparation of this report, as well as special measures for the implementation of the Strategy on Health, Safety and Environment that cover the period from 2010 to 2015. Therefore, the relevant data provided in Section 3 and some other Sections of the Report can only be considered as interim and not final results.
3.11 Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	The Report includes data on significant changes in comparison with previous periods. Almost all of them are mentioned and explained in the text. The Report contains some interim results and prognostic statements concerning future periods, the Reorganization programme and the Group's five-year development strategy. The statements concerning processes that are beyond the reporting period are tentative and the respective data in Sections 2 and 3 and other Sections should be considered as interim and not final results. The reorganization is to be completed in 2012 and the final results will be announced at the end of 2012/beginning of 2013.
3.12 Table identifying the location of the Standard Disclosures in the report.	In our disclosure (see the table below) we used a system of references to the corresponding Sections of the Report where the information is presented in greater detail. The titles of the corresponding Sections can be found in the column opposite each of the indicators.
3.13 Policy and current practice with regard to seeking external assurance for the report	Currently, we do not engage independent experts for the assurance of our Sustainability Reports. In the future, the Group plans to present its Reports to the representatives of the Group's stakeholders and the general public in the course of public consultations.
4. GOVERNANCE	
4.1. Governance structure	See Section 3 (Structure of corporate governance bodies)
4.2. Indicate whether the Chairman of the highest governance body is also an executive officer	The Chairman of the Board of Directors is not a member of the Management Board. The person performing the functions of the Group's sole executive body (the President) cannot simultaneously be the Chairman of the Board of Directors. See also Section 3 (Corporate governance bodies)
4.3. The number of members of the highest governance body that are independent and/or non-executive members	In 2011 the Board of Directors elected on June, 29, 2010 included 2 independent Directors in compliance with the independence criteria established in the Regulations on the Board of Directors (Paragraph 2.5.5.) and the Code of Corporate Conduct recommended by the Federal Financial Markets Service. The number of independent directors on the Board of Directors elected by the General Meeting on June 29, 2012 was increased to 4.
4.4. Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	The main mechanism allowing the shareholders to influence the Group's operations is the General Meeting of Shareholders. See Section 5 (Stakeholder engagement)

4.5. Linkage between compensation for members of the highest governance body, senior managers, and executives and the organization's performance	The members of the Management Board receive monthly salaries under the employment contract and performance-based bonuses in accordance with the decision of the Board of Directors. See Section 3 (The system of compensation and remuneration of governing bodies)
4.6. Processes in place for the highest governance body (the Board of Directors) to ensure conflicts of interest are avoided	The members of the Board of Directors shall refrain from any actions that result or may result in a conflict of interest between them and the Group, and in case of such a conflict existing or arising they shall report it to the Board of Directors. See Section 3 (Corporate governance bodies)
4.7. Process for determining the qualifications and expertise of the members of the highest governance body (the Management Board) required for formulating the organization's economic, environmental and social (sustainable development) policies	The Regulations on the Management Board stipulate the standard requirements for the members of the Management Board. Key performance indicators of individual members of the Management Board include KPIs in the area of sustainable development, and the achievement of target indicators is evaluated while assessing the performance during the whole year. See Section 3 (Corporate governance bodies)
4.8. Internally developed statements of mission or values	The Group has adopted the Policy on Corporate Social Responsibility, the Code of Corporate Conduct and the Code of Ethics. See Section 5 (CSR: Policy and structure).
4.9. Procedures of the highest governance body for overseeing the organization's identification and management of its economic, environmental and social performance	Analysis of internal and external audit results and the reports of the Audit Commission. Use of the key performance indicator system. See Section 3 (The Audit Commission and internal control)
4.10. Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance of the organization	The performance of the Management Board is also assessed based on the system of key performance indicators (assessing whether personal KPIs are achieved). See Section 3 (The system of compensation and remuneration of governing bodies)
4.11. Explanation of whether and how the precautionary principle is addressed by the organization	In 2010 the Group introduced an integrated Enterprise Risk Management system and created the Risk Management Committee. See Section 5 (Risk management system)
4.12. 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 also support (but we are not the members of) the UNGC Corporate Sustainability and the International ISO/FDIS 26000 Standard (Guidance on social responsibility). See Section 5 (CSR: objectives and principles)
4.13. Membership in associations	The Group participates in the activities of a number of industry and other business associations. See Section 5 (Stakeholder engagement)
4.14. List of stakeholders	See Section 5 (Stakeholder engagement)
4.15. Basis for identification and selection of stakeholders with whom to engage	See Section 5 (Stakeholder engagement)
4.16. Approaches to stakeholder engagement	See Section 5 (Stakeholder engagement)
5. ECONOMIC PERFORMANCE INDICATORS	
EC1. Direct economic value generated and distributed, including revenues, operating costs, net income, employee compensation, donations and other community investments	Partly described in Section 1 (Sustainable development of business areas); Section 2 (JSOC Bashneft's key indicators for 2011); partly described in Section 7 (Corporate social programmes; Participation in the life of communities and their development).

EC2COMM. Financial implications and other risks and opportunities for the organization's activities due to climate change	Bashneft holds licences for the development of fields situated in the subarctic zone of the Extreme North in the permafrost region that is sensitive to human impact; therefore, risks connected with climate change are material to the Group. See Section 4 (Main areas of ensuring industrial safety)
EC3. Coverage of the organization's defined benefit plan obligations	The Group's enterprises incorporated in the Russian Federation are obliged to pay contributions to the Pension Fund of the Russian Federation at the established rate. See Section 5 (Employees)
EC4. Significant financial assistance received from the government	The Group did not receive any significant financial assistance from the government.
EC6COMM. Policies and practices of spending on locally-based suppliers	The Group has a responsible and transparent approach to procurements. See Section 5 (Suppliers and contractors)
EC7COMM. Procedures for local hiring and proportion of senior management hired from the local community	The Group does not have any special procedures for local hiring. See Section 5 (Recruitment and working relationships)
EC8COMM. Development and impact of infrastructure investments and services provided primarily for public benefit	See Section 7 (Corporate social programmes and investments)
EC9COMM. Understanding and describing significant indirect economic impacts	The Group is equally responsible for the direct and significant indirect economic impacts of its business operations in its operating regions and applies great efforts and allocates considerable resources for ensuring that our socially responsible behaviour promotes the development of local communities. See Section 5 (Description of significant indirect economic impacts)
OG1. Volume and type of proved reserves and production	The Group's reserves total 2,986.3 million barrels. As of December 31, 2011 proved reserves amounted to 1,983.5 million barrels, according to the results of the independent audit conducted by Miller and Lents in accordance with the PRMS classification. See Section 2 (Position in the industry and on the petroleum products market)

6. ENVIRONMENTAL PERFORMANCE INDICATORS

EN1. Materials used by weight or volume	The Group discloses data on energy consumption and the use of water resources. See Section 6 (Reducing the impact of the Group's operations on water resources; Increasing the energy efficiency of production)
EN2. Percentage of materials used that are recycled input materials	The Group discloses data on oil sludge and water treatment. See Section 6 (Reducing the impact of the Group's operations on water resources; Measures for reducing soil contamination with drilling waste)
EN3. Direct energy consumption by primary energy source	See Section 6 (Increasing the energy efficiency of operations)
EN5. Energy saved due to conservation and efficiency improvements	See Section 6 (Increasing the energy efficiency of operations)
EN6. Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	See Section 6 (Increasing the energy efficiency of operations)
EN8COMM. Total water withdrawal by source	See Section 6 (Reducing the impact of the Group's operations on water resources)
EN9COMM. Water sources significantly affected by withdrawal of water	See Section 6 (Reducing the impact of the Group's operations on water resources)

EN10COMM. Percentage and total volume of water recycled and reused	See Section 6 (Reducing the impact of the Group's operations on water resources)
EN16COMM. Total direct and indirect greenhouse gas emissions by weight (hydrocarbon loss due to evaporation)	See Section 4 (Direct and indirect greenhouse gas emissions), Section 6 (The reduction of harmful atmospheric emission), where data is presented without indicating weight
EN17COMM. Other relevant indirect greenhouse gas emissions by weight	See Section 4 (Harmful atmospheric emissions as part of car exhausts), Section 6 (Production of fuel that meets international environmental standards)
EN18COMM. Initiatives to reduce greenhouse gas emissions and reductions achieved	See Section 4 (Carbon capture and storage technologies), Section 6 (The reduction of harmful atmospheric emission; Initiatives on the decrease in harmful air emissions and achieved reduction)
EN20COMM. NOx, SOx, and other significant atmospheric emissions by type and weight	Nitrogen oxides (NOx) and sulphur oxides (SOx) are the most widespread pollutants. Their main sources are harmful industrial emissions. See Section 4 (The level of environmental impact of production by regions and types of operations), where significant industrial emissions are described with the type and weight of pollutants being not indicated. See also Appendix 4 (Environmental standards for engine fuels)
EN21. Total water discharge by quality and destination	See Section 6 (Further plans for reducing the impact of the Group's operations on water resources)
OG7. Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	See Section 6 (Measures for reducing soil contamination with drilling waste)
EN26COMM. Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation	See Section 6 (Initiatives for reducing the environmental impact of Bashneft's products and services)
OG8. Benzene, lead and sulphur content in fuels	Complying with GOST and the Euro 3 national environmental standard. Section 6 (Production of fuel that meets international environmental standards); Appendix 4 (Environmental standards for engine fuels)
EN28. Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	In 2011 supervisory bodies did not make inspections; there were no claims concerning licence commitments and measures for environmental protection, no fines for non-compliance were imposed. See Section 4 (The environmental impact of the oil production complex)
EN30. Total environmental protection expenditures and investments by types	See Section 6 (Environmental protection: financial results), the data is provided without breakdown
LA1. Total workforce by employment type, employment contract, and region	See Section 7 (Corporate social programmes)
LA2. Total number new employee hires and employee turnover by age group, gender, and region	See Section 7 (Corporate social programmes), the data is provided without breakdown by age group, gender, and region
LA3. Payments and benefits for employees	See Section 7 (Working conditions and social protection (benefits package))
LA4. Percentage of employees covered by collective bargaining agreements	Collective agreements cover all employees (100%). See Section 5 (Recruitment and working relationships)
LA5. Minimum notice period(s) for Significant operational changes	Regulated by Section IV 'Employment Protection' of the Collective Agreement. See Section 5 (Recruitment and working relationships)
LA7. Rates of injury	See Section 4 (Accident rate)
LA9. Health and safety topics covered in formal agreements with trade unions	The 'Occupational Safety' Section is a mandatory part of all collective agreements. See Section 5 (HR policy)

LA10. Average hours of training per year per employee	See Section 7 (Corporate social programmes)
LA11. Programmes for skills management and lifelong learning	See Section 4 (Training in occupational and process safety)
LA12. Percentage of employees receiving regular performance and career development review	See Section 7 (Incentive system and performance evaluation)
HR4. Total number of incidents of discrimination and corrective actions taken	No incidents of discrimination were reported. See Section 5 (Recruitment and working relationships)
HR5. Operations in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk	The Group's employees exercise their right to freedom of association in full. See Section 5 (Recruitment and working relationships)
HR6. Operations identified as having a significant risk for incidents of child labour	The Group does not use child labour. See Section 5 (Recruitment and working relationships)
HR7. Operations identified as having a significant risk for incidents of forced or compulsory labour	The Group does not use forced or compulsory labour. See Section 5 (Recruitment and working relationships)
HR9. Total number incidents of violation involving rights of indigenous peoples and ethnic minorities	No violations of the rights of indigenous peoples and ethnic minorities were reported

7. SOCIETY PERFORMANCE INDICATORS

S01. Nature, scope and results of programmes and practices assessing the impact of the organization's operations on communities	See Section 5 (Stakeholder engagement: local communities and non-profit organizations), Section 7 (Target social projects and investments).
S02. Percentage and total number of business units analyzed for risks related to corruption.	100%. See also Section 5 (Anti-corruption policy and practice; Fair business practice; Risk management system)
S03. Percentage of employees trained in organization's anti-corruption policies and procedures.	100%. See also Section 5 (Anti-corruption policy and practice; Risk management system)
S04. Actions taken in response to incidents of corruption.	No incidents of corruption were reported in 2011. See also Section 5 (Fair business practice; Risk management system)
S05COMM. Public policy positions and participation in public policy development and lobbying.	See Section 5 (Stakeholder engagement: Government bodies)
OG10. Number and description of significant conflicts with local communities and indigenous peoples	No such conflicts occurred
OG12. Operations where involuntary resettlement took place, the number of households resettled in each and how their livelihoods were affected in the process	There have been no cases of forced resettlement of indigenous population from the territories adjacent to the fields developed by the Group through the fault of the Group and/or as a result of its business operations
OG13. Number of process safety events, by business activity	Section 4 (Total budget expenditure on ensuring process and environmental safety) contains data split by types of activity; the number of measures and target programmes on Occupational Safety, Civil defence, Process safety and environment is not specified
S06. Total monetary value of financial and in-kind contributions to political parties, politicians and related institutions	The Group does not finance activities of political parties. See Section 5 (Stakeholder engagement: Government bodies)
S07. Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	There have been no legal actions (claims)

8. PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS

PR1. 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	See Section 6 (Production of fuel that meets international environmental standards)
PR2. Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services	No incidents have been recorded. See also Section 5 (Stakeholder engagement: Consumers)
PR3. Type of product and service information required by procedures and percentage of significant products subject to such information requirements	In accordance with Russian laws. See also Section 5 (Stakeholder engagement: Consumers)
PR4. Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling	No incidents have been recorded. See also Section 5 (Stakeholder engagement: Consumers)
PR5. Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	See Section 5 (Stakeholder engagement: Consumers)
PR7. Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, losses of customer data	The activity of the Group and its subsidiaries and affiliates in the area of advertising, promotion of products and sponsorship has been conducted in accordance with regulatory requirements. See also Section 5 (Stakeholder engagement: Consumers)
PR8. Total number of substantiated complaints regarding breaches of customer privacy and violation of rights	No complaints have been recorded. See also Section 5 (Stakeholder engagement: Consumers)

APPENDIX 3: INFORMATION ON THE OBSERVANCE OF THE CODE OF CORPORATE CONDUCT OF THE FFMS

NO.	PROVISIONS OF THE FFMS CODE <small>(recommended as the standard of behaviour)</small>	OBSERVED / NOT OBSERVED	DETAILS / REASON FOR NON-OBSERVANCE
GENERAL MEETING OF SHAREHOLDERS			
1.	Shareholders must be notified of the General Meeting of Shareholders no less than 30 days before the scheduled date of the meeting, unless legislation stipulates a longer period.	Observed	This norm is included in the Company's Charter.
2.	The procedure for notifying of a forthcoming General Meeting of Shareholders must allow the shareholders to prepare properly for participation in the meeting.	Observed	A notification of the meeting is sent to shareholders by post and is published in the Republic of Bashkortostan and Bashkortostan newspapers.
3.	A shareholder can include an issue in the agenda of the General Meeting of Shareholders or demand to call the General Meeting of Shareholders without providing an extract from the shareholder register if his rights to shares are recorded in the shareholder register. If his rights to shares are recorded in the custody account, he can exercise the above-mentioned rights after providing the custody account statement.	Observed	It is not required that shareholders confirm their rights by any documents except for a statement of the custody account. This is stipulated in the Regulations on the General Meeting of Shareholders of JSOC Bashneft.
4.	The registration procedure for the participants of the General Meeting of Shareholders must be stipulated in the Company's internal documents.	Observed	Determined by the Regulations on the General Meeting of Shareholders of JSOC Bashneft.
5.	Shareholders must be given access to information (materials) that is to be provided during the preparation for holding a General Meeting of Shareholders by electronic means of communication including the Internet.	Partially observed	The Regulations on Information Policy do not stipulate the provision of access by electronic means of communication. Shareholders have the right to examine information (materials) that is to be provided during the preparation for holding a General Meeting of Shareholders on the premises of the Company's executive body and at the addresses indicated in the notification. They can also receive copies of all materials at these addresses as well as on the website.
6.	Obligatory presence of candidates when the GMS is considering issues related to the election of members of the Board of Directors, the General Director, members of the Management Board and the Audit Commission, as well as when approving the Company's auditor.	Observed	Stipulated by the Regulations on the General Meeting of Shareholders. The Company ensures the presence of candidates when the GMS is considering issues related to the election of members of the Board of Directors and the Audit Commission, as well as when approving the Company's auditor.
7.	The Charter or internal documents of the Company require the obligatory presence of the General Director, members of the Management Board, members of the Board of Directors, members of the Audit Commission and the Company's auditor at the GMS.	Observed	Stipulated by the Regulations on the General Meeting of Shareholders.

NO.	PROVISIONS OF THE FFMS CODE <small>(recommended as the standard of behaviour)</small>	OBSERVED / NOT OBSERVED	DETAILS / REASON FOR NON-OBSERVANCE
8.	Shareholders can familiarise themselves with the list of persons entitled to participate in the GMS, starting from the notification date of the forthcoming GMS and until the end of a face-to-face GMS. If the GMS is held by absentee voting, they may do so until the receipt of ballots finishes	Observed	Shareholders (or a shareholder) included in the shareholder register and owning in total no less than 1% (one per cent) of the Company's voting shares can demand access to the list of persons entitled to participate in the GMS, provided that they are included in this list. Shareholders can also demand that the Company provides an extract from the list of persons entitled to take part in the GMS that contains information about this shareholder, or a document confirming that he/she is not included in this list.
WORK OF THE BOARD OF DIRECTORS			
9.	The Company's Charter affirms the authority of the Board of Directors to annually approve the Company's financial and business plan.	Observed	According to the Company's Charter, the competence of the Board of Directors includes 'determining business priorities and the development strategy of the Company, approving the Company's annual budgets (financial plans) and overseeing the business priorities and development strategies of the subsidiaries'.
10.	The Board of Directors has the right to impose requirements for the qualification and the amount of remuneration of the General Director, members of the Management Board and heads of the main departments of the Company.	Observed	The competence of the Board of Directors includes the following issues: appointing the Company's President; determining the number of members of the Management Board and election of its members; approving the terms and conditions of the contract with the President and members of the Management Board of the Company; removing the Company's President and members of the Management Board from office before the end of their term; approving the principles of performance evaluation and the system of remuneration, as well as monitoring the activities of the Company's senior managers who are directly subordinate to the President of the Company.
11.	The Company's Charter ensures the right of the Board of Directors to approve the terms and conditions of contracts with the General Director and members of the Management Board.	Observed	In accordance with the Company's Charter, the terms and conditions of the contract with the President and members of the Company's Management Board are approved by the Board of Directors.
12.	Any person found guilty of the following crimes may not serve on the Company's Board of Directors: financial crimes, crimes against the state and crimes against the interests of the civil service, against the federal government or local authorities. This is also applicable to persons who have faced an administrative penalty for any violation in the areas of entrepreneurship, finance, taxes and duties or the securities market.	Observed	The Company has taken measures to examine this issue and does not have any information about such wrongdoing by the members of the Company's Board of Directors.
13.	The Company's Board of Directors may not include persons who serve as employees, general directors (managers), members of the regulatory bodies or stakeholders of a legal entity competing with the Company.	Not observed	The Board of Directors of JSOC Bashneft includes persons who are members of the Board of Directors of OJSC RussNeft: A.Yu. Goncharuk, A.V. Abugov, S.A. Drozdov, M.S. Gutseriev and F.V. Evtushenkov. The Board of Directors of JSOC Bashneft also includes M.S. Gutseriev, President of OJSC RussNeft.

NO.	PROVISIONS OF THE FFMS CODE <small>(recommended as the standard of behaviour)</small>	OBSERVED / NOT OBSERVED	DETAILS / REASON FOR NON-OBSERVANCE
14.	The Company's internal documents require that meetings of the Board of Directors be held at least once every six weeks.	Observed	The Regulations on the Board of Directors stipulate that its meetings are to be held generally at least once a month. There were 24 meetings of the Board of Directors during the reporting period.
15.	Meetings of the Company's Board of Directors during the year for which the annual report of the Company is prepared must be held no less than once every six weeks.	Observed	There were 24 meetings of the Board of Directors during the reporting period.
16.	The Company's internal documents stipulate the procedure for holding a meeting of the Board of Directors.	Observed	The procedure for holding the meetings of the Board of Directors is to be established by the Rules on the meetings of the Board of Directors of JSOC Bashneft.
17.	The Company must have a strategic planning committee of the Board of Directors.	Observed	The Company has created the Strategy Committee of the Board of Directors.
18.	The Company must have a committee of the Board of Directors (the audit committee) that recommends the Company's auditor to the Board of Directors and cooperates with the auditor and the Audit Commission of the Company.	Observed	The Company has created the Budget and Audit Committee of the Board of Directors.
19.	The creation of a committee of the Board of Directors (the personnel and remuneration committee) that determines the criteria for the selection of candidates to the Board of Directors and develops the remuneration policy of the Company.	Observed	The Company has created the Nominating and Compensation Committee of the Board of Directors. The functions of the Committee are set out in the Regulations on the Nominating and Compensation Committee.
20.	The personnel and remuneration committee must be headed by an independent director.	Not observed	A.Yu. Goncharuk, who is not an independent director, is the Chairman of the Nominating and Compensation Committee.
21.	The Company must have internal documents approved by the Board of Directors that stipulate the procedure for the formation and work of committees of the Board of Directors.	Observed	The Company has approved Regulations on the Committees of the Board of Directors that stipulate the competence and procedures for the creation and activities of the committees.
22.	The Company's Charter stipulates the procedure for determining the quorum of the Board of Directors that is necessary for ensuring obligatory participation of independent directors in meetings of the Board of Directors.	Not observed	Not stipulated by the Company's Charter. The quorum of the Board of Directors is determined based on the number of members of the Board of Directors who take part in a meeting regardless of whether they are an independent, non-executive or executive director.
23.	Internal documents of the issuer must require the members of the Board of Directors, the collective executive body and the person who performs the functions of the sole executive body, including the managing company and its executives, to disclose information about the ownership of the issuer's securities and the sale and (or) purchase of the issuer's securities.	Observed	This obligation is reflected in the Regulations on the Board of Directors, the Regulations on the Management Board and in the Regulations on the President.
24.	The Company's internal documents must stipulate the right of members of the Board of Directors to obtain information necessary for performing their duties from executive bodies and heads of the Company's main departments, as well as liability for the failure to provide such information.	Observed	This obligation is reflected in the Regulations on the Board of Directors, Regulations on the Management Board and in the Regulations on the President.

NO.	PROVISIONS OF THE FFMS CODE <small>(recommended as the standard of behaviour)</small>	OBSERVED / NOT OBSERVED	DETAILS / REASON FOR NON-OBSERVANCE
25.	The Company's internal documents must require the members of the Board of Directors to notify the Board of Directors in writing of their intention to make transactions in the securities of any company of which they are a member of the Board of Directors, or its subsidiaries (affiliates), as well as disclose information on their transactions in such securities.	Observed	This obligation is reflected in the Regulations on the Board of Directors, Regulations on the Management Board and in the Regulations on the President.
26.	The Company's internal documents must include a provision stipulating that the Board of Directors should approve the Company's transactions amounting to 10% or more of the value of the Company's assets, except for transactions conducted in the course of ordinary business operations.	Observed	Stipulated by the Company's Charter.
27.	The Company's Charter must require that the Board of Directors to be elected by cumulative voting.	Observed	Stipulated by the Company's Charter.
28.	The Company's Board of Directors must include at least 3 independent directors meeting the requirements of the Code of Corporate Conduct.	Not observed	The Board of Directors includes two independent directors meeting the conditions of the Code of Corporate Conduct.
29.	The audit committee must include only independent and non-executive directors	Not observed	The Budget and Audit Committee includes non-executive directors who are not independent directors.
30.	The audit committee must be headed by an independent director.	Not observed	A.N. Buyanov, who is not an independent director, is the Chairman of the Budget and Audit Committee.
31.	The Company's internal documents must provide for the right of all members of the Audit Committee to have access to any documents and information of the Company provided they do not disclose confidential information.	Observed	Stipulated by the Regulations on the Budget and Audit Committee of the Board of Directors of JSOC Bashneft.
32.	The Company's internal documents must require the members of the Board of Directors to refrain from taking actions that cause or may cause a conflict of interest between them and the Company, and in the case of such a conflict arising they must inform the Board of Directors of this.	Observed	Stipulated by the Regulations on the Board of Directors of the Company.
33.	The Charter or internal documents of the Company must require that when the Board of Directors approves the terms and conditions of contracts with the General Director (managing company, manager) and members of the management board, the votes cast by the General Director and members of the Management Board should not be taken into consideration during vote counting.	Not observed	Not stipulated by the Company's Charter.
34.	The personnel and remuneration committee must not include the Company's executives.	Not observed	A.L. Korsik, the President of the Company, is a member of the Nominating and Compensation Committee.

NO.	PROVISIONS OF THE FFMS CODE <small>(recommended as the standard of behaviour)</small>	OBSERVED / NOT OBSERVED	DETAILS / REASON FOR NON-OBSERVANCE
35.	The risk committee of the Board of Directors must be created or the duties of this committee must be imposed on another committee (except for the Audit Committee and the personnel and remuneration committee).	<input checked="" type="checkbox"/> Partially observed	The Risk Committee of the Management Board of JSOC Bashneft has been created and functions.
36.	The corporate dispute resolution committee of the Board of Directors must be created or the duties of this committee must be imposed on another committee (except for the Audit Committee and the personnel and remuneration committee).	<input checked="" type="checkbox"/> Observed	The Corporate Conduct Committee of the Board of Directors of JSOC Bashneft has been created and functions.
37.	The corporate dispute resolution committee must not include the Company's executives.	Not observed	N.A. Solomatina, the Company's Vice President, is a member of the Corporate Conduct Committee.
38.	The corporate dispute resolution committee must be headed by an independent director.	Not observed	S.A. Drozdov, who is not an independent director, is the Chairman of the Corporate Conduct Committee.
39.	The Company must have a risk management procedure that is approved by the Board of Directors.	<input checked="" type="checkbox"/> Partially observed	Regulations on Risk Management of the Bashneft Group that were approved by the President of the Company are in force.
EXECUTIVE BODIES			
40.	The Company has a collective executive body (management board).	<input checked="" type="checkbox"/> Observed	The Company has established the Management Board, a collective executive Body.
41.	The Company's executive bodies must not include persons who serve as employees, general directors (managers), members of the regulatory bodies or stakeholders of a legal entity competing with the Company.	<input checked="" type="checkbox"/> Observed	According to the information available to JSOC Bashneft, the executive bodies of JSOC Bashneft do not include persons who are stakeholders, general directors (managers), members of regulatory bodies or employees of a legal entity competing with JSOC Bashneft.
42.	Any person found guilty of the following crimes may not serve on the Company's executive bodies: financial crimes, crimes against the state and crimes against the interests of the civil service of the federal government or local authorities. This is also applicable to persons who have faced an administrative penalty for any violation in the areas of entrepreneurship, finance, taxes and duties or the securities market. If the duties of the sole executive body are performed by a managing company or a manager, the general director and members of the management board of the managing company or the manager must meet the requirements for the general director and members of the management board of the Company.	<input checked="" type="checkbox"/> Observed	The Company has taken measures to examine this issue, and, according to the information available to JSOC Bashneft, there are no such persons.
43.	The Charter or internal documents of the Company must prohibit a managing company (a manager) from performing similar duties in a competing company, as well as from having any other proprietary interests with the Company except for providing management organization services (management).	<input checked="" type="checkbox"/> Observed	Stipulated by the Company's Charter.

NO.	PROVISIONS OF THE FFMS CODE <small>(recommended as the standard of behaviour)</small>	OBSERVED / NOT OBSERVED	DETAILS / REASON FOR NON-OBSERVANCE
44.	Internal documents of the Company must require the executive bodies to refrain from taking actions that cause or may cause a conflict of interest between them and the Company, and in case of such conflict arising they must inform the Board of Directors about it.	<input checked="" type="checkbox"/> Observed	This is required by the Regulations on the Board of Directors, Regulations on the Management Board and Regulations on the President.
45.	Executive bodies of the Company must provide the Board of Directors with monthly reports on their work.	<input checked="" type="checkbox"/> Observed	The Board of Directors reviews the main operating and financial results of JSOC Bashneft on a quarterly basis. The Company's management prepares monthly interim reports on the main operating and financial results and quarterly controlling reports on the Company's operations. The management provides these materials to members of the Board of Directors.
46.	Internal documents of the issuer must stipulate that members of the Board of Directors, members of the collective executive body and the person performing the duties of the sole executive body, including the managing company and its executives, are to disclose information about ownership of the issuer's securities, as well as the sale and (or) purchase of the issuer's securities.	<input checked="" type="checkbox"/> Observed	Stipulated by the Regulations on the Board of Directors, the Regulations on the President and the Regulations on the Management Board.
47.	Contracts concluded between the Company and the general director (managing company or a manager) and members of the management board must stipulate responsibility for violating regulations on the use of confidential and private information.	<input checked="" type="checkbox"/> Observed	Protection of confidential information is required by the Contract with the President and members of the Management Board of the Company.
48.	The charter or internal documents of the Company must establish the criteria for selecting a managing company (or a manager).	Not observed	Not stipulated by the Company's Charter or internal documents.
49.	The charter or internal documents of the Company must contain a provision stipulating that transactions in real estate and borrowings are to be approved by the management board, unless these transactions are not major ones and are not part of the Company's day-to-day operation.	<input checked="" type="checkbox"/> Observed	Stipulated by the Company's Charter and the Standard on the Credit Policy of the Company.
50.	Internal documents of the Company must establish the procedure for coordinating operations that are outside of the financial and business plan of the Company.	<input checked="" type="checkbox"/> Observed	Stipulated by the Standard on the Credit Policy of the Company.
CORPORATE SECRETARY			
51.	The Company has a special executive (the Secretary of the Company) whose duty it is to ensure that the Company's bodies and executives comply with procedural requirements that safeguard the rights and legitimate interests of the Company's shareholders.	<input checked="" type="checkbox"/> Observed	The Company has appointed a Corporate Secretary.
52.	The charter or internal documents of the Company must specify the procedure for appointing (electing) the Company Secretary and the Secretary's duties.	<input checked="" type="checkbox"/> Observed	Stipulated by the Company's Charter, the Regulations on the Board of Directors and the Regulations on the Corporate Secretary.
53.	The charter of the Company sets out the requirements for the candidate for the position of Company Secretary.	<input checked="" type="checkbox"/> Partially observed	The requirements are set out in the Regulations on the Board of Directors and the Regulations on the Corporate Secretary.

NO.	PROVISIONS OF THE FFMS CODE <small>(recommended as the standard of behaviour)</small>	OBSERVED / NOT OBSERVED	DETAILS / REASON FOR NON-OBSERVANCE
SIGNIFICANT CORPORATE ACTIONS			
54.	The charter or internal documents of the Company must require the approval of a major transaction before it is conducted.	Observed	Stipulated by the Company's Charter
55.	The Company must engage an independent appraiser to determine the market value of property that is the subject of a major transaction.	Observed	In such cases the Board of Directors of JSOC Bashneft engages an independent appraiser.
56.	In case of the acquisition of a major stake in the Company (a takeover), the Company's charter must prohibit any actions aimed at protecting the interests of the executive bodies (members of these bodies) or members of the Company's Board of Directors or actions that diminish the stature of shareholders. For instance, the charter must prohibit the Board of Directors from making decisions before the end of the supposed period of share purchase on issuing additional shares and convertibles or securities that ensure the right to acquire the Company's shares, even if the charter stipulates the right to make such decision.	Not observed	Not stipulated by the Company's Charter.
57.	The charter or internal documents of the Company must require that an independent appraiser must be engaged to determine the conversion ratio for the reorganization.	Not observed	Not stipulated by Company's Charter
INFORMATION DISCLOSURE			
58.	The Company must have an internal document approved by the Board of Directors that establishes the rules and the Company's approaches to information disclosure (Regulations on Information Policy).	Observed	The Regulations on Information Policy were approved by the Board of Directors on October 3, 2011.
59.	Internal documents of the Company must include a list of information, documents and materials that should be provided to the shareholders in order to decide on the issues to be considered at the GMS.	Observed	The Regulations on the General Meeting of Shareholders and the Regulations on Information Policy contain the list of additionally provided information.
60.	Disclosure of financial information on the Company's operations.	Observed	Financial statements prepared according to RAS are disclosed annually. The quarterly statements prepared according to RAS are disclosed in the issuer's quarterly report. Financial statements prepared according to IFRS are disclosed on a quarterly basis.
61.	Use of additional forms and means of information disclosure.	Observed	The Company discloses information by all modern means in order to increase the transparency of its operations and provide shareholders and other stakeholders with free access to the most comprehensive information on its operating results.
62.	An issuer must disclose information on the amount of remuneration received by members of the Board of Directors, members of the collective executive body and by the person who performs the duties of the sole executive body, including the managing company and the manager.	Observed	This information is disclosed in the Annual Report, in the Quarterly Report of the issuer and in the prospectus of the Company.

NO.	PROVISIONS OF THE FFMS CODE <small>(recommended as the standard of behaviour)</small>	OBSERVED / NOT OBSERVED	DETAILS / REASON FOR NON-OBSERVANCE
63.	The Company must have an Internet website and regularly disclose information about the Company on this website.	Observed	Websites: http://www.bashneft.ru/ or http://www.bashneft.com
64.	Internal documents of the Company must require the disclosure of information on the Company's transactions with its senior managers as defined in the Charter, as well as on the Company's transactions with organizations in cases if the Company's senior managers own, directly or indirectly, 20% or more of the authorized capital of these organizations or can exert significant influence by other means.	Partially observed	Correspond in the terms of compliance with requirements of the legislation on related-party transactions.
65.	The Company must have an internal document approved by the Board of Directors that stipulates the use of material information on the Company's operations, shares and other securities of the Company, as well as on transactions in them if this information is not available to the public, and its disclosure can have a significant impact on the market value of the Company's shares or other securities.	Observed	Stipulated by the Regulations on Information Policy and the Regulations on Insider Information.
66.	Internal documents of the Company must require the disclosure of information on all transactions that may affect the market value of the Company's shares.	Observed	Stipulated by the Regulations on Insider Information.
67.	Disclosure of information on the aims of placement of shares, on persons who are going to acquire these shares, including a major stake, as well as on participation of the Company's senior managers in the acquisition of these shares.	Observed	This information is disclosed in the issuing documents.
MONITORING FINANCIAL AND BUSINESS OPERATIONS			
68.	The Company must establish internal control procedures approved by the Board of Directors for monitoring the Company's financial and business operations.	Observed	The Company has approved the Regulations on Internal Audit, the Regulations on the Internal Control and Audit Department, as well as the Rules for the organization and conduct of audit procedures.
69.	The Company must have a special department that ensures compliance with internal control procedures (the control and audit service).	Observed	The Company has established the Internal Control and Audit Department (ICAD).
70.	Internal documents of the Company must oblige the Board of Directors to determine the structure and membership of the Company's control and audit service.	Observed	The Company's Board of Directors approves the formation of the Company's organizational structure and changes in it in accordance with the Rules for the Formation of Organizational Structure and Changes in It.

NO.	PROVISIONS OF THE FFMS CODE <small>(recommended as the standard of behaviour)</small>	OBSERVED / NOT OBSERVED	DETAILS / REASON FOR NON-OBSERVANCE
71.	Any person found guilty of the following crimes may not serve on the Company's control and audit service: financial crimes, crimes against the state and crimes against the interests of the civil service of the federal government or local authorities. This is also applicable to persons who have faced an administrative penalty for any violation in the areas of entrepreneurship, finance, taxes and duties or the securities market.	Observed	The Company has taken measures to examine this issue and does not have any information about such wrongdoings committed by the employees of the Internal Control and Audit Department.
72.	The control and audit service must not include persons who serve as employees, general directors (managers) members of the regulatory bodies or stakeholders of a legal entity competing with the Company.	Observed	The control and audit service of JSOC Bashneft does not include such persons.
73.	Internal documents of the Company must stipulate the deadlines for providing documents and materials to the control and audit service for the assessment of the financial and business operations. Internal documents must also stipulate responsibility of the Company's executives and employees for failure to provide these documents within the deadlines.	Partially observed	When conducting inspections, the control and audit service requests information and sets the deadline for providing such information based on how urgently the information should be provided and on its volume. No specific deadline is formalised in the internal documents of the Company.
74.	Internal documents of the Company must stipulate the duty of the control and audit service to inform the audit committee or the Company's Board of Directors (if there is no such committee) about any violations.	Observed	In accordance with the Regulations on the Budget and Audit Committee, the Internal Control and Audit Department submits reports on the results of inspections to the Budget and Audit Committee.
75.	The Company's Charter must require the control and audit service to carry out a preliminary assessment of the feasibility of operations that are not included in the financial and business plans of the Company (non-standard operations).	Partially observed	The Charter does not directly require the control and audit service to carry out a preliminary assessment of the feasibility of operations that are not included in the financial and business plan of the Company. However, such an assessment may be carried out if the Company's management or collective bodies of the Company demand it.
76.	Internal documents of the Company must stipulate the procedure for the approval of a non-standard operation by the Board of Directors.	Observed	The section 'Competence of the Board of Directors of the Company' of the Charter of JSOC Bashneft specifies transactions that may be made only after the Company's Board of Directors approves them. The procedure for making such transactions is stipulated by the Charter and the Regulations on the Board of Directors of the Company.
77.	The Company must have an internal document approved by the Board of Directors that stipulates the procedure for conducting inspections of the Company's financial and business operations. The Audit Commission conducts the inspections.	Observed	The Company has adopted the Regulations on the Audit Commission of JSOC Bashneft that are approved by the General Meeting of Shareholders of the Company. The Regulations stipulate in detail the functions and tasks of the Audit Commission and formalise its rights and duties.
78.	The Audit Committee carries out an assessment of the auditor's report before presenting it to the shareholders at the GMS.	Observed	Stipulated by the Regulations on the Budget and Audit Committee of the Board of Directors.

NO.	PROVISIONS OF THE FFMS CODE <small>(recommended as the standard of behaviour)</small>	OBSERVED / NOT OBSERVED	DETAILS / REASON FOR NON-OBSERVANCE
DIVIDENDS			
79.	The Company must have an internal document approved by the Board of Directors that serves as the guidelines for the Board of Directors when adopting recommendations on the amount of dividends to be paid (Regulations on Dividend Policy).	Observed	The Regulations on Dividend Policy were approved by the Board of Directors in 2011.
80.	The Regulations on Dividend Policy must include the procedure for determining the minimum portion of the Company's net income to be used for dividend payment, as well as the conditions under which dividends on preferred shares are not paid or are paid in part. The amount of dividends on preferred shares is stated in the Company's Charter.	Observed	Stipulated by the Regulations on Dividend Policy.
81.	The Company must publish information on its dividend policy and changes to it in the periodical that, in compliance with the Company's Charter, publishes notifications of forthcoming General Meetings of Shareholders. This information must also be published on the Company's website.	Partially observed	The Company does not publish information on its dividend policy and changes to it in the periodical that, in compliance with the Company's Charter, publishes notifications of forthcoming General Meetings of Shareholders. This information is published on the Company's website.

APPENDIX 4: ENVIRONMENTAL STANDARDS FOR ENGINE FUELS

Emission standards for passenger cars in comparison to Euro 6 are presented in the table below.

EMISSION STANDARD	CARBON MONOXIDE (II) (CO)	HYDROCARBON	VOLATILE ORGANIC COMPOUNDS	NITROGEN OXIDE (NO _x)	HC+NO _x	PARTICULATE MATTER
FOR A DIESEL ENGINE						
Euro 1	2.72 (3.16)	-	-	-	0.97 (1.13)	0.14 (0.18)
Euro 2	1.0	-	-	-	0.7	0.08
Euro 3	0.64	-	-	0.50	0.56	0.05
Euro 4	0.50	-	-	0.25	0.30	0.025
Euro 5	0.500	-	-	0.180	0.230	0.005
Euro 6	0.500	-	-	0.080	0.170	0.005
FOR A GASOLINE ENGINE						
Euro 1	2.72 (3.16)	-	-	-	0.97 (1.13)	-
Euro 2	2.2	-	-	-	0.5	-
Euro 3	2.3	0.20	-	0.15	-	-
Euro 4	1.0	0.10	-	0.08	-	-
Euro 5	1.000	0.100	0.068	0.060	-	0.005
Euro 6	1.000	0.100	0.068	0.060	-	0.005

Source: information from various sources.

CHEMICAL ELEMENTS IN VEHICLE EMISSIONS (EXHAUST GAS)

CO ₂ (carbon dioxide)	This colourless non-combustible gas is produced by combustion of fuel that contains carbon, for instance gasoline or diesel fuel. Carbon atoms bond with oxygen atoms present in the air coming into the engine. This gas has come under the spotlight in connection with the debate on the possible climate change as a result of the greenhouse effect. Carbon dioxide (CO ₂) reduces the layer of atmosphere that protects the Earth by absorbing ultraviolet radiation from the Sun (this will supposedly result in the heat of the Earth's surface increasing).
CO (carbon monoxide)	Carbon monoxide is a result of incomplete combustion of carbon-containing fuels. It is colourless and odourless, highly explosive and very toxic. It obstructs the transport of oxygen by red blood cells. Even a relatively low concentration of carbon monoxide in the air can cause death. When its level in the atmosphere is normal, carbon monoxide oxidizes relatively quickly, producing carbon dioxide (CO ₂).
SO ₂ (sulphur dioxide)	It is a colourless non-combustible gas with a strong odour. Sulphur dioxide causes respiratory diseases, but its concentration in exhaust gases is usually very low. Decreasing the sulphur content in fuel leads to the fall of sulphur dioxide emissions.
NO _x (nitrogen oxides)	Are the compounds of nitrogen N ₂ and oxygen O ₂ (NO, NO ₂ , N ₂ O etc.). Nitrogen oxides are produced by combustion in the engine at high temperatures and pressures in the presence of excess oxygen. Some of nitrogen oxides are toxic. Unfortunately, sometimes measures aimed at fuel economy result in a higher nitrogen oxide concentration in exhaust gases, as the higher efficiency of combustion is accompanied by a rise in temperature. Higher temperatures, in turn, cause an increase in nitrogen oxide emissions.
CH (hydrocarbons)	Appear in exhaust gases as a result of incomplete combustion of hydrocarbon fuel. Hydrocarbons can take various forms (for instance C ₆ H ₆ , C ₈ H ₁₈) and affect the human body differently. Some of them irritate sense organs, while others, such as benzene, cause the formation of malignant tumours.

PM (particles of soot)	Particulate matter is mostly emitted by diesel engines. Their impact on the human body has not yet been fully explored.
Pb (lead)	Nowadays, vehicle emissions no longer contain lead. As recently as in 1985 3,000 tonnes of lead were emitted into the atmosphere as a result of leaded gasoline combustion. But the use of environmentally friendly additives in unleaded gasoline made it possible to replace it.
N ₂ (nitrogen)	Nitrogen is non-combustible, colourless and odourless. It is a constituent of the air we breathe (nitrogen accounts for 78% of air, oxygen for 21% and other gases for 1%). As a component of the air that goes into the engine it is present there during fuel combustion. Most of it is emitted back into the atmosphere with exhaust gases in an unchanged form, but a small part of it reacts with oxygen and produces oxides (NO _x).
H ₂ O (water)	Partially penetrates the engine in the form of moisture in the air and is produced by combustion as the engine warms up. This component of exhaust gas is unimportant.
O ₂ (oxygen)	It is a colourless, odourless and tasteless gas. It is the key component of the air we breathe (oxygen accounts for 21% of the atmosphere). It goes into an engine together with nitrogen through the air filter.

Source: information from various sources

APPENDIX 5: GLOSSARY OF ABBREVIATIONS

CSR	Corporate social responsibility
EGM	Extraordinary General Meeting of Shareholders
ERP	Enterprise Resource Planning
FEC	Fuel and energy complex
FPM	Formation pressure maintenance
GE	Geological exploration
GPP	Gas processing plant
HF	Hydraulic fracturing
HSE	Health, safety and environment
IFRS	International Financial Reporting Standards
IR	Investor Relations
KPI	Key performance indicator
OGPD	Oil and gas production department
PRMS	Petroleum Resources Management System
VIC	Vertically integrated oil company

LEGAL INFORMATION ON THE REPORT

In this Sustainability report the terms Bashneft, Company, Bashneft Group and the Group in various forms mean JSOC Bashneft and its subsidiaries and special purpose entities.

The Report covers the events occurred during the 2011 calendar year. In order to present the history of the processes taking place in the Group in a better way we have given data beyond the reporting period where possible. At the same time the Report contains information on reorganization within the Group, including the exchange of shares of five of Bashneft's subsidiaries for the shares of JSOC Bashneft. This programme was developed in 2011 and its implementation started in 2012.

The terms JSOC Bashneft and the Company mean JSOC Bashneft. Unless stated otherwise, the financial results presented in this Report, which are given and calculated based on consolidated IFRS statements, and the operating results that are presented in this document are consolidated data on Bashneft Group.

As of and for the twelve months ended December 31, 2009, the financial and operating results, as well as the indices calculated based on them, include the data on OJSC Bashkirenergo as a consolidated subsidiary. In May 2011 Bashneft Group relinquished control over OJSC Bashkirenergo. As of and for the twelve months ended December 31, 2011 and 2010, financial and operating results, as well as the indices calculated based on them, do not include the data on OJSC Bashkirenergo as a consolidated subsidiary.

Certain statements in this Sustainability report may contain assumptions or forecasts with respect to forthcoming events within Bashneft Group. Such statements may contain the words 'is expected', 'is estimated', 'intends', 'will', 'could', negations of these expressions or other similar expressions. These statements are only assumptions and actual events or results may significantly differ from them.

Actual results of Bashneft Group may substantially differ from what is stated in our assumptions and forecasts as a result of a large number of factors. Such factors may include the general economic conditions, Bashneft's competitive environment, risks associated with operating in Russia, rapid technological and market changes in the Group's areas of business as well as many other risks directly related to Bashneft Group.

The barrel-tonne conversion factor used in this report is 7.3. The data on reserves, which was presented by Miller and Lents, Ltd. under PRMS classification after auditing the reserves is given with the average barrel-tonne conversion factor of 7.12.

This Report was prepared under the supervision of the Communications Department of JSOC Bashneft.

232

CONTACTS AND FEEDBACK

THE REPORT ON SUSTAINABLE DEVELOPMENT IS AVAILABLE IN RUSSIAN AND ENGLISH IN TWO FORMATS:

- In a printed format; available on request at the Moscow office or at the Company's headquarters in Ufa
- In an electronic format at the Company's website WWW.BASHNEFT.RU

SHOULD YOU HAVE ANY QUESTIONS CONCERNING THIS REPORT, PLEASE DO NOT HESITATE TO CONTACT THE COMPANY BY EMAIL:
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233

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