



BASHNEFT

Investing in the Future

REPORT 2010

ON CORPORATE SOCIAL
RESPONSIBILITY
AND SUSTAINABLE
DEVELOPMENT
OF JSOC BASHNEFT





BASHNEFT

REPORT 2010

ON CORPORATE SOCIAL
RESPONSIBILITY
AND SUSTAINABLE
DEVELOPMENT
OF JSOC BASHNEFT

Investing in the Future

Contents



Word from Mr Alexander Goncharuk, Chairman of the Board of Directors of JSOC Bashneft.....	4
Word from Mr Alexander Korsik, President of JSOC Bashneft	6

About the Company

Primary Activities, Products and Regions of Operation	10
Bashneft's Key Performance Indicators in 2010.....	13
Position Regarding Corporate Social Responsibility	13
Development Strategy	14
Corporate Social Responsibility Management System	16
Joining the Social Charter of the Russian Union of Industrialists and Entrepreneurs	17
Corporate Responsibility and Sustainable Development Awards	17
Cooperation with Interested Parties.....	18
About the Report	20



Management

Improvement of Corporate Management Standards.....	24
Primary Goals of Effective Corporate Management in Sustainable Development.....	25



Safety: People and Environment

Industrial Safety	32
Labor Safety	33
Labor and Industrial Safety Training.....	35
Emergency Prevention.....	35
Environment	36
Major Environmental Effects and Consequences.....	36
Use of Water Resources	37
Protection of the Atmosphere from Pollutant Emissions.....	39
Soil Protection and Waste Management.....	43
Researching Best Nature Conservation Practices.....	44
Fuel Production According to International Environmental Standards....	44



Economy and Society

Contribution to Economic Development of Areas of Operation	48
Social and Charity Projects	51
Science and Education Support	56



Staff

Staff Structure	60
HR Development	63
Wages Management, Creation of an Effective Incentive System	66
Development of Corporate Culture and Corporate Values	69

Standard Reporting Elements and GRI Performance Indicators.....	72
---	----

Word from Mr Alexander Goncharuk, Chairman of the Board of Directors of JSOC Bashneft



**We are a socially responsible company.
Our business is based on strict
compliance with laws, business ethics
and all social guarantees**

Dear colleagues!

I'm excited to present the second report on corporate social responsibility summarizing our activities in sustainable development in 2010.

In the reporting year, the Company was increasing overall production maintaining leadership in the oil production growth rate. Due to investments in new technologies, we are able to maintain production in depleted fields in Bashkiriya at 15 million tons per annum.

According to Bashneft's Master Plan of Oil Processing and Petroleum Chemistry Development, we intend to spend dozens of billions of rubles on construction of new units and modernization of available units. This will increase the refining depth at all Ufa oil refineries of the Company to the level of best European refineries. We are now ready to produce eco-friendly gasoline and diesel fuel in line with the requirements of the new Technical Regulations.

The successful example of Bashneft (in 2010 our proceeds doubled, and net profit went up 3.5 times) is important for developing a favorable investment climate in the Republic of Bashkortostan, a region of our primary presence.

We are a socially responsible company. Our business is based on strict compliance with laws, business ethics and all social guarantees.

Bashneft is a tax resident of Bashkortostan, and this is not going to change. In 2010, the Company paid 12.3 billion rubles to the budget of the Republic, which accounts for 20% of tax revenues of the regional budget. Although the Company is expanding its activities and the region of its presence, the headquarters of Bashneft will remain in Ufa.

Bashneft is the largest private employer in the region. We provide high income to dozens of thousands of families and pay on time commendable wages exceed-

ing the average wages in the republic. We annually spend over a billion rubles for corporate social programs including sports, cultural and health-improving events for employees and members of their families.

Higher efficiency of our operations results in higher contributions to the republic's budget and larger investments in development of the regional social infrastructure. In 2010, 1.27 billion rubles were invested in social infrastructure development, and in 2011, almost 1.5 billion rubles will be invested. These investments are used for construction of cultural, sports, public health and educational facilities all over the republic.

In 2010, the Company financed the construction of 20 social infrastructure facilities in seven regions of the republic including in the City of Ufa.

Through the Company's assistance, residents of the republic get access to high-quality and high-tech educational and medical services. We also support numerous initiatives and projects in the republic.

An essential element of our corporate social responsibility is environmental protection. Many environmental challenges have existed for dozens of years, and we have to make up for mistakes that we inherited from the past. The Company makes significant effort to reduce its environmental impact. We invest in advanced environmentally efficient technologies and programs for effective use of natural resources.

Social responsibility, charity and environmental protection for us are more than a tribute to fashion. These are our fundamental policies which we intend to observe in the future.

Word from Mr Alexander Korsik, President of JSOC Bashneft



We firmly believe that our proactive position in corporate social responsibility will further promote sustainable growth of our business and positively affect economic and social development of the regions with our presence

Dear colleagues!

Our Company committed to the principles of disclosure for the second year presents a corporate social responsibility and sustainable development report.

Social responsibility is an integral part of Bashneft's corporate strategy. We maintain high ethical standards of business conduct, care for our employees' health, safety of their work positions and the environment.

The Company as a responsible corporate citizen believes that our main accomplishment in 2010 is sustainable growth of economic and production performance.

Bashneft showed the best oil production growth in the industry. In 2012, we produced 14.1 million tons of oil, which is 15.6% more than in 2009.

The Company is the Russian leader by refining depth (86.3%). We increased diesel production by 8% and reduced furnace fuel oil production by 13%. Bashneft is fully ready to comply with new technical regulations and produce ecologically friendly gas Euro-3 and higher.

Having obtained a license for developing the Trebs and Titov field in the Nenets Autonomous District, we came closer to accomplishing an important task in our sustainable development of reaching a balance between oil production and refining.

In the process of building a full-fledged vertically integrated oil company, we have been developing distribution channels for our products. The Company acquired a network with 44 gas stations in Udmurtia, established 12 regional representations Bashneft-Region LLC specializing in small-scale wholesale, signed long-term jobber contracts for distributing high-quality fuel produced by Ufa refineries

in over 200 partner gas stations in 18 regions of Russia.

We assume responsibility for the Company's affect on economic and social development of the regions of our operation, for payment of taxes and providing jobs to people. The doubling of our proceeds as compared to 2009 means higher tax payments and investments in social development in the regions of our operation. In particular, in 2009 and 2010 we invested 2.5 billion rubles in the construction of infrastructural facilities in the Republic of Bashkortostan.

In 2010, we used best effort to improve our corporate management standards. The Company adopted the Corporate Conduct and Ethics Code, increased the number of independent directors, developed a regulatory framework for corporate social responsibility programs.

Bashneft received a number of prestigious awards including the All-Russian Contest Best Russian Enterprises. Dynamics, Efficiency, Responsibility – 2010 in the Social Responsibility category.

One of vital areas in sustainable development for our Company is the creation and improvement of human capacity. In the summer of 2010, we signed a cooperation agreement with the Ufa State Petroleum Technological University that will help prepare specialists according to the Company's needs and will facilitate further training of Bashneft's staff.

The Company uses best efforts to limit the environmental impact of oil production and refining. We modernize treatment facilities at oil refineries, conduct methodical work for liquidation of accumulated oil sludge. As the quality of drinking water is an acute challenge in Bashkiria, we pay special attention to this issue. In 2010, the Company initiated a special pro-

gram for providing drinking water to people residing in direct proximity to oil fields. In 2010, Bashneft allocated 1.96 billion rubles for nature-conservation efforts.

We firmly believe that our proactive position in corporate social responsibility will further promote sustainable growth of our business and positively affect economic and social development of the regions with our presence.



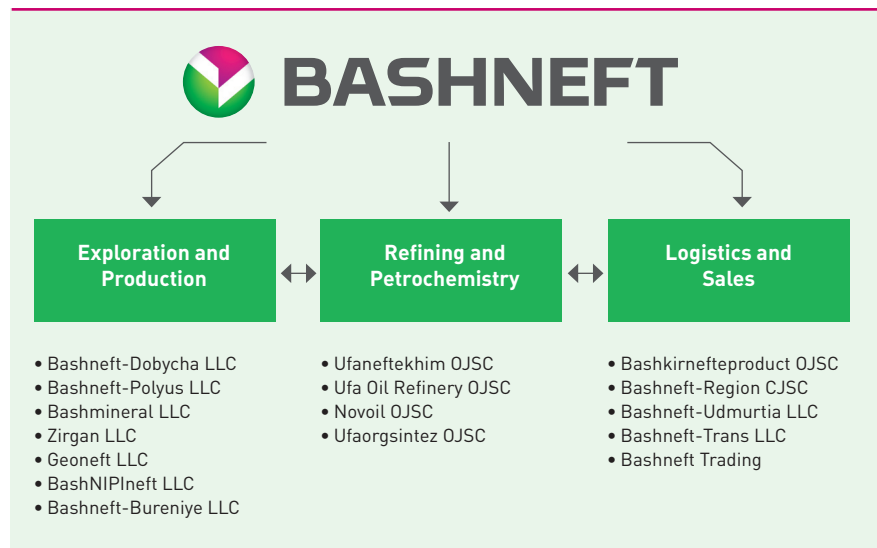


About the Company

About the Company

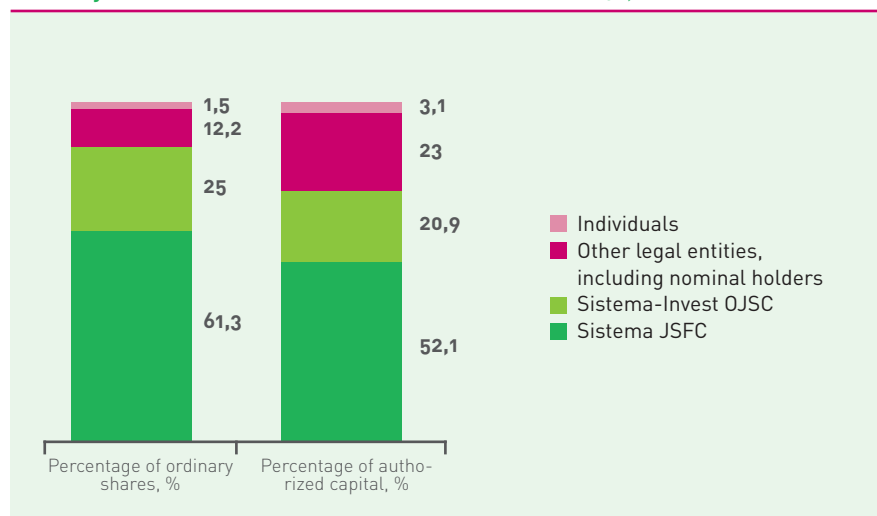
Primary Activities, Products and Regions of Operation

Bashneft is a vertically integrated oil company (VIOC) that produces and refines raw hydrocarbons and sells oil products. The Company ranked twenty-second by market capitalization as of September 1, 2010 in Expert-400 annual rating of Russian leading companies (ranked thirty-sixth in 2009) and landed the twenty-fourth position in Top 500 Russian Companies according to the Finance Magazine (ranked thirty-eighth in 2009).



Bashneft is leading in the industry by the production growth rate (+15.6%) and refining depth (86.3%)

Primary Shareholders of Bashneft (as of December 31, 2010)



The enterprises of Bashneft employ about 28 thousand people. The main shareholder of the Company is Joint-Stock Financial Corporation Sistema. The Company's minority shareholders include 20 corporations and 11 thousand individuals.



Oil Production

Bashneft is among the top ten oil companies in Russia by oil production. Starting from 2009, the Company has been an absolute leader (+15.6% in 2010) by the oil production growth rate among Russian VIOCs¹. The Company produced 14.1 million tons of oil in 2010. In 2010, Bashneft produced 44.8 million cm of natural gas and 436 million cm of associated gas².

The Company holds exploration and development licenses for over 189 fields in the Republic of Bashkortostan, Khanty-Mansiysk Autonomous District, Nenets Autonomous District, Orenburg Region and Republic of Tatarstan.

Bashneft is the only public oil company in Russia that significantly increased its reserves by international classification. Based on the second independent audit by Miller and Lents, Ltd, Bashneft's proven reserves as of December 31, 2010 increased by 50.6% to the similar period of the previous year reaching 1.912 million barrels of oil. The proven oil reserves are sufficient for the Company's operation for 19 years.

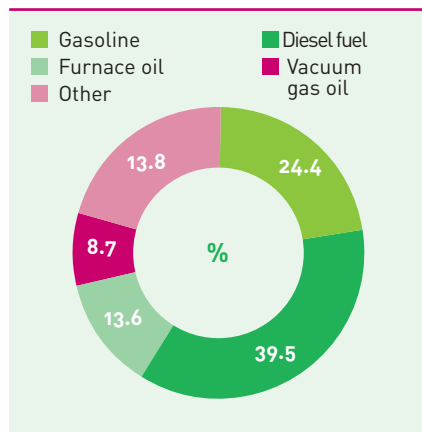
In 2010, the Company significantly strengthened its resource potential by winning a tender for the development of two major fields in the Nenets Autonomous District. The total recoverable oil reserves of the Trebs and Titov field by Russian classification are estimated at 1 billion barrels.

Total oil reserves (3P by PRMS) are 2.947 million barrels.

Oil Refining

Bashneft is one of top five companies in the Russian Federation by oil refining. The Company's refining facilities are one of the best in the country by technological capacity, refining depth and quality of oil products providing for 9% of total primary oil refining in Russia.

Products of Bashneft's Refineries in 2010



Refining Depth Dynamics at Ufa Oil Refineries, %



¹ <http://minpromrb.ru/industry/sectors/tek/analit/detail.php?ID=3997>.

² Annual Report.

About the Company

In 2010, three oil refineries of the Company (Ufaneftekhim, Novoil and Ufa Oil Refinery) processed 21.2 million tons of oil which 2.1% more than in 2009. The average refining depth at the Company's refineries is 86.3%, which is the best result among Russian VIOCs. The Nelson index characterizing process complexity is 8.3 (average in the industry – 4.4).

Bashneft produces about 13% of car gasoline in Russia. Motor fuel produced by the Company fully complies with technical regulations (Euro-3). Modernization of several units at the oil refineries in Ufa expanded the Company's capabilities to produce Euro-4 and Euro-5 gasoline and diesel fuel.

Ufaorgsintez is a major producer of phenol, acetone, high pressure polyethylene and polypropylene.

Sales

Most oil products produced by Bashneft are sold domestically (over 11 million tons in 2010). The Company exported 3.2 million tons of oil and nearly 7.8 million tons of oil products to Europe and the CIS.

Oil products are sold in small wholesale and retail through oil tank farms and gas stations of Bashkirnefteproduct, Orenburgnefteproduct and Bashneft-Udmurtia, through 27 regional representations of Bashneft-Region and a partner gas station network.

In 2010, the Company acquired a network of 48 gas stations in Udmurtia and a network of trade representations in twelve Russian regions. The Company also negotiated a transaction for acquisition of Orenburgnefteproduct (95 gas stations and 16 oil tank farms).

In 2010, the Company sold in retail through its own and partner gas stations over one million tons of quality fuel produced by the Ufa refineries.

In 2010, the Company's own railway vehicles with 4.5 thousand cars transported nearly 5.2 million tons of cargo which amounts to 60% of railway carriage of commercial products by Bashneft's companies.

Production

189 fields

[162 fields in operation]

2,947 million barrels – total reserves

1,912 million barrels – proven reserves

19 years of operation based on proven reserves

Leading the industry [15.6%] in the oil production growth rate among Russian VIOCs

Sales

318 own and 227 partner gas stations

1 million tons – retail sales

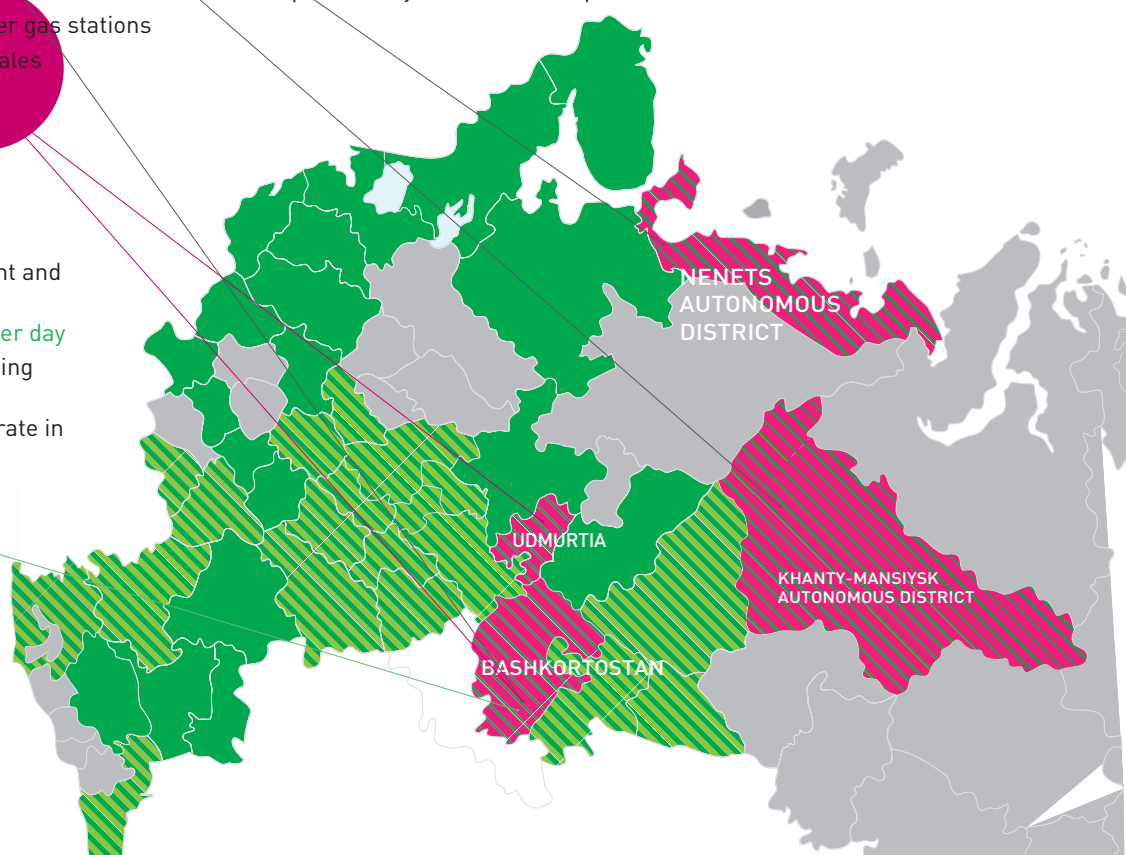
Refining

One petrochemical plant and three oil refineries

481 thousand barrels per day

2.2% - increase in refining output in 2010

86% - best conversion rate in Russia



The Company's stand towards corporate social responsibility is reflected in the Policy On Social Corporate Responsibility of Bashneft

Bashneft's Key Performance Indicators in 2010³

	2009	2010
Oil production, million tons	12.2	14.1
Natural gas production, million cm	46.1	44.8
Associated gas production, million cm	391.3	436
Oil supplies, million tons	11.9	14.0
including for exports, million tons	1.9	3.2
Crude oil refining, million tons	20.75	21.2
Proceeds, billion US dollars	6.78	13.34
Profit before tax, billion US dollars	643.00	2014.0
Production and operating expenses, billion US dollars	2.13	2.67
Wages, million US dollars	954	1073
Tax payments and fees, million US dollars	1083	1889
Dividends paid by the Company, billion rubles	316	1290
Investments into communities, billion rubles	1.250	1.270
Staff of enterprises of the group, thousand people.	29 037	27 988

Position Regarding Corporate Social Responsibility

We believe that long-term and sustainable development of the Company is directly related to its stand regarding corporate social responsibility. We strive to balance business success with universal human values and priorities of corporate and national development. Our social and environmental responsibility in the regions of our presence is a deciding factor for our long-term success. We acknowledge that sustainable growth is impossible without taking into consideration the interests of our shareholders, consumers, employees, general public and environment.

We believe it is our responsibility to:

- improve the quality of life through innovative business development in view of the interests of future generations;
- comply with laws;
- observe generally recognized moral and ethical standards, respect human rights;
- ensure labor safety and invest in human potential development;
- take care of the environment;
- ensure a balance of interests of all involved parties;
- make a contribution to developing local communities, in particular by creating mutually beneficial social partnerships in regions of the Company's operation;
- integrate the attitude towards the corporate social responsibility in daily operations of the Company and develop a dialog with a wide range of interested parties.

The Company's stand towards corporate social responsibility is reflected in the Policy On Corporate Social Responsibility of Bashneft approved in 2010⁴.

³ http://www.bashneft.ru/files/iblock/b31/Presentation%204%20wa.%20v%2012%20hsc%20_2010_financial_results_.RUS.pdf.

⁴ Approved by Decree No. 221 of April 14, 2010.

About the Company



The enterprises of the Company to a large extent provide employment, in particular for residents of Ufa and the Republic of Bashkortostan

In 2010, the Company developed a management structure and created sufficient documentary and regulatory basis for implementing corporate social responsibility policies including the following:

- Information policy
- Policy for cooperation with authorities
- Policy for cooperation with non-profit organizations
- Policy in labor safety, industrial safety and environmental protection
- Corporate Conduct and Ethics Code
- HR management strategy
- HR policies
- Regulations on staff incentives and bonuses
- Regulations on social security of employees
- Collective agreement

The status of corporate social responsibility of Bashneft is considered at the Company's Board of Directors.

Development Strategy

The core of Bashneft's production activity is oil production and refining. Oil is a non-renewable resource which has vital importance in the world and national economy. The enterprises of the Company to a large extent provide employment for the residents of Ufa and the Republic of Bashkortostan, and their tax and other payments are an essential part of the budget in the regions of their operations supporting progressive social and economic development. At the same time, many oil production and oil refining processes have a negative impact on the environment resulting in pollution of underground and surface water, soil and air.

The Company's development plans are based on global trends implying satisfaction of the country's economic needs in primary energy sources, primarily oil and gas.

The Energy Strategy of Russia to 2030 requires an increase of the share of nuclear and hydraulic power as well as alternative energy sources in the country's power supply. However, we believe that the nuclear power industry at the current stage is not sufficiently safe and can have an irreversible environmental impact, and the use of alternative energy sources cannot currently satisfy the growing demand for oil and products.

In April 2010, the management of JSFC Sistema and Bashneft presented a new Development Strategy of the Company with a balanced combination of optimum development options for each business sector regarding efficiency and viability including oil exploration and production, oil refining and petrochemistry, sale of oil products and management system restructuring⁵.

To identify and minimize the risks arising upon implementation of the strategy, including risks in sustainable development, industrial and environmental safety, in 2010 the Company developed and implemented an integrated risk management system and established a permanent risk management committee at the Board of Bashneft.

⁵ This issue is detailed in the Strategy section of the Company's Annual Report for 2010.

Oil Production and Exploration

Company's development strategy	Sustainable development goals	Current opportunities
<ul style="list-style-type: none"> Reaching the optimum organic production of 15 million tons per annum at existing fields and its maintenance in the next few years Inorganic growth of production and reserves through acquisition of companies and field licenses Prime cost control within the controlled part of unit costs 	<ul style="list-style-type: none"> Reducing environmental impact and minimizing negative effect through the following: <ul style="list-style-type: none"> new technologies, enhanced recovery; more efficient use of the well stock; use of new technologies; reducing greenhouse gas emissions Cost reduction by procuring services and materials by tender Intensive development of production technologies designed to reduce unit costs Reducing the risk of accidents and traumatism 	<ul style="list-style-type: none"> Considerable reserves are confirmed by an international audit; some fields have an undiscovered potential Growth potential due to the use of new technologies The Company obtained the license for the Trebs and Titov field development A system of open procurement procedures through the official corporate website has been developed Availability of approved Environmental Protection Policy Investing significant funds in nature conservation Increased attention of the Russian government to associated gas utilization

Oil Refining and Petrochemistry

Company's development strategy	Sustainable development goals	Current opportunities
<ul style="list-style-type: none"> Increasing the refining depth to 95% and light oil product output to 67% by 2017 Producing marketable products according to technical regulations Increasing functional flexibility to ensure output of most effective oil products basket Control and optimization of operating costs 	<ul style="list-style-type: none"> Effective use of raw materials Increasing ecological indicators of technologies and products Taking into consideration the needs of individual and small-scale wholesale customers Optimizing the use of materials, resource saving, energy saving Production modernization to enhance environmental indicators Reducing the risk of accidents and traumatism 	<ul style="list-style-type: none"> Leadership in the industry by technology intensiveness, conversion rate and quality of oil products Maximizing economic efficiency by selection of an optimum raw materials processing route through cooperation of Ufa oil refineries

Product Sales

Company's development strategy	Sustainable development goals	Current opportunities
<ul style="list-style-type: none"> Development of controlled sales channels to end consumers (small wholesale, retail, export) Increasing the operating efficiency of all sales channels Creating and promoting the Bashneft brand Ensuring optimum transport logistics 	<ul style="list-style-type: none"> Ensuring equal access to high-quality products of the Company to end users Customer service improvement and customer feedback development Promoting Euro-4 and Euro-5 ecological fuels in the Russian market Reducing environmental impact through sales of high-quality fuel and optimization of transportation Reducing the risk of accidents and traumatism 	<ul style="list-style-type: none"> Development of a regional sales network and export development Availability of an electronic trading platform for sales in an auction mode Customer loyalty programs Cutting costs and increasing operating efficiency

About the Company

Corporate Management

Company's development strategy	Sustainable development goals	Current opportunities
<ul style="list-style-type: none"> Improvement of the corporate management system, legal, ownership and institutional structures Improving market perception of the management company, subsidiaries and affiliates through information disclosure Increasing the efficiency of managing bodies of Bashneft, its subsidiaries and affiliates Preservation of assets 	<ul style="list-style-type: none"> Implementation of advanced management methods Improving information disclosure in particular social and environmental performance Compliance with shareholders' rights Enhancing business efficiency and transparency Implementing ethical business practices Socially responsible reforming of non-core systems subject to social consequences Providing opportunities for maximum development of employees' potential Implementation of an advanced employee incentive system Participation in social and economic development of the regions of operation 	<ul style="list-style-type: none"> The corporate structure reforms are successfully completed The first stage of developing a vertically integrated production facility is completed Management principles that correspond to modern VIOC models are developed The Company is developing a data collection system for non-financial reporting The Company recognizes international trends of business conduct The Company made changes to the management team based on the current stage in development The Company uses the potential of most professional leaders of the previous structure and has hired new specialists The Company adopted the Corporate Conduct and Ethics Code The Company consults local authorities regarding employment opportunities for released staff The Company has developed an integrated system for continuous education of all employees A long-term target cooperation program with leading specialized universities has been developed Agreements on social and economic cooperation are annually extended

Corporate Social Responsibility Management System

Board of Directors

- Development and review
- Approval
- Control
- Approval

Vice-President for Corporate Communications

- Control

Supervisor for Corporate Social Responsibility

- Planning
- Management
- Coordination
- Cooperation with the corporate communications unit

- Corporate social policies
- Strategic target social programs

- Code of Corporate Conduct and Ethics
- HR management strategy
- Staff benefit and incentive systems
- Key performance indicators for corporate social responsibility

- Implementation of social policies on the Company level

- Implementation of social policies on the level of subsidiaries and affiliates

Executive Board

- Approval

Corporate Communications Unit

- Coordination
- Planning



Joining the Social Charter of the Russian Union of Industrialists and Entrepreneurs

Reaffirming its commitment to sustainable development principles, Bashneft joined the Social Charter of the Russian Business adopted by the Russian Union of Industrialists and Entrepreneurs. The Charter outlines major trends and extent of potential contribution made by certain companies and the business community in general to social development and contains a set of fundamental principles lying in the foundation of socially responsible business practices, including an ongoing dialog based on mutual respect of interests, values, positions and differences of key involved parties.

In December 2010, at a round table discussion on Modernization Development of Regions as an Integral Part of Corporate Responsibility held by the Russian Union of Industrialists and Entrepreneurs, Mr Fedor Prokopov, Executive Vice-President of the Union, handed the certificate of joining the Charter to Mr Viktor Mishnyakov, Vice-President for Strategy and Development within Bashneft.



Corporate Responsibility and Sustainable Development Awards

- Bashneft won the prize of the All-Russian Contest Best Russian Enterprises. Dynamics, Efficiency and Responsibility – 2010 in the Social Responsibility category. The contest has been held by the Russian Union of Industrialists and Entrepreneurs since 1997 with the support of the Russian government.
- The program by JSFC Sistema and Bashneft Social Infrastructure Development in the Republic of Bashkortostan won a prize in the nomination announced by the Ministry of Economic Development of the Russian Federation as Best Program (Project) Contributing to Development of Local Communities and Improvement of the Social Climate in the Region of the Company's Presence.
- Based on the social responsibility rating among Russian companies in 2010 by the Trud newspaper, the Agency of Political and Economic Communications and the Russian Anti-crisis Forum, Bashneft was ranked 13th. in the general ranking and 3th in the Strong Social Responsibility category⁶. The final rating is based on expert polls and is a consolidated assessment of social responsibility of Russia's 75 largest companies leading in product sales in 2009 and 2010.

⁶ <http://www.openmarket.ru/PressRelease/PressReleaseShow.asp?ID=91744>.

About the Company

- In 2010, Bashneft received the Hero of Our Time regional public award in the Patron of the Year category for a series of social projects including the exhibition of Arkhip Kuindzhi held by the Company with support of the Ministry of Culture of the Republic of Bashkortostan and Sistema Charity Fund.
- Bashneft won an award in one of the key nominations of IT Leader 9th Annual National Award. The organizing committee includes the Association of Managers of Russia, KROK Company, Itogi Journal, Intelligent Enterprise, CIO: Chief Information Officer.
- The corporate newspaper of Bashneft won the prize as the Best Corporate Media – 2010.
- Based on performance in 2010, the staff of Ishimbayneft of Bashneft-Do-bycha came second in Mineral Production group in the contest for the Best Organization of Labor Conditions and Safety. The contest has been held since 2001 by the Trade Union Federation of the Republic of Bashkortostan and the Ministry of Labor and Social Protection of the Republic of Bashkortostan



Cooperation with Interested Parties

Ensuring sustainable business development and accomplishment of strategic goals is possible only with proper respect for interests and responsible attitude towards all interested parties. The Company considers the following interested parties as target groups: employees, shareholders, investors, partners, consumers (individuals and legal entities) of services and products produced by the Company, public and government organizations (authorities, not-for-profit organizations, charitable organizations) and local communities.

Interested parties are getting involved in discussion of issues related to corporate responsibility through various communication methods.

Cooperation with interested parties is regulated by the internal documents of the Company. In 2010, the Company adopted the Policy On Cooperation of Bashneft with Not-for-Profit Organizations⁷, Regulations on the Charitable Committee of Bashneft⁸, and a year earlier – Bashneft's Policy on Cooperation with Authorities⁹.

For more information on involvement of interested parties see corresponding sections of this report.

Cooperation with Interested Parties

Employees:

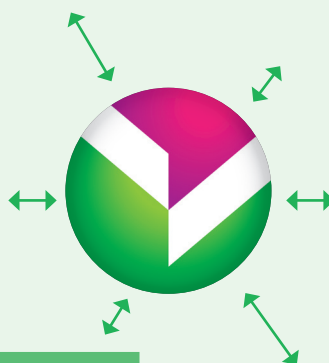
- development programs;
- health-improvement programs;
- programs to support education;
- training courses;
- committees with staff participation;
- meetings of the management with staff;
- Intranet;
- anonymous hotlines;
- corporate press

Government authorities:

- participation in task groups at government authorities;
- expert and consultative participation in development of legislative and regulatory acts;
- participation in sessions, meetings of committees and commissions of local legislative and representation authorities;
- signing cooperation agreements for social and economic development of areas;
- consulting on any issues regarding interests of the regions;
- regular reports on the Company's activities;
- participation in conferences and seminars

Consumers:

- consumer surveys for product quality satisfaction;
- hotlines for quality complaints;
- regular reporting on the Company's quality control activities



Non-profit organizations:

- meetings and consultations;
- supporting social initiatives;
- charity programs;
- reports on the Company's activities

Shareholders, investors, business partners

- regular communication with shareholders;
- meetings and consultations;
- reports on the Company's activities;
- personal meetings and telephone conferences for discussing financial performance with investors;
- partnership with and membership in trade associations;
- participation in industry initiatives, attending and sharing knowledge at professional forums;
- supporting local supplies development

Local communities:

- meetings and consultations with local authorities;
- participation in events initiated locally;
- supporting social initiatives;
- charity programs;
- emergency response;
- annual reports on the Company's activities;
- corporate website

⁷ Decree No. 659 of September 24, 2010.

⁸ Decree No. 189 of April 06, 2010.

⁹ Decree No. 483 of December 14, 2009.

About the Company



About the Report

This report reflects the Company's commitment to enhancing transparency, covers the year of 2010 and reflects short-term goals. Where possible, it contains information beyond the reporting period for better representation of processes occurring within the Company. The previous report released in 2010 covered the events of 2009.

Starting from 2010, in addition to the sustainable development and corporate responsibility report, the Company issues a glossy annual report expanded as compared to regulatory information disclosure requirements. Both documents reflect the Company's contribution to sustainable development and the progress made in the production and financial performance to satisfy information demand of all interested parties.

The report includes information on major enterprises producing, refining and selling oil and products, operating primarily in the Republic of Bashkortostan, including the following:

Management

JSOC Bashneft

Exploration and Production

Bashneft-Dobycha LLC

BashNIPIneft LLC (institute)

Bashneft-Bureniye LLC (oilfield service company)

Oil Refining

Ufaneftekhim OJSC

Ufa Oil Refinery OJSC

Novoil OJSC

Ufaorgsintez OJSC

Sales

Bashkirnefteproduct OJSC

Bashneft-Udmurtia LLC

Bashneft-Region CJSC

Bashneft-Trans LLC

Bashneft trading

Due to a reform of oilfield service companies in progress at Bashneft, no information on such companies is presented in this report.

This report is prepared according to the guidelines of the Global Reporting Initiative (version GRI 3.0) and the Social Charter of the Russian Business. The Communications Department of Bashneft is in charge of reporting procedures. The recommendations of these fundamental documents, publications in mass media, opinions and wishes expressed in public events on corporate social responsibility arranged upon the initiative and/or with participation of Bashneft, including during public certification of the Company's first social report with the Russian Union of Industrialists and Entrepreneurs formed the foundation for selecting material issues for this report.

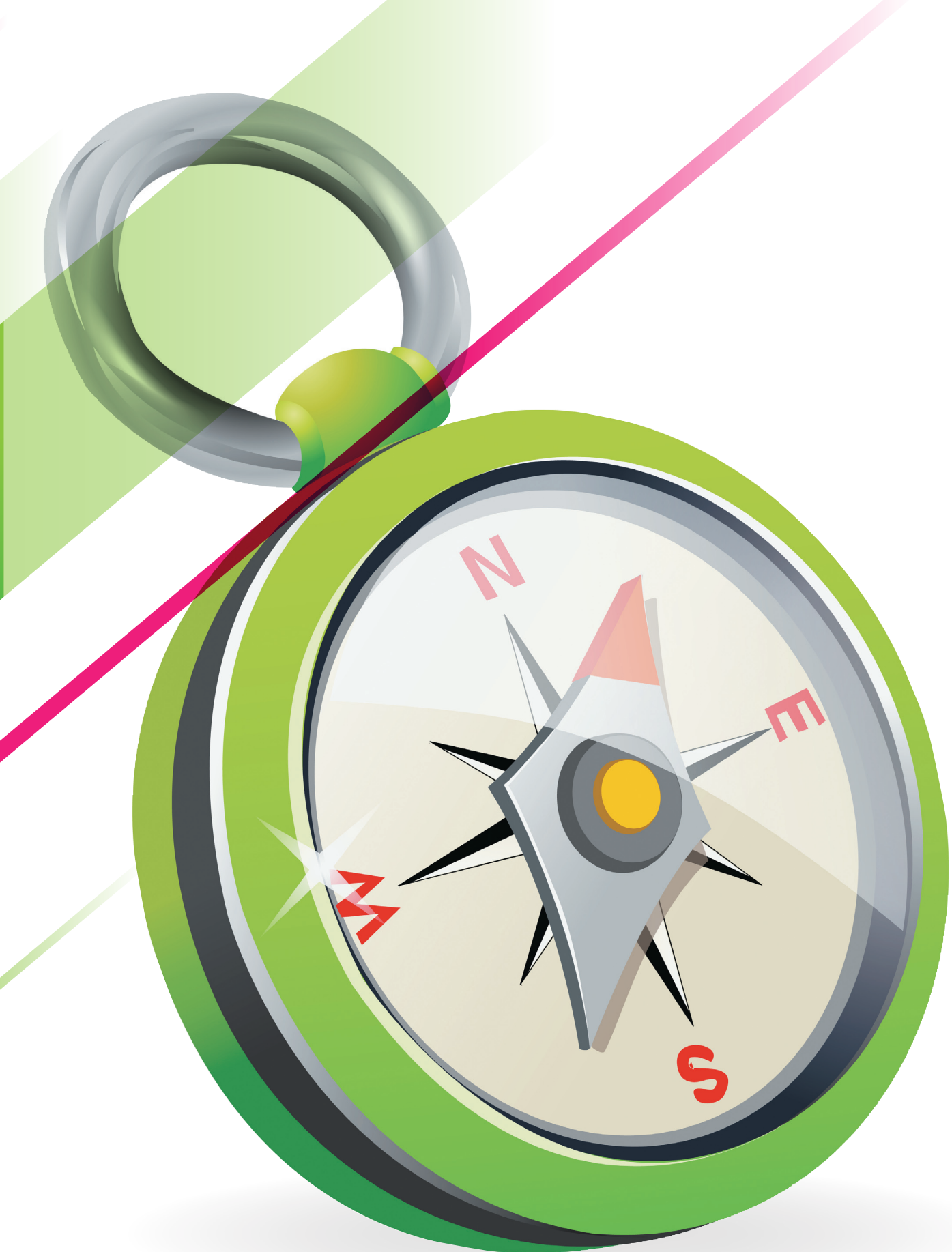
Certain changes as compared to the information in the previous report are primarily accounted for by a higher quality of data collection and reporting system improvement. Information is presented according to the Russian Accounting Standards (as required by law), and since 2010 – also according to IFRS.

The Report may be received upon request in hard copy and electronically at the Moscow office and the Company's headquarters in Ufa (30 Karl Marx Street, Ufa 450008, Russia). The report is also available at the corporate website at <http://www.bashneft.ru/social/>

We believe our report corresponds to level B of GRI guidelines. In the reporting period, we used best efforts to make our business more transparent and accountable. We made good progress in creating a uniform information collection system for performance indicators. However, certain GRI indicators are not presented in this report due to the restrictions imposed by competitive or legal considerations.







Management

Management

Improvement of Corporate Management Standards



Corporate Management

The corporate management system of Bashneft includes the general meeting of shareholders, the Board of Directors, the collective executive body (Executive Board) and the sole executive body (President).

For increasing the efficiency of decisions made by the Board of Directors, a more detailed preliminary consideration of most important issues and development of recommendations, four committees operate at the Board of Directors. In addition to members of the Board of Directors, third party experts and employees of Bashneft participate in the committees.

The corporate management system is described in detail in the Corporate Management section of the Company's 2010 Annual Report¹⁰.

In 2010, 83 meetings of the Board of Directors and committees were held that made decisions on 349 issues.

¹⁰ 2010 Annual Report of the Company, pages 68–83.



Primary goals of effective corporate management in sustainable development

- implementation and ensuring efficiency of uniform management standards in all units of the Company
- unconditional observance of shareholders' interests and protection of their rights
- continuous improvement of cooperation with shareholders, investors, creditors, business partners, employees and other stakeholders of the Company
- improvement of transparency, internal controls and information disclosure
- significant reduction in international reporting preparation periods
- providing opportunities for maximum development of employees' potential
- accomplishing best possible results in labor safety and environmental protection
- continuing with the tradition of supreme social responsibility in regions of our presence

Corporate Conduct and Ethics Code

For better observance of shareholders' rights, enhancing business efficiency and transparency, in 2010 the Bashneft's Board of Directors approved the Corporate Conduct and Ethics Code as the primary corporate management instrument. The Code defines guidelines for managing and supervising operation of the Company, establishes standards for cooperation among shareholders, the Board of Directors and executive authorities of the Company, regulates ethical standards of business conduct and establishes rules in case of conflicts of interest. The Code also defines dividend and information policies and conduct in case of significant corporate actions.

The Company has a corporate secretary position (the regulations were approved by the Board of Directors).

Corruption Prevention

In addition to anticorruption regulations in the Corporate Conduct and Ethics Code, the Company develops and implements special procedures based on the Company's nature, specific corruption risks and international practices, in particular, the British Law On Bribery Control.

The Company runs a program for employees to report any defects (Employees Report) designed for enhancing corporate management, timely identification of violations and abuse, misappropriation and (or) use of confidential commercial information, minimization of financial, legal, reputation and other risks.

In 2011, the Company intends to develop a corporate fraud prevention system including the Policy, fraud classification and a set of procedures for implementing the Policy.

To increase business efficiency and transparency, the Company uses the B2B-Bashneft trading and purchasing platform created within the uniform

Management

E-commerce B2B-Center. Since the first trading session in 2010, Bashneft uses the platform to sell all its petrochemical products. A promotion Free Participation in Bidding Procedures for Sale was developed for Bashneft's potential partners. At <http://zakupki.bashneft.ru/sells/>, information on materials and technical resources offered for sale by Bashneft and its subsidiaries is available to general public.

The Company sees its increased participation in electronic trading as its contribution to the civilized market development based on effective competition. The transition to electronic trading and monitoring of these processes contributes to higher transparency of trading and purchasing activities, increasing the number of the Company's business partners and is an important tool in corruption prevention.



Manageability Enhancement

To enhance manageability, the Company is considering reorganizing in the mid-term its subsidiaries operating on the basis of four Ufa oil refineries and a retail operator into Bashneft's branches (Bashneft-UPZ, Bashneft-Novoil, Bashneft-Ufaorgsintez, Bashneft-Ufaneftekhim and Bashneft-Bashkirnefteproduct). This decision is a logical step in creating a VIOC. It will increase vertical manageability and accountability of operations.

The Company takes consistent measures to improve business efficiency, transparency and reliability of data used in accounting and management decisions

To increase the efficiency of transportation, Bashneft-Trans LLC was established in 2010. Implementation of uniform standards and structuring services in railway transportation, transport expenses will be reduced, and assets will be easier to control and manage.

Increasing the Number of Independent Directors

By decision of Bashneft's General Meeting of Shareholders, the number of directors on the Board was increased to 13. The Board of Directors now includes three independent directors – Mr D. Yakobashvili, member of the Board of Directors of Vimm-Bill-Dann, Mr M. Rakhimov, First President of the Republic of Bashkortostan and Mr Yu. Pustovgarov, Deputy Prime-Minister of the Government of the Republic of Bashkortostan. The participation of independent directors in the Company's managing bodies is in line with the best corporate management practices, allows making balanced and unbiased decisions, increases management efficiency and transparency of decisions.

To improve the quality of its work, in 2010 the Bashneft's Board of Directors approved the self-evaluation procedure for members of the Board¹¹. It helps identify areas in the Board of Directors' activities which require further improvement.

Information Infrastructure Development and Increasing Business Process Transparency



The Company takes consistent measures to improve business efficiency, transparency and reliability of data used in accounting and management decisions. The key to finding a solution to these tasks is a SAP ERP-based integrated management system for major enterprises of the Company. The system automates primary activities, including management of cash flow, production, logistic assistance, property portfolio, etc.

The ERP implementation program will be performed through 2014. The first stage was completed in 2010 when a standard solution for refining enterprises of the Company was designed and implemented on the basis of Ufaneftekhim. The HR Management solution was implemented at a number of production companies and in the management company which unified and optimized various aspects of HR management.

Information security and continuity of business processes in case of emergencies and natural disasters are essential for the Company. The Company

¹¹ Decision of October 18, 2010.

Management

The warranties of shareholders' rights are protected by the Corporate Conduct and Ethics Code

is at the final stages of creating a corporate data processing center to protect the computer facilities and data of the Company from fires, explosions, natural disasters and unlawful third party actions.

To ensure continuous communications and information exchange among enterprises of the Company, in 2010 the Company started a project of developing a uniform disruption-tolerant data transfer network scheduled for completion by the end of 2011.

To enhance corporate management, reduce decision-making periods and ensure implementation of decisions, a Boss-Referent-based electronic document flow management system was implemented in subsidiaries and affiliates of the Company. With the same goals, the Company uses the video conference system commissioned in 2010 that joins various offices and production assets of the Company in Ufa and Moscow.

A corporate information portal was started for a more effective cooperation among employees. The portal regularly publishes news, regulatory and administrative documents of the Company, reference data and information on operation of committees and task groups.

All these measures enhance decision-making processes, cut expenses for paper, reduce the number of business trips and uses of transportation and thus, reduce environmental impact.

With replication of earlier implemented solutions, the Company plans to improve and expand the data collection system to determine performance in sustainable development.

Consideration of Shareholders' Interests

The primary goal of Bashneft as a commercial organization is earning profit for its shareholders. Bashneft treats all shareholders of the Company in the same way regardless of their holding, location and other factors. The warranties of shareholders' rights are recorded in the Corporate Conduct and Ethics Code.

Recognizing responsibility to shareholders, Bashneft guarantees the following rights:

- protection of their rights and legitimate interests;
- participation in management through decisions made at the general meeting of shareholders and electing members of the Board of Directors;
- receiving a part of net profit as dividends;
- obtaining timely, complete and accurate information about all aspects of the Company's operation.

Information on essential facts, events, management structure, financial and economic performance of the Company is disclosed according to Russian laws and internal regulations of Bashneft. Such information is available to all shareholders:

- personally at the Company's headquarters in Ufa or in the Moscow office;
- on Bashneft's corporate website including the special section For Shareholders and Investors;
- in the Bashkirskaya Neft corporate newspaper;
- by phone from the staff of the Corporate Relations Department;
- in official publications of the Company including press releases, annual reports and sustainable development reports.

Shareholders affect decision-making processes primarily through participation in general meetings of shareholders.

All shareholders can freely speak and ask questions at the meetings. Shareholders are also entitled to complete and accurate information about the company. To ensure equal conditions for all shareholders, general meetings are arranged in a way that their attendance does not require significant financial resources or time. The agenda of the general meeting is communicated to shareholders in sufficient detail and within a period allowing shareholders to develop a reasoned position on each issue.

In 2010, the Company held three extraordinary meetings and one annual general meeting of shareholders. The meetings made numerous decisions including establishment of the Executive Board as a collective executive body, election of independent directors to the Board of Directors, introduction of the corporate secretary position and payment of dividends, etc.

Within several years, Bashneft has been consistently increasing the amount of dividends taking into consideration both shareholders' interests and development needs. The Company strives to provide the most convenient method of dividend payments for shareholders according to legal requirements.

Based on performance in 2010, the decision to pay dividends of 235.77 rubles per ordinary and preference share was made (subject to dividends for nine months of 2010 of 104.5 rubles per share), which is 2.15 times higher than in 2009.







**Safety: People
and Environment**

Safety: People and Environment

Safety goals:

- protection of vital interests of individuals and society from accidents at hazardous production facilities and their consequences
- reaching the level of industrial safety corresponding to the current development of science, technology and society
- compliance with requirements of legal, regulatory and internal documents
- compliance of all hazardous production facilities with industrial safety requirements

Industrial Safety

The Company acknowledges its responsibility to society and future generations for preservation of favorable environmental conditions, health and safety of its employees. Industrial and work safety is viewed by Bashneft in extricable connection with environmental protection. Subsidiaries and affiliated companies maintain labor and industrial safety management systems.

The fundamental documents used by the enterprises in this regard are the Operational Strategy in Labor, Industrial and Environmental Safety, Regulations On Labor and Industrial Safety Management System¹² and Regulations On Industrial Environmental Monitoring of Bashneft¹³ adopted in 2010.

The integrated risk management system implemented by Bashneft in 2010 helps minimize the risk of accidents as it classifies risks, determines their owners and provides for development of risk management measures and monitoring their performance. A multilevel production control system is developed for accident prevention and risk management at hazardous production facilities.

A control flow chart of labor and industrial safety, civil defense, emergency situations and environmental control management system of Bashneft, its subsidiaries and affiliates is given in the previous report of the Company¹⁴.

The enterprises hold certificates of compliance of their work with labor safety requirements. The subsidiaries and affiliates adopted target programs to bring their facilities in compliance with industrial and fire safety requirements approved by supervising authorities and plans of corresponding measures for reconstruction and modernization of production facilities, processing equipment and devices, equipping them with control, management and emergency protection devices.

The Company operates extensive pipeline systems for collecting, processing and pumping oil, production facilities with complex processing equipment operated in aggressive environments and regulated by automated control systems. The Company cannot entirely eliminate production accidents and uses best efforts to minimize such risks.



¹² Decree No. 443 of July 06, 2010

¹³ Decree No. 473 of July 19, 2010

¹⁴ Bashneft's Report on Corporate Social Responsibility and Sustainable Development for 2009, page 64



Rare incidents generally result from hidden equipment flaws through a manufacturer's fault.

In 2010 no accidents were reported at the Company's production facilities. On September 24, 2010, at the Novoil plant a tank with oil products caught on fire due to unsealing in preparation to repairs.

No people were injured in the accident. The fire was extinguished, and the plant continued routine operations.

In May 2010 upon request of Aurgazinsky district residents, the environmental prosecution office inspected industrial oil production facilities of Bashneft-Dobycha in direct proximity to Stepanovka, Maryanovka and Alexandrovka settlements. To liquidate excessive content of hydrogen sulfide in the air detected by sampling, the company promptly developed and approved an environmental action plan. The plan provided for liquidation of flares and sludge pits, implementation of technological means and solutions to reduce volatile fraction loss and other events.

One official was subject to disciplinary action.

In 2010, the Company's expenses for industrial safety measures totaled 2342,9 million rubles.

Labor safety objectives:

- preservation of employees' life and health
- compliance with the requirements of legal, regulatory and internal labor safety documents
- achieving the level of labor safety corresponding to the current development of science, technology and society

Labor Safety

Labor safety requires mutual efforts of management and employees.

Labor safety issues are regulated by councils of employees and trade union organizations. The management's duty to ensure labor safety and provide employees with personal protective equipment, etc. is recorded, and staff subdivisions elect labor safety agents.

A multilevel system for monitoring labor conditions and safety is in effect at each facility. Joint labor protection committees on a parity basis include representatives of the employer and employees (labor safety agents). Labor safety

Labor Protection Expenses, million RUR

	2010	2009
Bashkirnefteproduct OJSC	31.5	31.98
Novoil OJSC	21.4	23.2
UNPZ OJSC	31.3	33.7
Ufaneftekhim OJSC	28.9	30.8
Ufaorgsintez OJSC	21.8	30.7
Bashneft-Dobycha OJSC	41.3	41.9
Total	176.2	192.28

Safety: People and Environment

inspections are performed by the labor protection committee according to an approved schedule.

The subsidiaries and affiliates annually establish a labor safety fund, develop programs to improve labor safety and conditions and plan corresponding events. All employees of the Company are provided with modern protective equipment subject to labor conditions at particular work positions. Work positions comply with safety requirements and sanitary regulations. In 2010, over 176 million rubles was spent for this purpose, and labor conditions were improved at 105 work positions.

In 2010, four accidents occurred in the Company's subsidiaries and affiliates including one fatal accident. Three accidents resulted from carelessness of employees who failed to use their personal protective equipment. The fatal accident resulted from a traffic collision involving a vehicle of Bashneft caused by the other driver.

Industrial injuries at subsidiaries and affiliates in 2010

UNPZ OJSC	0
Novoil OJSC	1
Ufaneftekhim OJSC	0
Ufaorgsintez OJSC	0
Bashkirnefteproduct OJSC	0
Bashneft-Dobycha LLC	3
Total for Bashneft	4

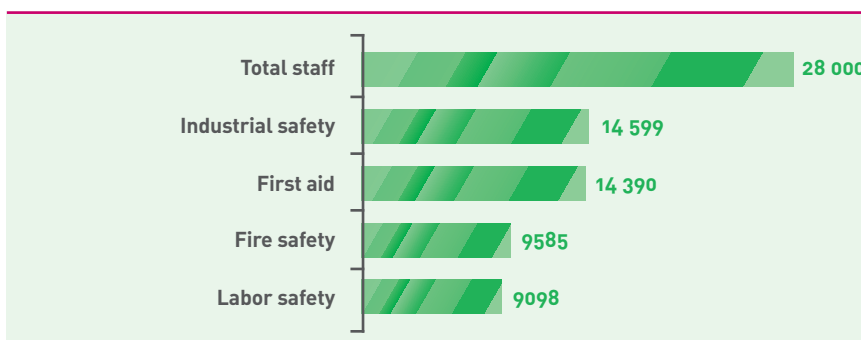
No occupational illnesses were reported in 2010 or 2009. The accident frequency in 2010 remained at the same level (0,19).



Industrial and labor safety plans:

- reduce the accident frequency rate in 2010–2013 by 25%, eliminate fatal accidents
- provide safe labor conditions and preserve employees' health, take measures to improve labor conditions and safety and reduce the number of work places with hazardous work conditions by 11% in 2010–2013
- implement production modernization programs and bring hazardous production facilities in compliance with applicable industrial safety regulations
- reduce the risk of expenses for restoration of hazardous production facilities with non-mandatory accident insurance
- reduce the risk of pipeline failure by 30% in 2010–2013
- provide for sufficient safety of employees in emergencies, implement 3D modeling of hazardous production facilities in management processes
- create a professional risk management system designed to minimize the effect of adverse production factors on employees' health

Number of Employees Trained and Certified in Various Industrial and Labor Safety Aspects in 2010, people



Labor and Industrial Safety Training

According to applicable legal requirements, the enterprises hold mandatory training and certification of employees in labor, industrial and fire safety. Trainings are held on the basis of major training centers with experience and expertise in the fuel and energy industry. In 2010, advanced training and involvement of employees in these processes were continued.

The expenses of subsidiaries and affiliates for mandatory training in 2010 totaled 34.6 million rubles.

Annually employees of the Company take part in the republican contest for the Best Industrial Safety Specialist held by the Inter-industry Institute with the support of the Priuralsky Administration of the Russian Federal Service for Ecological, Technical and Atomic Supervision.

Emergency Prevention

Most production facilities of the Company are hazardous and pose a potential risk to employees, people residing in direct proximity and the environment.

An emergency prevention and response system is in effect at the Company. To maintain its instant readiness, in 2010, 72 trainings with participation of 3,242 employees of subsidiaries and affiliates were performed for liquidation of potential emergency oil spills, suppression of fires and localization of potential emergencies.

100% of protective structures are instantly ready for people.

The Company has six emergency rescue teams on staff with a total of 288 employees including 35 people in instant readiness.

The Main Department of the Russian Emergency Ministry for the Republic of Bashkortostan regularly inspects fire safety systems and readiness of the staff at Bashneft's enterprises to resist man-caused emergencies. In 2010 inspections were performed at Tuymazaneft and Ufa Oil Refinery. Specialists of the Russian Emergency Ministry confirmed the readiness of employees to act in case of unforeseen man-made emergencies and appropriateness of protective structures for people.

At the republican contest for the Best Educational Life Safety Video, Tuymazaneft of Bashneft-Dobycha got the third prize for the Best Educational Fire Safety Video.

The Company is ready to liquidate both man-made and natural disasters. In the summer of 2010, Bashneft provided heavy equipment for fighting fires on the

Safety: People and Environment

In the summer of 2010, the Main Department of the Russian Emergency Ministry in the Republic of Bashkortostan held training at the only water fueling station of Bashkirnefteproduct at the Pavlovskoye water reservoir with participation of the station staff, search and rescue team, police, fire and medical teams of the Nurimanovsky district. The scenario was based on collision of a ship with the fueling station resulting in destruction of fuel tanks and spillage of 15 tons of gasoline.

Without prompt response, such amount of oil products can within an hour pollute 8 thousand sq.m. of the water reservoir. In the training the participants coordinated their actions to localize pollution with floating booms, absorbent diffusion and pumping the resulting mixture in special reservoirs.

As a result of coherent efforts of all services, the consequences of the “spill” were successfully eliminated.



Karakay Mountain near the Sermenevo and Shigayevo settlements in the Beloretsky district of the Republic of Bashkortostan. Due to mutual efforts of forestry management staff, emergency response teams and local population, the spreading of the fires to populated communities was prevented. The fire was localized with the use of heavy equipment.

In 2010, expenses for emergency prevention and response, fire and radiation safety totaled 4.5 million rubles including 3.8 million rubles to maintain protective structures.

Environment

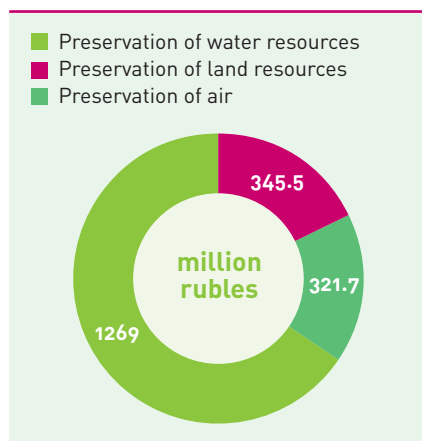
Major Environmental Effects and Consequences

Oil production and refining has a significant effect on the environment including the following factors affecting:

- use of significant amounts of fresh water for industrial needs;
- pollution of fresh underground and surface water with process solutions and oil;
- soil pollution as a result of oil and water pipeline breaking due to corrosion or breach of operating regulations;
- soil pollution with earth storages used to store sludge (drill cuttings), brine water and oil after well development;
- emissions of harmful substances into the atmosphere including carbon dioxide, sulfur dioxide and soot particles when burning associated gas at flare devices;
- emissions into the atmosphere of volatile organic compounds (hydrocarbons), sulfur dioxide, carbon oxide and nitric oxide by oil refineries.

The Company makes significant effort to reduce its environmental impact and prevent climate changes. These efforts imply effective use of natural resources, reduction of emissions and waste, increasing energy efficiency and investments in advanced nature-conservation technologies.

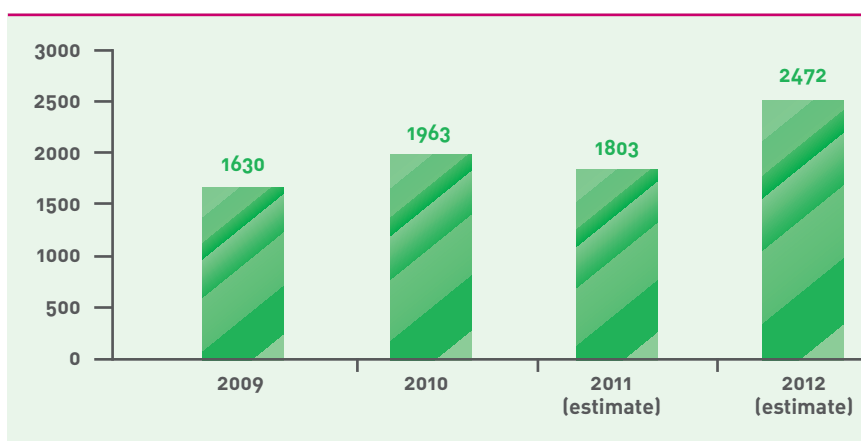
Total Nature Conservation Expenses and Investments in 2010 by Type



Bashneft's nature conservation efforts are performed in five major areas:

- operational environment monitoring;
- efficient use of water resources;
- atmospheric air protection;
- land conservation;
- recycling hazardous industrial waste.

Nature Conservation Expenses of Bashneft, million rubles



In 2010, all Bashneft's departments spent 1.96 billion rubles for nature conservation.

Use of Water Resources

The enterprises of Bashneft strive to use water resources with maximum efficiency as water is required for almost all stages of oil production and refining. The largest water consumer is Bashneft-Dobycha which accounts for almost a half of used water resources. Oil-producing enterprises use mixed water supply sources. Oil refineries use primarily river water, and Bashkirnefteproduct takes in water from underground sources.

Total water intake per annum (2009–2010), million cm

	2010	2011
Bashneft-Dobycha OJSC	28.627	23.066
Novoil OJSC	9.712	10.193
Ufaneftekhim OJSC	6.311	7.007
Ufa Oil Refinery OJSC	3.591	3.847
UNPZ OJSC	2.436	2.812
Bashkirnefteproduct OJSC	0.034	0.030
Total	50.713	46.957

Total water consumption in 2010 was reduced by 7.4% primarily due to intensive use of recirculated water at Bashneft-Dobycha. Increased water consumption by petrochemical enterprises of the Company is related to production growth.

According to the approved plan, the laboratories of the research and project center and main laboratories of Bashneft monitor the condition of natural environments.

Safety: People and Environment



The observation network consists of 1,319 control stations including 787 stations monitoring surface water and 532 stations – underground fresh water. The composition and number of stations in the observation network follow the guidelines in the environmental impact assessment section to design documents. Additionally, 18 water locations were included in the inspection schedule. In general, for all oil and gas production departments in 126 fields and 21 license areas, the natural water quality is maintained.

Company's Position Regarding the Effect of Oil Production on Water Resources

The supply of clean drinking water to residents of the Republic of Bashkortostan has become a challenge. It concerns one fifth of the population and a significant number of municipalities. Water in a number of districts has double the permissible mineral and chloride content and double the hardness due to a combination of natural and man-made factors. Industrial and agricultural enterprises have a negative impact on the use of water bodies. A number of districts have no storm sewer systems. A quarter of water is lost upon transportation from

the source to the consumer, and in the housing and utilities sector this indicator reaches 40%.

The oil production industry is also responsible for the condition of underground water. Imperfections of oil production technologies used in the Soviet period now affect the quality of water. In seven decades of oil production in Bashkortostan, underground water suffered as a result of brine solutions pumped into oil wells.

Development wells and communications have the greatest effect on the condition of water resources. The drilling technologies used by Bashneft today entirely eliminate the risk of brine water getting into the water-bearing stratum. Special attention is given to construction quality and timely repairs of well and pipeline equipment. In 2010, about 400 million rubles was assigned and spent on major well repairs to prevent negative impact. Bashneft spent over 1.2 billion rubles for conservation of water resources.

If pipelines cross bodies of water, at sections of particular importance, special underwater cables are built by directional drilling. These underground structures under the river bed or lake bottom almost entirely eliminate the risk of oil or products getting into water bodies.

Industrial storm sewer system from all plants after going through mechanical treatment plants are directed to biological treatment plants of Ufaneftekhim.

Biological treatment plants help reduce water pollution by oil products by 100 times



In 2010 the Company plans to invest 22 million rubles in preservation and restoration of 25 natural springs

It reduces water pollution by oil products by 100 times. About 63% of industrial wastewater purified by biological treatment plants is used for water circulation systems. The remaining 37% of industrial wastewater which fully comply with regulatory requirements are returned to the Belaya River.

In the reporting period the amount of reused and multiple-used water went up 15.6%.

SUPER-REK purifiers are used for waste water treatment from sewerage systems for collecting industrial and storm water from gas stations and petroleum depots which almost entirely eliminates waste water discharge.

Purified water is also used for technical needs of enterprises with no negative impact on surface and underground water.

Bashneft undertook a commitment to provide quality water to people in five districts of the republic which particularly suffered from decades of oil production. In 2011, new wells will be built, and new pipelines and hydrants will be installed at new locations.

For prompt response to arising issues, a target group was created with participation of representatives of Bashneft and authorities of the Republic of Bashkortostan.

In 2010 the Company developed a three-year Program for Restoration and Development of Springs in the Republic of Bashkortostan and a corresponding action plan. In 2011–2013 the Company plans to restore and develop 67 springs including 25 springs in 2011 for 22 million rubles.

Protection of the Atmosphere from Pollutant Emissions

The main sources of pollutant emissions into the atmosphere in the oil industry are evaporations from storage tanks with oil, fuel and lubricants. A solution to this problem lies in observance of all operating procedures and primarily ensuring sealing of all tank farms. With this purpose,

Safety: People and Environment



the Company implemented a number of measures including design and construction of gas-handling systems and units for recovery of hydrocarbon gas light fractions.

All oil treatment plants are equipped with units for recovery of hydrocarbon gas light fractions which significantly improves ecological conditions and results in additional production of hundreds of tons of raw hydrocarbons. Due to these measures, emissions of 87.6 thousand tons of harmful substances into the atmosphere are prevented each year.

Air samples are taken in 269 locations in direct proximity to impact sources including in nearby inhabited areas, on the borders of sanitary protection areas of oil facilities and at Bashneft's industrial sites. Due to the need to provide for monitoring of atmosphere air condition in inhabited localities for justification of sanitary protection areas, the number of obser-

vation points increased as compared to the previous period.

Statistical processing of analysis results indicates that atmosphere pollution at Bashneft's enterprises is lower than the average level.

A series of nature protection measures implemented at oil refineries in Ufa contributed to reduction of atmosphere emissions. Thus, at Novoil as a result of aluminum pontoon installed on the feed tank, hydrocarbon emissions were

Primary Associated Gas Uses

In-house process needs:

- heating buildings
- heating water-oil emulsion and water
- injection into reservoirs for enhanced oil recovery

Processing at the Tuymazinsky and Shkapovsky gas processing plants

Use at own gas piston and gas turbine power plants at the Kirsko-Kottynsky and Metelinsky (in the future) fields

Flare

reduced by 0.250 thousand tons. At the Ufa Refinery, the installation of a straight-run gas cleaner unit at the CDU/VDU unit reduced hydrogen sulfide emissions by 92 tons.

Increased Use of Associated Gas

A byproduct of oil production is associated gas, a valuable chemical raw material and highly efficient organic fuel. However, due to technological limitations and the processing infrastructure underdevelopment, oil companies flare a significant part of associated gas. It results in emissions of nitrogen oxide, sulfur dioxide, carbon monoxide and various unburned hydrocarbons into the atmosphere.

Flares make the largest contribution to atmospheric pollution and result in heat pollution perceivable in up to 5 km from the torch. Both these factors affect meteorological and climate conditions in the regions of oil production and on a global level.



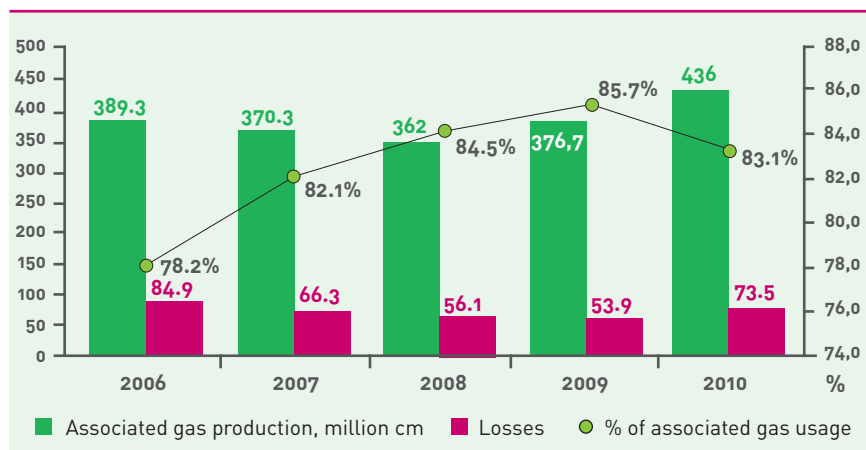
An increased use of associated gas is a national task. The Company holds strong positions in finding solutions to this challenge. One of promising methods of reducing emissions of harmful substances into the atmosphere and a simultaneous solution to associated gas utilization problem is the use of booster multiphase pumps.

In 2010, Bashneft used 362.5 million cm of associated gas.

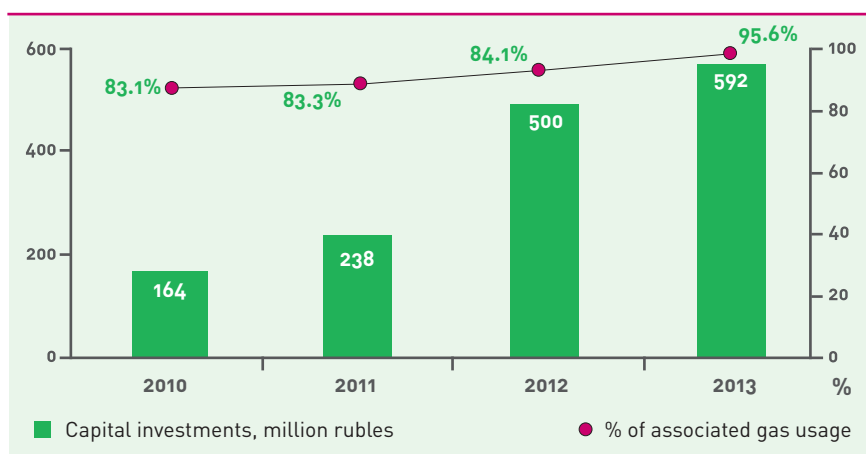
Even today, the use of associated gas at a number of fields reached 95%. In 2010, it was arranged for associated gas from the Lyukpaysky field to be supplied to a gas reciprocating power plant which resulted in the associated gas utilization

Safety: People and Environment

Associated Gas Utilization Dynamics, million cm



Capital Investments for Increasing Associated Gas Usage, million RUR



ratio at Bashneft's fields in Western Siberia exceeding 96%. On average for the Company this ratio is 83.1%. A slight drop as compared to 2009 resulted from lagging of associated gas processing and transportation infrastructure development from increased production.

According to the Program for Increased Use of Associated Gas from 2010 to 2013, the associated gas utilization rate by 2013 is expected to reach 95.6%. In 2010, 164 million rubles was invested in this program. By the end of 2013, the Company intends to spend 2.01 billion rubles to increase the associated gas utilization rate.

At certain fields, however, viable transportation of associated gas to a central processing station, plant or directly to consumers is impossible. In such case, increased use of associated gas will result in a significant increase in oil production costs and practically in operating at a loss. A solution, according to the Company's specialists, could be in preferential tax treatment or assignment of all rights and responsibilities of associated gas usage to small businesses. This approach, however, requires decisions to be made on the government level.

The Company cooperates with authorities at various levels in finding solutions to industry problems, in particular, challenges related to associated gas. The Chair-



man of the Board of Directors of Sistema is on the government committee for fuel and energy complex, rehabilitation of mineral resources and increasing energy efficiency of the economy. The representative of Bashneft along with representatives of other Russian oil and gas and petrochemical companies is on the task group of the Russian Ministry of Energy for associated gas use (utilization). Based on suggestions considered by the task group, in 2010 the Ministry of Energy developed and submitted for consideration by the Russian government an action plan to promote effective associated gas use.

Soil Protection and Waste Management

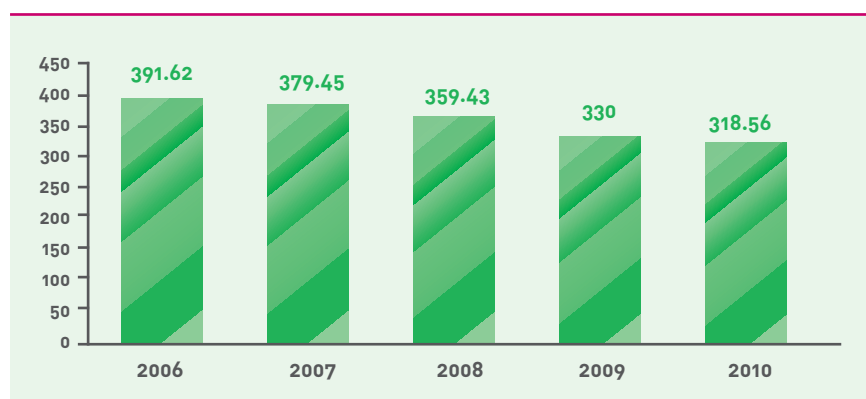
The oil industry is among active consumers of land resources as oil production, handling and transportation require numerous production facilities.

The Company widely uses a cluster well construction method for sustainable and efficient use of land resources. From two to twenty wells are built on one site which significantly reduces the amount of land taken by drilling facilities and its utilities, reduces the length of oil and water pipelines.

Another way of soil protection is enhancing reliability of pipelines and equipment to minimize leaks of oil liquid mixture on the surface. The Company currently uses virtually all anticorrosion methods available in international practices for protection of wells, pipelines and processing facilities.

In the course of production activities, the Company produces over 30 types of industrial and household waste utilized by specialized companies on a contractual basis. The main waste resulting from oil production and processing by Bashneft is oil sludge.

Reduction in Accumulated Oil Sludge, thousand tons



Safety: People and Environment



The Company is currently implementing a program for liquidation and reclamation of ground oil sludge pits accumulated during many years of oil production at Bashkir fields. Over 130 thousand cm of oil sludge was processed with an Alfa Laval oil sludge processing unit. By the end of 2010, the Company liquidated 16 oil sludge pits, the land of which was subsequently reclaimed.

The Company built two special sites with state-of-the-art equipment. In 2010 Tuymazaneft purchased and started operation of an oil sludge utilization furnace (UZG-1), and Ishimbayneft plans to procure similar equipment.

The Company annually processes 20 to 25 thousand tons of oil sludge. The amount of newly created oil sludge equals the amount of their utilization and does not pose environmental risks.

Since 2007 Bashneft-Dobycha has been using US-made MegaMAX portable tank cleaning system for cleaning tanks and storage reservoirs. During this period, the system was used to prepare 7 thousand cm of oil sludge for processing upon tank cleaning. The unit enhanced labor safety of tank cleaning and reduced the amount of solid oil-contaminated waste stored in sludge collectors.

Bashneft monitors the condition of soil in oil fields and uses a soil cover production control system including the following:

- annual spring inspections of the areas;
- prevention of emergencies with further control of disturbed soil reclamation efficiency;
- taking into consideration soil condition assessment results for ecological support of design documents.

From 2008 to 2010, based on environmental monitoring results for monitored facilities, the share of facilities negatively affecting soil (oil contamination) dropped from 25.3% to 19%.

Researching Best Nature Conservation Practices

A group of ecologists from Bashneft-Dobycha visited Tatneft enterprises in Almetyevsk to research the company's nature conservation practices. The group from Bashneft visited several nature conservation facilities at Bavlyneft oil and gas production departments. The ecologists received detailed information on nature conservation technologies used by Tatneft to reduce environmental impact of oil production. They examined natural springs restored by oil producers and learned about the procedures of the review contest For Maintaining Aesthetic Value of Springs and Water Quality Improvement held by Tatneft.

Specialists of Bashneft attended the Second All-Russian Congress of Ecologists from Oil-Producing Regions in Tomsk. Along with ecologists of nine largest oil companies from nine regions of Russia, they discussed pressing challenges and innovative technologies to be used by oil and gas production companies.

Fuel Production According to International Environmental Standards

Motor transport is one of the main sources of atmospheric pollution. Over one million vehicles are in use in the Republic of Bashkortostan including nearly 300 thousand in Ufa. Emissions by motor vehicles account for 60 and more percent of total emissions of harmful substances into the atmosphere.

The main solution to reduce negative impact of motor transport on the atmosphere is to reduce the amount and toxic level of exhaust gases.

One of the ways to accomplish that is to transition to Euro-4 and Euro-5 motor fuel produced at Ufa refineries.

The refineries are upgrading available units and building new ones to produce 100% of motor fuel in line with the new environmental standards.

Total emissions of pollutants into the atmosphere upon transitioning from Euro-2 to Euro-4 are reduced by 10.5 times for gasoline and 7.5 times for diesel fuel. Euro-4 reduces emissions of harmful substances into the atmosphere by 40% as compared to Euro-3. Euro-4 reduces CO emissions by 2.3 times as compared to Euro-3, and hydrocarbons – by 2 times. Euro-4 reduces the content of nitrogen oxide in exhaust gases by 30%, solid particles – by 80%, sulfur – by 0.005%, aromatic hydrocarbons – by 35%, benzole – by 1%.







Economy and Society



Contribution to Economic Development of Areas of Operation

Performance of Tax Liabilities to Budgets of All Levels

Bashneft is a major taxpayer. The Company's tax payments account for over a half of Ufa's budget and comprise 10.2% of all budget revenues of the Republic of Bashkortostan and 20% of tax revenues to the budget. While in 2009 tax payments totaled 8.5 billion rubles, in 2010 this amount reached 12.3 billion. In addition, oilfield companies servicing BashTEK annually pay 2.5–3 billion rubles to the budget of the republic.

Bashneft makes payments to budgets of all levels and off-budget funds according to the established time frame and in full. In 2010 the Company had no overdue debt to the budget, state non-budgetary funds or wage arrears. There is no overdue debt for the above payments and the type of economic activity in general.

Modernization Development

The Company sees an inseparable connection between its strategic development goals and sustainable development tasks of the Republic of Bashkortostan in economy, environmental protection and social infrastructure development.

By making significant investments in modernization, implementing advanced technologies both in production and corporate management, Bashneft promotes the development of related industries and institutes of the region.

Bashneft intends to preserve and significantly strengthen its status as a technological leader in the oil refining industry. The Company's investment program includes projects designed to further increase refining depth rate with a higher output of light oil products, enhance the quality of motor fuel according to technical regulations and cut processing costs. In 2009 and 2010 the Company spent over 10 billion rubles for these programs, and by 2015 the Company plans to invest 46 billion rubles in modernization of oil refineries.

The Company invested 112.4 million rubles in research and development in 2010. By requesting scientific and design institutes to develop, and oilfield service company – to implement and adapt advanced technologies, Bashneft promotes the development of related industries. The Company aspires to use mostly Russian developments. For instance, a delayed coking unit used at Ufaneftekhim was designed by Bashgiproneftekhim institute based on a technology developed by the Ufa State Petroleum Technological University and the Oil Refining and Petrochemical Institute (also in Ufa).

As a rule, procurement policies in effect at the Company's enterprises do not give preference to local suppliers. All procurement is done by tender, and the main criteria in supplier selection are the quality and cost of products and delivery period. However, local suppliers have a competitive advantage due to lower transportation costs. Based on the nature of operation, the share of procurement from local suppliers varies between 5% and 30% for equipment and materials and reaches 95% for work and services.

The Company purchases equipment both from local producers and world's leading manufacturers. Through involvement of leading western companies in reconstruction of facilities at its refineries, Bashneft helps improve investment climate in the republic. Upon agreement with the Government of Bashkortostan, Bashneft participates in and sponsors a number of conferences and seminars in chemical industry and petroleum chemistry including to attract companies producing most advanced equipment. Bashneft's successful operation in the



last two decades vividly confirms that the republic is a place for reliable investments.

Upon Bashneft's initiative, the Russian Union of Industrialists and Entrepreneurs held a round table discussion on Modernization Development of Regions as an Integral Part of Corporate Responsibility. The event was attended by representatives of business, ministries and departments of the Russian Federation, representatives of the United National Global Compact and members of the Public Chamber of the Russian Federation. Mr Viktor Mishnyakov, Vice-President for Strategy and Development with Bashneft, presented a report on Modernization and Social Investments as a Contribution to Sustainable Development in the Region of Operation.

Lowering Prices for Fuels and Lubricants for the Agricultural Sector for the Harvesting Campaign

The Company considers seasonal price cuts during the harvesting time as its contribution to developing the economy of the region. In August 2010 Bashkirnefteproduct set special prices for Euro diesel fuel and Normal-80 gas sold in small wholesale to agricultural producers for the entire harvesting period. Diesel fuel and gas was

sold to agricultural companies and farms with a 10% discount to the current wholesale price.

Product Quality

A priority trend in scientific, technical and innovative development of Bashneft is improvement of product quality.

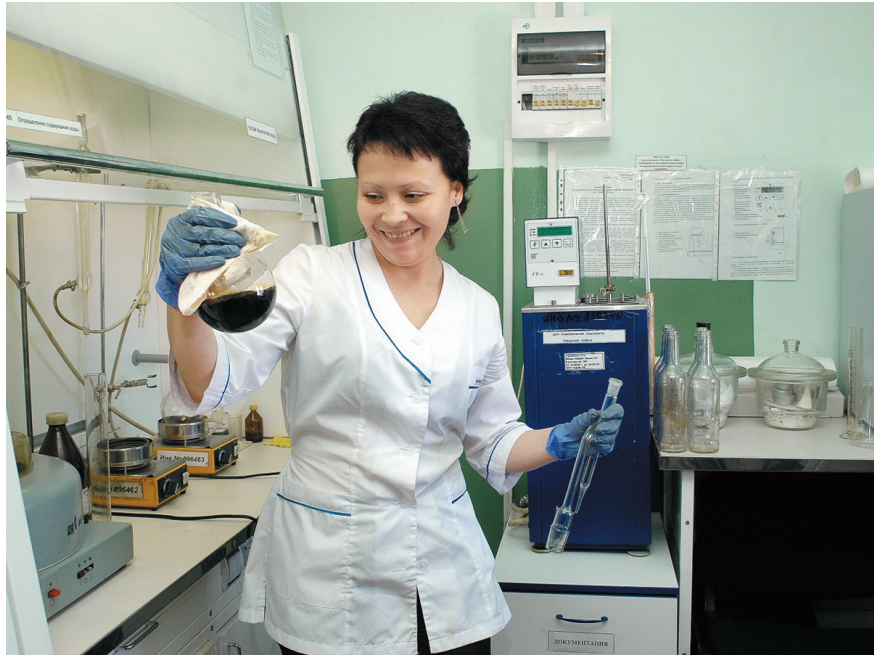
All products of the Company have safety data sheets providing consumers with accurate information on the safety of industrial use, storage, transportation and utilization of chemical products and their domestic use.

Certain products come with a sanitary and epidemiological inspection report, a document confirming product safety regarding their compliance with sanitary, epidemiological and hygienic requirements.

All products that get in Bashkirnefteproduct's sales network are inspected for compliance with requirements of technical regulations. Quality control with the Company is supported by eight laboratories: seven certified stationary laboratories and one accredited laboratory for express analysis of oil product quality at gas stations. Their main goal is to prevent sales of low-quality oil products. Quality control is performed at all stages of product distribution from the supplier to the consumer. Upon receipt from the manufacturing plant, oil products

Economy and Society

The Company's management determined the functions of departments and duties of officials to determine and comply with consumers' demands to improve their satisfaction. With this purpose, the Company annually assesses customer satisfaction through questionnaire surveys



undergo an incoming (acceptance) inspection. While stored in petroleum storage reservoirs, oil products are tested for compliance with GOST. Samples are taken daily and tested for physical and chemical properties.

In 2010 no incidents of incompliance of the Company's products with regulatory requirements regarding their affect on health and safety of consumers were reported.

By 2013, the Company plans to assign 9.7 billion rubles for improving fuel quality for its compliance with the requirements of technical regulations.

To improve service quality, in 2010 the Company developed and implemented customer service regulations for gas stations and oil loading-unloading stations of Bashkirnefteproduct. The conduct standards were developed based on suggestions received from the Company's departments including by hot line arranged for feedback from consumers. According to the new regulations, operators of stations should be considerate, attentive and polite to customers in any situation. The rules define the procedure of using Bashkirnefteproduct's corporate style and regulate staff actions in case of emergencies and potential criminal offenses.

The Company's refineries participate in 100 Best Products of Russia and Best Products of Bashkortostan contests. Novoil also participates in programs by the Federal Agency for Technical Regulation and Metrology to verify the consistency of quality and competitive strengths of its products.

In 2010, Ufaneftekhim received the annual award of the President of the Republic of Bashkortostan for product quality based on performance in 2009. The award is given to organizations for implementation of high-efficiency quality management methods.

Optimization of Service Company

Bashneft is the largest employer in the Republic of Bashkortostan providing jobs to about 1.2% of economically active population of the region. About 28 thousand people are employed by service enterprises established in the mid 2000s as a part of Bashneft's reorganization. Service enterprises support

The Company sees consumer orientation as its priority.

Thus, Novoil has developed, documented and is maintaining a quality management system at the aviation kerosene production ensuring compliance of products and processes affecting their quality with corresponding requirements

operating process of the Company and its subsidiaries and use assets of the Company being, however, independent economic entities.

In connection with natural depletion of oil reserves in the republic, lack of new prospective fields for exploration and high degree of development of explored reserves, Bashneft developed an optimization program for service organizations. The program provides for consolidation of productions and creation of well balanced competitive enterprises capable of obtaining new contracts from oil companies in other regions of the Russian Federation.

In 2010 as a result of consolidation and optimization of business processes, several service companies entered the free market and became loss-free enterprises. To minimize economic and social consequences of restructuring, upon request of the President of Bashkortostan, a task group was created at the Government of the Republic of Bashkortostan under the leadership of the Minister for Economic Development. The task group includes representatives of the Republic's government, Bashneft and heads of local municipal and district administrations.

The task group developed a list of monosettlements in the Republic, the situation in which was analyzed and employees of oil and other companies were released from employment, and operational decisions were made. Suggestions have been developed for employment of dismissed employees.

The optimization process primarily concerns administrative and management staff of service organizations. Optimization is performed in strict compliance with the Labor Code of the Russian Federation. All discharged employees receive compensations and payments according to labor laws.

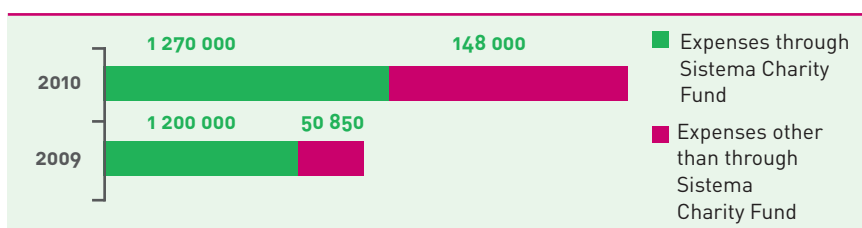
Negotiations are being carried out with heads of administrations with participation of Bashneft regarding the use of vacated production facilities for creating new jobs in the context of small business development in the regions.

In connection with reorganization of the Nizhnevartovsk Oil and Gas Production Administration, separation of service organizations and dislocation of management staff in the Belorussky village, the management of Bashneft-Dobycha met with the head of the Nizhnevartovsk district of the Khanty-Mansiysk Autonomous District. The topic of the discussion was the Company's plans regarding further development and operation of the Khazarsky, Borovoy, Lyukpaysky and Kirsko-Katynsky oil and gas fields in the Nizhnevartovsk district. The Company's representatives assured the head of the region that reforms would not affect tax revenues of the local budget or result in reduction in the number of work places. In the future the Company intends to replace employees working on a rotational basis with specialists from the local community.

Social and Charity Projects

The Company also shows its responsibility to society through long-term social investment programs based on the policies Charitable Activities of Bashneft and On Corporate Social Responsibility.

Charity Expenses, thousand rubles



Economy and Society



The Company's primary social investment directions are the following:

- development of Bashkortostan's social infrastructure;
- science and education support;
- support of vulnerable groups of population;
- sports development including children sports.

An important priority is development and implementation of target social and charitable programs and projects designed to promote social, economic and cultural development of areas of the Company's strategic interests in cooperation with local authorities and communities. The majority of funds used for such projects are provided through Sistema charity fund in the Republic of Bashkortostan. In 2010, the amount of funds spent on charity went up 11.8%.

Investments in Social Infrastructure Development

In 2009 in the course of signing documents for acquisition of BashTEK's

shares, Sistema and the Republic of Bashkortostan signed a master agreement on cooperation which, among other things, includes financing of the construction of social projects in the cities and villages of Bashkortostan. The amount of assigned funds directly depends on the Company's financial performance affected both by management quality and taxes and excise taxes imposed by the government.

In the framework of the agreement, in May 2010 the branch of Sistema charity fund and the government of the Republic of Bashkortostan signed an agreement on investments in social infrastructure development of the republic for 2010. The program budget developed with participation of Bashneft's fund totaled 1.27 billion rubles (1.250 billion rubles in 2009). These funds are used for construction and reconstruction of preschools, schools, clinics, hospitals and sports facilities in cities and districts of the republic. In 2010, the Company financed the construction of 20 social infrastructure facilities in seven regions of the republic including in the City of Ufa. The list of financed projects is developed upon agreement with the local government.

These projects include the following:

- kindergarten in the Kandry village of the Tuymazinsky district;
- social and cultural center in the Kirzya village of the Karaidelsky district;
- covered skating rink in the city of Sibay;
- municipal clinic in the city of Sibay;
- leisure center in the Karagay health resort of the Mechetlinsky district;
- central hospital in the Sterlibashevsky district;

Through the Company's assistance, residents of the republic get access to high quality and high-tech educational and medical services

- hospital facility in the Bazilevka village;
- second stage of Ufa-Arena universal sports complex;
- paralympic sports center in the village of Mishkino, etc

Through the Company's assistance, residents of the republic get access to high quality and high-tech educational and medical services.

The Company also promptly responds to emergencies. In the summer of 2010, at an emergency meeting of the board of trustees of Sistema charity fund, a decision was made to develop a settlement in the Vyksunsky district of the Nizhny Novgorod Region, residents of which lost their homes to forest fires. Bashneft assigned 25 million rubles for construction of new residences for fire victims.

Bashneft supports maintenance and development of facilities with historic, religious, cultural and nature-conservation value.

In the context of the social and economic partnership agreement with the Nizhnevartovsk district administration of the Khanty-Mansiysk Autonomous District, in 2010 an orthodox church with a chapel in the village of Vata and a chapel in the village of Agan were built. The Company makes annual allocations for Sabantuy (national holiday) celebrations.

Mr Alexander Goncharuk, Chairman of Bashneft's Board of Directors, discussed the prospects of Bashneft's participation in the social and economic development of the Nenets Autonomous District at a meeting with Governor Igor Fedorov. The meeting took place in connection with the Company's participation in bidding for the Trebs and Titov field (located in the Nenets Autonomous District) development license.

The Company's government maintains regular communication with state authorities of all levels. Since 2010, Mr Alexander Goncharuk, Chairman of Bashneft's Board of Directors and a member of the Board of Directors of Sistema, has been on the President's Council Board of Bashkortostan, a permanent advisory body created to develop suggestions regarding major directions of state policies, enhancing the efficiency of local authorities, etc.

Charitable and Social Projects – 2010

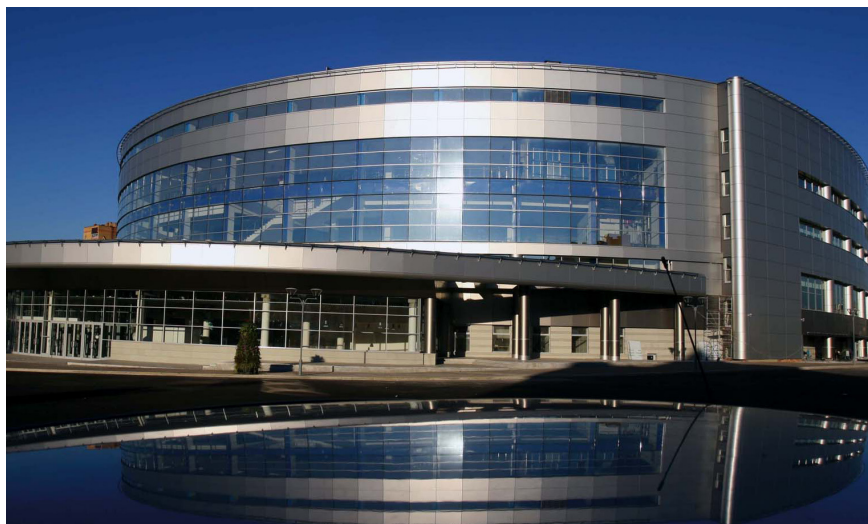
Support of Juvenile Social Rehabilitation Center

For three years Bashneft has been supporting the Ufa Juvenile Social Rehabilitation Center. The Company holds regular celebrations, performances and

educational events with participation of Bashneft management and Ufa authorities for children and teenagers who found themselves in a difficult situation. In 2010, the Company provided the center with certificates to purchase a Gazel minibus and clothing for children from Detsky Mir. All children will also receive useful gifts for school.

Children's Playground at the Petrochemists' Leisure and Recreation Park

The Pobeda Park in the heart of the residential district in the northern part of the city is a favorite place of city residents. The park was started in 1947



Economy and Society



in commemoration of victory in the Great Patriotic War. The park was created with participation of many residents of the Ordzhonikidze district (at that time – the City of Chernikovsk) working at oil refining and chemical enterprises. Bashneft created a children's playground as a gift for young visitors of the park. The playground features swings, slides and sports structures for children aged three to twelve.

Social Events for Children of the Staff

Bashneft's social activities are also directed towards families of employees with emphasis made on children. The Company holds regular events for children including the New Year celebration, Children's Day and Knowledge Day attended by about 1,000 children and their parents. In 2010 the Company created a new corporate character – Neftyonok. This friendly, active and hard-working character appears at all Bashneft children's events.

A corporate contest of children's art My Family are Oil Workers is very popular. The contest is open to children aged 14 and under and receives up to 1,000 pieces of children's art. The contest results are announced in May, and young artists receive their awards at a ceremony with participation of the Company's management.

Children's Football Development

In partnership with CSKA football club, Bashneft supports children's football development in the Republic of Bashkortostan.

In the context of this program, a number of events are planned in Ufa based on children's sports schools including the following:

- master classes for young athletes and coaches;
- visiting exhibition games of the children's select team;
- visiting meetings and seminar for advanced training of football coaches in Bashkortostan;
- attendance of CSKA games by trainees and coaches of sports schools.

In 2010 with the Company's support a number of events took place promoting children's football and football movement development. Best children's coaches held seminars for coaches of the Children and Youth Sports School of the Republic of Bashkortostan. The CSKA goalkeeper Igor Akinfeyev and half-back Elvir Rakhimich met the students

of Voskhod Specialized Children and Youth Sports School of Olympic Reserve No. 9. Alan Dzagoyev, a player of the Russian national team and CSKA half back, and Georgy Schennikov, full back, came to meet nearly 700 children in Sokol and Druzhba camps.

Republican Contest for Young Traffic Policemen

With the Company's support, a Safe Wheel contest for young traffic policemen took place in Sterlitamak with participation of 300 school children from all districts and cities of the republic who came to the Sputnik recreation center.

Over 7 thousand veterans and home front workers of the fuel and power industry heard from Bashneft on the Victory Day

The goal of the event supported by the State Road Inspection was to reduce the number of traffic accidents involving children and improve the situation on the roads in Bashkiria.

Assistance for Veterans

Bashkirneft transferred over 1 million rubles to the Bashkir Republican Public Organization of Veterans (Retirees) of War, Labor, Armed Forces and Law-Enforcement Agencies. The organization unites over 10,000 participants of the Great Patriotic War and over 80,000 home front workers.

The funds provided by Bashneft were used for assistance to those in need of help and arrangement of festive events for the elderly.

The Company does not forget its own veterans of war and labor. The Company arranged a series of festive events dedicated to the 65th Victory Anniversary. An event titled Cadets. Connection between Generations took place at Ufa military school. Upon Bashneft's initiative, 30 veterans of the Great Patriotic War who used to work in the fuel and power industry were invited to meet the future defenders of Russia. Bashneft also initiated Thank You for Peace campaign with thirty posters with words of gratitude to veterans installed in the capital of the republic, and a festive concert took place in the Chemist Community Center.

Over 7 thousand veterans and home front workers of the fuel and power industry heard from Bashneft on the Victory Day. Many veterans received gifts and cards with words of gratitude for the victory. The cards were signed by employees of Bashneft – from operators to the President of the Company.



Cultural Projects

Due to the efforts of Bashneft and Sistema Charity Fund, an exhibition of renowned landscape artist Arkhip Kuindzhi was arranged to mark the 165th anniversary of the artist. The exhibition of a unique collection of canvases from the Russian Museum was a prominent event in the cultural life of the capital. Such exhibitions have become possible due to the Rossiya program of the Russian Ministry of Culture and an agreement between Sistema Charity Fund and the Russian Museum.

In September 2010, a virtual branch of the Russian Museum opened at the Ismagilov Ufa State Art Academy. This unique educational and information center gives a chance to take a virtual tour of the museum and see masterpieces of renowned artists.

With the support of Bashneft, the virtual branch of the Russian Museum was equipped with state-of-the-art multimedia equipment.

The Virtual Branch of the Russian Museum is a unique regional network of information and educational multimedia centers in Russia and abroad developed by the Russian Museum with the funds provided by Sistema Charity Fund.

Science and Education Support Cooperation

Agreement between Bashneft and the Ufa State Petroleum Technological University

In the summer of 2010, Bashneft and the Ufa State Petroleum Technological University signed a cooperation agreement. The five-year agreement is designed for mutually beneficial cooperation between the University and Bashneft and entails target contractual preparation of students in professions requested by the oil company, advanced training of Bashneft's current employees and their involvement with the educational process and joint scientific developments.

For practical training, potential future employees of Bashneft will get field experience at the company's enterprises to help them adjust to production conditions within a shorter period.



Scholarship Program

The agreement between Bashneft and the University also provides for a scholarship program. In 2010, 47 students of the University interviewed by the Company's HR Department, received personal scholarships from Bashneft. After graduation, the best students will be offered a job within the Company.

Scholarships vary from 1,500 to 2,500 rubles, and Bashneft allocated 1.5 million rubles for the scholarship program for 2010 and 2011.



I Want to Be an Oil Worker Internet Project

On the first stage of the long-term joint social program of Bashneft and the Ufa State Petroleum Technological University supporting pre-college education, in 2010 the Company launched an educational website at www.neftyanik-school.ru. This is the first educational online resource for high school students about professions in the oil industry. The website is designed to promote the interest of students to science (chemistry, math, geology, mining, etc.). Visitors will be able to participate in contests, quizzes, find solutions to given tasks, and winners will get valuable prizes. Such contests among schoolchildren will continue in future with the Company's participation.

In 2010, 47 students were selected to receive **personal scholarships from Bashneft**







Staff

Staff



Staff Structure

As one of the most attractive employers in the region, Bashneft considers it a top priority to provide comfortable labor conditions for its employees, extensive professional and career development opportunities, creative potential development and health improvement.

As of the end of 2010, Bashneft had 27,988 employees (in December 2009 – 29,037). The Company's staff is balanced by age with two thirds being between 30 and 50 years of age providing for optimum combination of physical health and experience.

A reduction of the Company's staff by 1,049 people (3.7%) is primarily accounted for by the restructuring of oilfield service companies supporting Bashneft and optimization of their staff. For more information see Contribution to Economic Development of Areas of Operation.

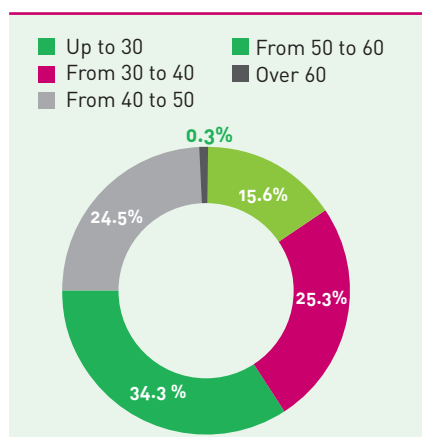
In a number of areas, the Company's management staff was increased due to the opening of marketing and power departments, an investor relations department and a department for cooperation with state authorities.



According to HR policy, employees are seen as one of the vital strategic resources of the Company ensuring its competitive strength. Personnel development is a top priority of each executive.

Executives and employees of the Company shall “...create labor conditions that do not harm employees’ health and human dignity, provide respectable wages to improve the quality of their life”, and shall “...avoid discrimination based on any criteria and guarantee equal rights and opportunities in remuneration and career development”.

Age Distribution of Employees



From the Code of Corporate Conduct and Ethics of Bashneft

Staff

In 2010, 54,078 employees completed various (including mandatory) training programs, and the Company's expenses for educational programs totaled 70,758 thousand rubles

HR Policies, Provision with Personnel and Employees' Rights

HR Management

The fundamental principles and conceptual approaches to HR management are stated in Bashneft's HR Policies¹⁵ adopted in 2010.

The goals of the policies implemented by the HR Department are listed below:

- timely provision of the Company with highly qualified staff capable of performing tasks for accomplishing business goals;
- creating conditions for long-term mutually beneficial cooperation between the staff and the Company through effective incentives;
- staff training and development;
- efficiency evaluation;
- corporate culture development.

Upon hiring new employees, the Company strives to state selection criteria with maximum clarity. The alternative (contest) selection system is based on uniform principles of candidate evaluation on their professional, management skills and general development. Hiring decisions are made regardless of racial or national affiliation, sex or age.

In addition to requirements imposed by applicable laws, obligations in corporate relations voluntarily assumed by the Company are stated in the Code of Corporate Conduct and Ethics approved in 2010¹⁶. According to the Code, the Company's management and employees agree to avoid discrimination based on any criteria and guarantee equal rights and opportunities in labor remuneration and career development. The Company does not use agency labor or other non-typical ways of attracting labor resources that directly or indirectly impair social protection.



¹⁵ Approved by Decree No. 439 of June 28, 2010

¹⁶ Approved by Decision of the Board of Directors of Bashneft. Minutes No. 33 of September 24, 2010



HR Development

Staff Training and Development, Efficiency Evaluation

The Company is implementing the Functional HR Management Strategy according to which the Company regularly hires young specialists, develops staff potential, increases the number of staff that complete additional training.

Educational and training courses are provided in the following forms:

- short-term programs (trainings/courses/seminars for up to 72 hours);
- mid-term programs (advanced training programs from 72 to 500 hours);
- long-term programs (two-year Masters program);
- e-learning.

Staff

The Company's expenses for benefits packages totaled about 218 million rubles with an average package cost of 10 thousand rubles per employee

In addition to mandatory training required by law, employees complete development trainings upon the initiative of the Company. Top and medium level executives and managers participate in continuous training programs. Since 2010, in cooperation with the Corporate University of JSFC Sistema, the Company holds seminars and trainings for developing professional and personal competencies.

In 2010, for advanced training and professional retraining of employees, over 40 thousand people-courses were arranged dedicated to development of professional and management skills including about 7 thousand held for the first time.

The Company pays for MBA programs for its top managers and for professional and technical education for managers and experts in oil and gas production and processing.

Staff training in 2010, people-courses

Bashneft	773
Bashkirnefteproduct	2829
Ufaneftekhim	3643
Ufa Oil Refinery	3276
Novoil	2591
Ufaorgsintez.....	3553
Bashneft-Dobycha.....	37 413

Several top managers of the Company are getting a second degree in oil and gas production at the Ufa State Petroleum Technological University. The Company works with the Corporate University of Sistema JSFC, Russian-Canadian Educational Center of Oil and Gas Technologies, Moscow Institute of Modern





The remuneration offered by the Company is on average higher than in the industry and remains one of the highest in the republic

indicators) and for planning further education.

Service personnel is also subject to annual assessment and performance review. Technical and engineering employees are evaluated every year, and performance review is done every three to five years. In 2010 evaluation was performed for 13 managers of Bashkirnefteproduct (0.27% of total staff), 10 top managers of Ufaorgsintez (0.47%) and at Ufa Oil Refinery (0.53%). Six medium-level managers were evaluated at Novoil. With Bashneft-Dobycha, 11 managers underwent annual evaluation.

The most significant project in HR development in 2010 was evaluation of top and medium-level managers of Bashneft with the assessment center method and creation of personalized development plans.

High qualifications of the Company's employees are confirmed by their success in professional contests in the republic. For instance, Larisa Repina, an accountant within Bashneft, was ranked third in the Best Accountant of Bashkortostan-2010 contest held by the Bashkir Local Institute of Professional Accountants and Auditors.

Business, Saint Petersburg Higher School of Management and other Russian and foreign colleges and universities.

In 2011 the Company plans to launch a corporate program for management competencies development for the candidate pool based on the Higher School of Management of Saint Petersburg State University.

In August 2010, a scientific and practical conference for young specialists of Bashneft-Dobycha took place in Ufa. The conference featured reports, innovation proposals and inventions of 270 young scientists. The conference worked in sessions on various aspects related to the Company's operation including geology, exploration, ecology and economics. The importance of this event is confirmed by the fact that the rate of implementation of scientific developments with Bashneft-Dobycha reaches 80–90%.

The Company is developing a procedure for annual comprehensive staff evaluation including, in particular, an analysis of key performance indicators, level of professional knowledge and qualifications. The system of key performance indicators reports financial and quality tasks and gives an objective evaluation of results. A number of key indicators are related to social and economic performance. The assessment results are considered for incentives (the amount of bonuses depends on key performance



Wages Management, Creation of an Effective Incentive System

Labor Remuneration

Since 2009, the Company has been successfully using a labor remuneration system based on grades which enhances staff motivation and promotes objective assessment of employees' professionalism.

The remuneration consists of the fixed and variable (bonus) parts. The permanent part includes the salary according to the rate, additional payments for harmful labor conditions and a regional rate. The variable part consists of bonuses based on accomplishment of key performance indicators (for a month, quarter, year).

The remuneration offered by the Company is on average higher than in the industry and remains one of the highest in the republic.

Top and medium-level managers also receive bonuses based on the Long-Term Incentive Program. The amount of bonuses depends on the market value of Bashneft's shares.

The ratio of the fixed and variable parts also depends on the importance of position. For workers the ratio of the fixed and variable parts is 85/15 while the ratio for management is 50/50. Bonuses under the Long-Term Incentive Program equal 40% to 50% of the annual salary.

The Company provides its employees with a benefits package, the amount and composition of which is based on position



In 2010 the average wages with the Company (without top management) were 49,901 rubles with the average wages in the industry of 47,030 rubles and the average in the republic of 15,651 rubles.

Since December 2010, the HR Management software solution was put into operation as a part of IT-infrastructure improvement. The software automates payroll calculations.

Employment Benefits

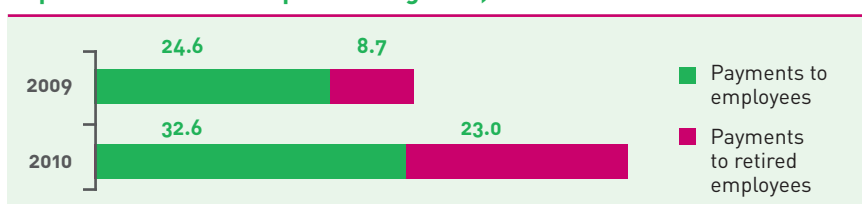
The Company provides its employees with a benefits package, the amount and composition of which is based on position.

The social package includes the following warranties, compensations and benefits in addition to those required by Russian law: recreation and health improvement for employees, recreation and health improvement for employees' children, medical services, cultural events, Christmas presents and celebrations for children, benefits to employees for anniversaries, benefits related to retirements, allowances for ceremonial services, financial assistance in case of contingencies, provision with drinking water.

In 2010, Bashneft paid a total of 55.6 million rubles as benefits to its staff.

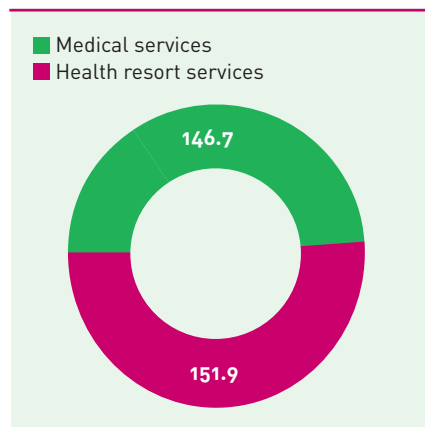
Bashneft allocated 1.03 billion rubles for financing the social aspects of its enterprises in 2010.

Expenses for Social Corporate Programs, million rubles



Staff

Expenses for employees' health in 2010



Cooperation with Trade Unions

The Company guarantees freedom of association. Primary trade union organizations operate at a number of Bashneft's enterprises supporting trade union members. The interests of all employees are represented by labor councils.

Labor and social guarantees, employer's duty to create favorable labor conditions, mutual responsibility of the parties for compliance with labor laws are recorded in long-term collective agreements. All their provisions including labor remuneration, job security upon maintenance of the staff or number of employees, work and leave schedule, safety, discipline and other provisions are fully observed by the Company. All employees of subsidiaries and affiliates are covered by collective agreements.

Collective agreements also describe essential changes in the Company's operation that can have positive or negative consequences for employees.

Employees are notified of any material changes according to a procedure prescribed by applicable laws.

Until 2010, separate collective agreements were signed at enterprises of the Company. The signing of the new collective agreement of Bashneft developed in 2010 is scheduled for 2011. The agreement will be effective through 2013.

Health Improvement and Recreation

Staying in good shape is a fundamental for high performance and satisfaction with life in general. Bashneft allocates considerable financial resources to medical service, voluntary medical insurance and employees' trips to health-improvement resorts.

The Company allocates considerable resources to maintaining recreational infrastructure for employees and their families including five children's camps, seven health resorts and three recreation facilities. According to collective agreements, employees of Bashneft and subsidiaries pay only 10% of the actual cost of trips to children's camps, 15% – to resorts and 30% – to recreation centers. Non-working retirees of the Company receive allowances for resort trips. All employees of Bashneft have a voluntary medical insurance certificate.

In 2010, the Company allocated 151.9 million rubles for medical, preventative, resort and hospital treatment of employees and their families.





The Company pays special attention to recreation and health improvement for children. The Company offers five children's camps (Druzhba, Sputnik, Sokol, Orlyonok and Chayka) for children of various age groups.

In 2010 the Company allocated 60 million rubles for children's summer recreation (36.8 million rubles in 2009). In 2010, 13,520 employees of the Company and their family members including 1,500 children visited health improvement and recreational facilities of Bashneft.

Development of Corporate Culture and Corporate Values

Corporate Events

The Company uses best efforts to create a work environment attractive for employees driven by success, professional and career development. The corporate culture is based on mutual respect of employees of any level and designed to create an atmosphere promoting accomplishment of mutual goals. In 2010, as a part of the program for young specialists, a training "Team Building. Effective Work in the Team" was arranged for the staff of Bashneft-Dobycha.

The Company is developing an intercommunication system to keep all staff informed of current and future goals, accomplishments and management's expectations. The Bashkirskaia Neft (Bashkir Oil) corporate newspaper is an essential component of the Company's activities. It keeps employees informed of latest news, publishes interviews with managers concerning acute issues and tells about Bashneft's veterans. Employees of the Company can address the management through the newspaper, submit their story or photo or write an article

Staff

In 2010 Bashneft allocated **26.6 million rubles** for corporate events

about an interesting event. The Bashkirskaya Neft won an award as the Debut of the Year of the All-Russian Contest for Best Corporate Media 2010.

The Company believes that recognition of the efforts of each employee and emotional support are powerful incentive tools. In 2010, the Company for the first time awarded distinguished employees with Bashneft's corporate award in nine categories – Working Dynasties, Professional of the Year, Manager of the Year, Hope and Promise, Innovator of the Year, Bashneft's Legend, Protecting Economic Interests, Custodian of the Year and Face of Bashneft. The first awards were received on September 3 at a festive concert dedicated to the Day of the Gas and Oil Industry Workers. The prize fund of each nomination totaled one million rubles.

In 2010, the Company held a corporate photo contest "Beautiful Women of Bashneft". Over 200 pictures were submitted from all enterprises of the Company including photos featuring women at work. The photos were judged by representatives of Bashneft, renowned photographers and modeling agencies. Winners received prizes and certificates.

In 2010 Bashneft allocated 26.6 million rubles for corporate events. The Company regularly celebrates the Victory Day, Oil Worker Day, First Grader Day and arranges New Year celebrations for children.

On the Victory Day, the Company pays one-time allowances to veterans. Thus, in 2010 Ufaneftekhim paid 728 thousand rubles (2 thousand rubles each) to veterans. To commemorate the 65th Anniversary of the Victory Day, veterans of the Bashkir fuel and energy sector were invited to the Kamal State Academic Theater for the "Women of the 41st" charity play telling about destinies of Sterlibashevo residents.

Sports

Bashneft supports its employees in leading a healthy lifestyle and makes significant investments in developing sports traditions within the Company. Bashneft is reviving corporate sports. The staff of all oil and gas production departments of the Company and their family members can attend





swimming pools and gyms rented by the Company, and employees of oil refineries in Ufa can enjoy the benefits of gyms opened by the Company.

Sports events to include summer and winter games, cross-country skiing, Kandrykul games, volleyball, football, chess matches, and snowmobile races are very popular with the staff.

In 2010, Bashkirnefteproduct spent 980 million rubles for sports and recreational activities. The Company holds the annual futsal championship and "Indian Summer" field and track race.

The team of Ufa Refinery annually competes in Ufa's futsal and football championship for the trophy of the city.

The traditional Kandrykul Games for employees-athletes from Bashkiria, Chelyabinsk and Omsk Regions, have been held for 16 years on the shore of the Kandrykul Lake. In 2010, over 300 people took part in the Games.

In August, the 17th Arlan half-marathon took place in Neftekamsk. The winner in team classification was Arlanneft of Bashneft-Dobycha.

In 2010, the team of Bashneft came second in the All-Russian Games by JSFC Sistema. Our employees won seven gold, four silver and four bronze medals.

The Company's athletes have gained international recognition. In November 2010, the checkers club of Bashneft won two gold and two silver medals at the 12th European International Checkers Championship for club teams. Murodullo Amrillayev came second in the US open championship for international checkers.

Standard Reporting Elements and GRI Performance Indicators

1. Strategy and Analysis

1.1. Statement of an official in charge of decision making	Word from the Chairman of the Board of Directors of JSOC Bashneft Word from the President of JSOC Bashneft
1.2. Description of key impacts, risks and capabilities	Development Strategy

2. Company Description

2.1. Name	Open Joint Stock Oil Company Bashneft
2.2. Main brands, products and/or services	<p>The main activities of Bashneft are listed below:</p> <ul style="list-style-type: none"> • geological exploration of oil and gas; • oil and gas field development; • oil production, gathering, processing and transportation; • natural and associated gas production, gathering and processing; • construction, installation, repairs and road work; • oil and gas field infrastructure development; • distribution of oil, oil and petrochemical products in the domestic market; • exports of oil, oil products and petrochemicals; • production of oil products, industrial gases, heat and electric power; • production services in all activities, equipment rentals; • overhaul repairs of oil and gas wells, machines and equipment; • manufacturing equipment, spare parts and materials; • trading and intermediary activities and sales; • research and development, experimental and design work; • marketing and investment activities. <p>For a full list of oil products and petrochemicals and liquefied petroleum gases please see the Company's website</p>
2.3. Functional structure	About the Company
2.4. Headquarters	30 Karl Marx Street, Ufa 450008, Republic of Bashkortostan, Russia
2.5. Number of countries of the Company's operation	The Company operates in the Russian Federation
2.6. Ownership and legal form	Shared ownership. Open Joint Stock Company. The main shareholder is Joint-Stock Financial Corporation Sistema. See also About the Company

2.7. Markets of operation (including geographic distribution, sectors, groups of consumers and beneficiaries)	Primary Activities, Products and Regions of Operation
2.8. Scale of the Company	About the Company
2.9. Material changes in the scale, structure or ownership in the reporting period	Primary Activities, Products and Regions of Operation
2.10. Awards in the reporting period	Corporate Responsibility and Sustainable Development Awards

3. Reporting Parameters

General information about the report 3.1 – 3.13	About the Report
--	------------------

4. Management

4.1. Management structure	Corporate Management System
4.2. Indicate whether the chairman of the supreme managing body is also an executive manager of the Company	<p>The Chairman of the Board of Directors is not an executive manager of the Company. The person performing the functions of the sole executive body of the Company (President) cannot simultaneously be the Chairman of the Board of Directors (Regulations on the Board of Directors (clause 3.1.2.).</p> <p>The number of members on the Board of Directors was increased to 13 directors by decision of the extraordinary general meeting of December 8, 2010. The members of the Board are listed in Bashneft's Annual Report for 2010 (page 72)</p>
4.3. Number of independent members of the supreme managing body and/or members not included in the Company's executive management	<p>The Company promotes nomination and election to the Board of independent directors satisfying the requirements of applicable laws.</p> <p>In 2010, three independent directors were elected to the Board satisfying the independence criteria prescribed by the Regulations on the Board of Directors (Clause 2.5.5) and recommended by the Corporate Conduct Code of the Federal Securities Market Commission</p>
4.4. Ways for regulating activities of the supreme managing body by shareholders or employees	<p>The main mechanism for shareholders to affect the Company's operation is the general meeting of shareholders. Primary Interested Parties and Cooperation with such Interested Parties in Bashneft's Report on Corporate Social Responsibility and Sustainable Development for 2009</p>

Table continued →

Table continued

4.5. Connection between payments to members of the supreme managing body, top executive and senior managers and performance of the Company	<p>The members of the Board of Directors and the Auditing Committee of Bashneft receive no remuneration. The members of the Executive Board receive monthly wages according to a labor contract and performance-based benefits upon decision of the Board of Directors.</p> <p>The Company is implementing an advanced staff incentive system based on balanced key performance criteria. The key performance criteria system reports financial and quality performance goals and gives an objective representation of accomplishments.</p> <p>The amount of bonuses depends on the level of accomplishing key performance indicators. A number of key indicators are related to social and economic performance of the Company</p>
4.6. Procedures in the supreme managing bodies designed to prevent conflicts of interest	<p>The members of the Board of Directors refrain from any actions which result or may result in a conflict of their interests and interests of the Company, and in case such conflict exists or arises, they report it to the Board of Directors (Regulations on the Board of Directors, clause 2.4.2).</p> <p>Similar guidelines are prescribed by the current Corporate Conduct Code of the Company. A candidate for the Board of Directors cannot be on the managing or supervisory bodies of companies providing services to Bashneft or be affiliated with such companies</p>
4.7. Procedures for determining qualifications and competencies of the members of the supreme managing body to determine the Company's economic, environmental and social [sustainable development] policies	<p>The Board of Directors determines qualification and other requirements to members of the Executive Board. A member of the Executive Board is required to have a college degree, be a highly qualified specialist in his/her area, have impeccable reputation and no criminal convictions for economic crimes or crimes against the state or morality</p>
4.8. Company's statement of mission and values	<p>In 2010 the Company adopted the Code of Corporate Conduct and Ethics. See also "Position Regarding Social Corporate Responsibility"</p>
4.9. Procedures used by the supreme managing body for monitoring assessment and management by the Company of its economic, environmental and social performance	<p>Analysis of internal and external audit results and auditing committee reports. Application of the key performance indicator system</p>
4.10. Procedures used by the supreme managing body for assessing its own performance, in particular in relation to economic, environmental and social performance of the Company	<p>The activities of the Executive Board are also assessed based on key performance indicators. See also "Staff Training, Development and Performance Evaluation"</p>

4.11. Economic, environmental and social charters, principles and other third party initiatives joined or supported by the Company	In 2010 the Company joined the Social Charter of the Russian Union of Industrialists and Entrepreneurs.
4.12. Membership with associations	<p>The Company participates in the following industry-related and business associations:</p> <ul style="list-style-type: none"> • Non-Profit Partnership Self-Regulating Organization National Association for Expert Appraisal of Subsurface Resources; • Russian National Committee of the World Petroleum Council; • Union of Oil and Gas Producers of Russia; • Association of Oil Refiners and Petrochemists; • Russian Union of Industrialists and Entrepreneurs (member of taxation subcommittee in the oil and gas sector of the Committee for Energy Policies and Energy Efficiency); • International Oil and Gas Exchange; • Saint Petersburg International Commodity Exchange
4.13. List of interested parties	See "Cooperation with Interested Parties"
4.14. Criteria for selection and identification of interested parties	See "Cooperation with Interested Parties"
4.15. Approaches to cooperation with interested parties	See "Cooperation with Interested Parties"
4.16. Key topics identified in the process of cooperation with interested parties	<p>See "Cooperation with Interested Parties"</p> <p>See also "Company's Position in Relation to Oil Production Impact on Water Resources and Optimization of Oilfield Service Companies"</p>

Performance Indicators

<p>EC1. Created and distributed direct economic value including profit, operating expenses, payments to employees, donations and other investments in communities, undistributed profit, payments to capital suppliers and governments</p> <p>EC3. Securing the Company's obligations related to retirement plans</p>	<p>Partially, see "Bashneft's Key Performance Indicators in 2010"</p>
EC3. Securing the Company's obligations related to retirement plans	<p>The Company's enterprises incorporated in the Russian Federation are obliged to make payments to the Pension Fund of the Russian Federation at the established rate.</p> <p>Payments for retirement plans are made concurrently with the payment of wages.</p> <p>See also Bashneft's Annual Report for 2010 (pages 106 and 128)</p>

Table continued →

Table continued

EC6. Policies and practical approaches to procurements from local suppliers	See "Modernization Development"
EC7. Employment procedures for local residents and share of local residents among top executives	The Company does not use special procedures for employment of local residents, however in primary regions of the Company's operation including the Republic of Bashkortostan, the majority of employees including executives are local residents
EC8. Development and impact of investments in infrastructure and services provided primarily for public benefit	See "Investments in Social Infrastructure Development"
EC9. Realization and description of significant indirect economic impact	See "Contribution to Economic Development of Operation Areas"

Environmental Performance Criteria

EN1. Materials used with weight or volume	Partially. See "Bashneft's Key Performance Indicators in 2010"
EN2. Share of recycled or reused materials	Partially. See "Company's Position Regarding the Effect of Oil Production on Water Resources"
EN8. Total amount of water used broken down by sources	See "Use of Water Resources"
EN9. Water sources significantly affected by the Company's water intake	See "Use of Water Resources"
EN16. Total direct and indirect greenhouse gas emissions with weight	Partially. See "Protection of the Atmosphere from Pollutant Emissions and Increased Use of Associated Gas"
EN18. Initiatives to reduce greenhouse gas emissions and results of their implementation	See "Protection of the Atmosphere from Pollutant Emissions and Increased Use of Associated Gas"
EN22. Total waste by type and recycling method	Partially. See "Soil Protection and Waste Management"
EN26. Initiatives to reduce environmental impact of products and services and results of their implementation	See "Protection of the Atmosphere for Pollutant Emissions, Increased Use of Associated Gas, Soil Protection and Waste Management, Company's Position to Oil Production Impact on Water Resources, Producing Fuel Subject to International Environmental Standards"
EN30. Total expenses and investments in environmental protection by types	See "Major Environmental Effects and Consequences"

Social Performance Indicators

LA1. Total work force by type of employment, labor contract and region	Partially. "See Personnel Structure"
LA3. Payments and benefits for employees	See "Benefits Package"
LA4. Share of employees covered by collective agreements	Collective agreements cover all employees (100%)
LA5. Minimum notice period(s) for material changes in the Company's operation	According to Clause IV Employment Security of the Collective Agreement, in case of material changes in the Company's operation (liquidation or staff cuts), the employer shall personally inform employees thereof against signature two months prior to release from employment and shall inform in writing the Labor Council, the Board of Chairmen of Primary Trade Union Organizations of the Oil and Gas Production Department, local employment agency at least two months prior to such measures (in case of large-scale staff cuts – at least three months)
LA6. Share of all employees represented in official joint health and safety committees	Joint labor protection committees on a parity basis include representatives of the employer and employees (labor safety agents)
LA7. Accident frequency rate	Partially. See "Labor Safety"
LA9. Health and safety issues in official agreements with trade unions	The Labor Safety section is a mandatory part of all collective agreements
LA10. Average number of training hours per employee per year	Partially. See "Staff Training, Development and Performance Evaluation"
LA11. Continuous training and educational programs	See "Staff Training and Development, Efficiency Evaluation"
LA12. Share of employees regularly evaluated by performance and career development	See "Staff Training and Development, Efficiency Evaluation"
HR4. Total number of discrimination incidents and response	No discrimination cases were reported in 2010
HR5. Activities posing significant risks to freedom of associations and collective bargaining	The staff of enterprises fully exercises their right for freedom of associations. Trade unions freely operate at all enterprises of the Company, and negotiations are carried out in the context of collective agreements
HR6. Activities posing a significant risk of using child labor	All staff relations are regulated in strict compliance with applicable laws and the Labor Code. The nature of the Company's business excludes the risk of child labor

Table end →

HR7. Activities posing a significant risk of forced or mandatory labor	No cases of forced or mandatory labor were reported. All staff relations are regulated in strict compliance with applicable laws and the Labor Code
HR9. Total number of violations of the rights of indigenous and small-numbered peoples	No violations of the rights of indigenous and small-numbered peoples were reported

Public Relations Performance Indicators

S01. Nature, coverage and results of any programs and practical approaches assessing impact of the Company on community	See "Social and Charity Projects"
S04. Response to corruption	No cases of corruption were reported in 2010. The staff conduct regarding corruption is regulated by the Company's Code of Corporate Conduct. Corruption is also prevented through clear decision-making procedures and the internal audit system. See also "Corruption Prevention"
S05. Position regarding state policies, participation in state policy development and lobbying	See "Increased Use of Associated Gas, Investments in Social Infrastructure Development"
S06. Total monetary value of financial and in-kind donations to political parties, politicians and related organizations	The Company does not finance activities of political parties
S07. General legal cases against the company in relation to response to corruption	Such legal cases are not reported

Performance in Product Responsibility

PR1. Lifecycle stages on which impact on health and safety of products and services is assessed to identify improvement options, and share of essential products and services liable to such procedures	See "Use of Water Resources and Product Quality"
---	--

PR2. All cases of incompliance with regulatory requirements and voluntary codes concerning impact of products and services on health and safety	Not reported
PR3. Types of information on the qualities of products and services required by procedures and share of essential products subject to such information requirements	According to Russian laws
PR4. All cases of incompliance with regulatory requirements and voluntary codes regarding information and markings of product and service description	Not reported
PR5. Consumer satisfaction procedures including results of customer satisfaction surveys	See "Product Quality"
PR7. All cases of incompliance with regulatory requirements and voluntary codes regarding marketing communications loss of consumer information	The activities of the Company, its subsidiaries and affiliates in advertising, promotion and sponsorship were conducted in strict compliance with regulatory requirements
PR8. All reasonable complaints regarding violation of consumer privacy and rights	No complaints were reported

For Notes

