



BASHNEFT

**HIGH
ACHIEVEMENTS**

**HIGH
RESPONSIBILITY**

**SUSTAINABILITY
REPORT 2014**

HIGH ACHIEVEMENTS

HIGH RESPONSIBILITY

Bashneft produces and refines crude oil in Russia, sells oil and petroleum products on the domestic and international markets, and is one of Russia's fastest growing vertically integrated oil companies.

THE KEY AIM OF OUR BUSINESS

is to increase the Group's shareholder value.

OUR MISSION

is to produce energy to meet the needs of society, with maximum efficiency, social responsibility and care for the environment.

OUR VALUES INCLUDE:

quality, efficiency, safety, professionalism and team spirit.





BASHNEFT

**HIGH
ACHIEVEMENTS**

**HIGH
RESPONSIBILITY**

**SUSTAINABILITY
REPORT 2014**

KEY RESULTS OF THE YEAR

38 hours

AVERAGE NUMBER
OF TRAINING HOURS PER
EMPLOYEE

22%

REDUCTION IN THE LOST
TIME INJURY FREQUENCY
RATE (LTIFR)

over 800 million roubles

EXPENDITURE ON
OCCUPATIONAL SAFETY

HIGHLIGHTS OF THE YEAR



P. 69

Implementation of a set of measures to prevent cardiovascular diseases



P. 72

Implementation of a Programme to Attract Young Professionals



P. 81

Reduction of harmful atmospheric emissions due to refinery upgrades



P. 86

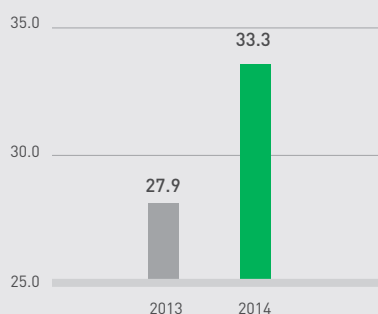
Start of construction of an integrated complex of biological treatment facilities at the Group's refineries



P. 111

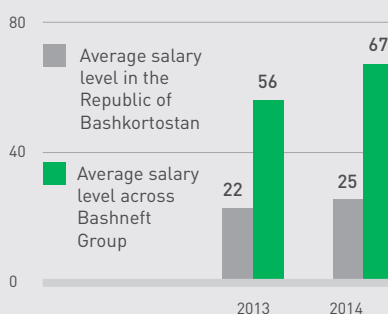
Outcome of implementation of social programmes under agreements with our operating regions

HEADCOUNT, THOUSAND EMPLOYEES



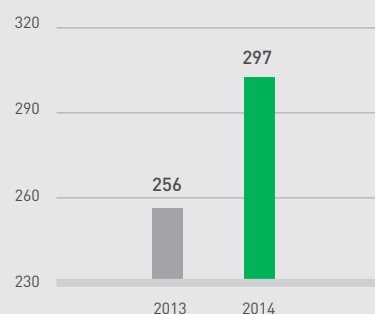
In 2014 the number of Bashneft's employees increased by 20% as petrochemical assets were included in the scope of the Group again.

AVERAGE SALARY, THOUSAND ROUBLES



We maintain a high salary level, which is higher than the average level across the Republic of Bashkortostan, in order to attract and retain the best professionals.

TOTAL AMOUNT OF TAX PAYMENTS, BILLION ROUBLES



We paid 297 billion roubles in tax to budgets of all levels.

85.6%

SHARE OF EURO 5
GASOLINE IN THE TOTAL
OUTPUT

+20%

INCREASE IN OIL
SLUDGE PROCESSING

OUR STRATEGIC PRIORITY IN THE SPHERE OF HEALTH, SAFETY AND ENVIRONMENT IS TO BECOME A LEADER AMONG RUSSIAN OIL COMPANIES IN THE SPHERE OF HSE AND TO MEET INTERNATIONAL STANDARDS.

WE ARE COMMITTED TO AN OPEN DIALOGUE AND RESPONSIBLE COOPERATION WITH ALL STAKEHOLDERS: SHAREHOLDERS AND INVESTORS, EMPLOYEES, CONSUMERS, SUPPLIERS, LOCAL COMMUNITIES AND REGULATORY BODIES

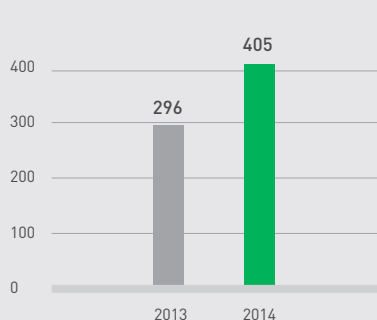
Bashneft's activities in the sphere of sustainable development are based on the ISO 26000:2010 International Standard (Guidance on Social Responsibility), the GOST R ISO 26000-2012 standard (Guidance on Social Responsibility) and guidelines on human rights, employment relations, environmental protection and anti-corruption measures set out in the UN Global

Compact Blueprint for Corporate Sustainability Leadership.

Bashneft is a member of the International Petroleum Industry Environmental Conservation Association (IPIECA)

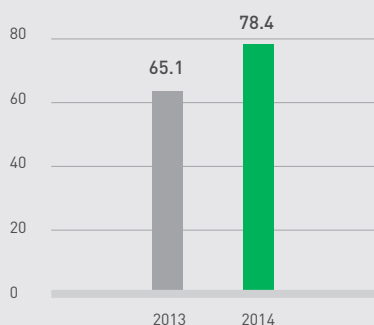
Bashneft is a member of the International Association of Oil & Gas Producers (OGP).

RENOVATION AND MAJOR REPAIRS OF FLOWLINES, KILOMETRES



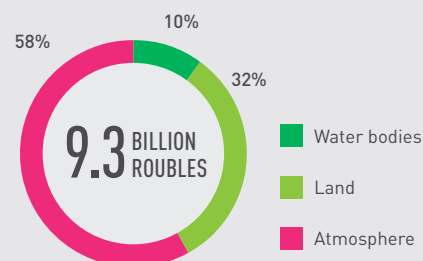
In 2014 we expanded the scope of our programme of renovation and major repairs of flowlines.

OIL SLUDGE PROCESSING, THOUSAND TONNES



In 2014 the volume of oil sludge processing grew by 20%.

EXPENDITURE ON ENVIRONMENTAL PROTECTION BY AREA



In 2014 expenditure on environmental protection measures totalled 9.3 billion roubles.

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DISCLAIMER

Information provided in the Sustainability Report includes projections or other forward-looking statements concerning future events within the Group or its future financial performance. These statements are only forecasts, and actual events or performance may differ from those stated. Forward-looking information is disclosed before the beginning of the reporting period. The actual performance may differ materially from what is declared in our assumptions and forecasts due to a large number of factors. Such factors may include general economic conditions; competitive environment; risks related to operating in Russia and abroad; technological and market changes in the oil and gas sector, as well as other factors related to the Group's operations.

The Report may include certain interim results and projections about future periods. Statements concerning processes beyond the reporting period cannot be considered assertions, and the relevant data should be considered only interim but not final results.

The total amount presented in tables and diagrams in the Report may differ from the sum of component parts due to rounding.



Further up-to-date information on the Group's operations is available on the website at <http://www.bashneft.com>

ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE PRESIDENT OF JSOC BASHNEFT G4-1



ALEXEY TEKSLER

Chairman of the Board of Directors
of JSOC Bashneft



ALEXANDER KORSIK

President of JSOC Bashneft

DEAR COLLEAGUES AND PARTNERS,

We are glad to present the Sustainability Report of JSOC Bashneft for 2014. The Report examines our efforts in the sphere of cooperation with all parties involved in the Group's operations, charity work, health, safety and environment.

In 2014 the global energy market was highly volatile: as supply exceeded demand, the end of the year saw a sharp fall in crude oil prices.

Despite unfavourable external conditions, Bashneft proceeded with its strategic plans. We continued to focus on improving business efficiency while maintaining a high level of corporate social responsibility. We managed to achieve impressive results both in terms of financial and operational performance and in the sphere of sustainable development.

We considerably expanded our resource base (by the end of the year the reserve replacement ratio totalled 179%) and achieved the strongest oil production growth among Russian companies once again: +10.8% year on year.

Completion of major refinery upgrades in 2014 made it technically feasible to ensure that 100% of engine fuels produced by Bashneft are environmentally friendly and meet the Euro 5 standard, while the Group's Nelson Index reached 8.93, which is the best result in the industry.

We successfully continue our work aimed at expanding channels providing access to consumers. The share

of retail sales in the total volume of domestic sales of engine fuel increased to 24%, while Bashneft's retail network was expanded to 582 own filling stations and 220 partner filling stations.

We consistently improve the corporate governance system: in 2014 we enhanced the role of the Company's Board of Directors in making key decisions and completed a large-scale reorganization of the Group: we considerably simplified its organizational and shareholder structures and eliminated cross-holdings.

We expect that further development of the Group in the coming years will involve a number of measures to achieve our strategic priorities. We plan to continue to boost production at brownfields and develop new oil-producing regions, and at the same time to implement a large-scale geological exploration programme. We will continue the refinery upgrade programme aimed at increasing the share of light products, improving energy efficiency and ceasing production of heavy petroleum products. In the sphere of sales and marketing, we aim to achieve a further increase in sales of high-margin petroleum products through integrated development of guaranteed marketing channels, expansion of direct access to consumers and development of sales of niche products. In addition, we aim to continue to improve our corporate governance system.

Work in the sphere of sustainable development remains our priority and one of our strategic objectives. We created an efficient HSE management system. The British Standards

Institution (BSI) acknowledged that Bashneft's integrated HSE Management System complies with the OHSAS 18001 standard and that its Environmental Management System complies with the ISO 14001 standard.

We seek to create a safe and favourable working environment for our employees. In 2014 we implemented an integrated set of measures aimed at ensuring the safety of our employees, which resulted in a 22% reduction in the occupational injury rate by the end of the year. The Group attaches great importance to health care, prevention of diseases and providing employees and their families with opportunities for high-quality recreation.

Bashneft invests in the development of its own employees: in 2014 the average number of training hours per employee reached 38 hours. The Group has in place a Collective Agreement, which stipulates an extended package of social benefits and guarantees for our employees.

We made significant progress in the sphere of environmental protection. The key achievements included a reduction in direct and indirect atmospheric emissions. We are making considerable efforts in the sphere of land conservation: the volume of oil sludge processing grew by 20%; the Group is implementing a programme to improve the reliability of pipelines.

We attach great importance to social development of our operating regions and provision of support to local communities. In 2014 we allocated 1.4 billion roubles for social investments, while the amount of tax payments to

budgets of all levels reached 297 billion roubles.

In the medium term, our tasks in the sphere of sustainable development include further improvement of HSE management and HSE performance: protecting the life and health of our employees, ensuring industrial safety at hazardous production facilities, creating an environmentally friendly company.

All our efforts are aimed at achieving our strategic goal in the sphere of sustainable development, which is to make Bashneft a leader among Russian energy companies and to ensure compliance with internationally recognized standards in environmental protection, corporate governance and sustainable development.

Ongoing fruitful dialogue with all stakeholders enables us to look to the future with confidence and to work towards our strategic goals regardless of external circumstances.

33 thousand
employees

HEADCOUNT

297 billion
roubles

TAXES PAID

1.4 billion
roubles

EXPENDITURE ON CHARITY
WORK AND DEVELOPMENT
OF OUR OPERATING REGIONS

+10.8%

OIL PRODUCTION

ABOUT THE REPORT

GENERAL PROVISIONS

In this Sustainability Report the terms **Bashneft, we, Bashneft Group and the Group** in various forms refer to JSOC Bashneft, its branches, subsidiaries and structured entities. The terms **JSOC Bashneft** and **the Company** refer to JSOC Bashneft.

When referring to the period before the reorganization conducted in 2012, 'Ufimsky Refinery Plant', 'Novoil', 'Ufaneftekhim', 'Bashkirnefteprodukt' and 'Orenburgnefteprodukt' mean JSOC Bashneft's subsidiaries consolidated with the Company, namely OJSC Ufimsky Refinery Plant, OJSC Novoil (OJSC Novo-Ufimsky Refinery), OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt respectively; after the reorganization, these are respective branches of JSOC Bashneft.

JSOC Bashneft publishes the Sustainability Report on an annual basis. This Report covers data within the reporting period from January 1 to December 31, 2014 compared to the results and data for previous periods disclosed by the Group in the Report for 2013, including significant events and changes that may affect the results in the reporting period. The previous Report covered the same period in 2013 and was published in June 2014. [G4-28,G4-29,G4-30](#)

The Report includes data by reporting segments which form the basis for accounting when preparing financial statements for 2014 under RAS and Consolidated IFRS Financial Statements for the twelve months ended December 31, 2014, as well as data calculated using a different basis for calculation, which is additionally specified.

In particular, the Report includes information on:

- ✓ the Group's parent company, JSOC Bashneft, including its branches:
 - ✓ the Bashneft-UNPZ Branch,
 - ✓ the Bashneft-Novoil Branch,
 - ✓ the Bashneft-Ufaneftekhim Branch,
 - ✓ the Bashneft-Regional Sales Branch;
- ✓ material subsidiaries:
 - ✓ LLC Bashneft-Dobycha (a 100% stake),
 - ✓ LLC Bashneft-Retail Sales (a 100% stake; previously LLC Bashneft-Udmurtia),
 - ✓ LLC Bashneft-Polyus (a 74.9% stake; indicators are consolidated starting from May 2014),
 - ✓ LLC Burneftegaz (a 100% stake; indicators are consolidated starting from March 2014);
- ✓ other subsidiaries and affiliates:
 - ✓ JSC UPC,
 - ✓ other subsidiaries and affiliates of the Group. [G4-17](#)

The Report also contains information on joint ventures; non-financial indicators of such ventures are included in the Report based on consolidation principles applied when preparing IFRS financial statements.

In this Report we mainly analyse and use the same data as in the Annual Report for 2014. During the preparation of this Report we used various methods for analysing information and data similar to those used in the Group's Annual Report for 2014. We also used the same sources of information as in the Annual Report. Consequently, the analysis of certain

data and events contains references to corresponding sections of the Annual Report. Besides, the Report includes selected pieces of information on events after the reporting date which took place in 2015. Such information does not provide a complete description of the events which took place in 2015 before the publication of the Report; it was used only for representing the development of processes and trends continuing since 2014.


When preparing this Report, we used the fourth generation of the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI 4.0) supplemented by a set of industry-specific non-financial performance indicators recommended for oil and gas companies (Oil and Gas Sector Disclosures).

When preparing this Report, we used the Core option of disclosure. A table containing a complete list of aspects covered by the Report and the numbers of the relevant pages is presented in Appendix 1 'GRI Content Index'. [G4-32](#)

In the future, we plan to gradually expand the scope of information disclosures as part of a transition to the Comprehensive option; therefore, in this Report we seek to disclose more information on a number of aspects than what is necessary for meeting the minimum requirements.

The Sustainability Report for 2014 has not been externally assured by professional auditors. Nevertheless, the Group recognizes the importance of professional external assurance procedures for improving confidence in non-financial reports and plans to seek external assurance in the future.

At the same time, we have received public endorsement for our Report from the RSPP Council on Non-Financial Reporting and have used the GRI Materiality Disclosures Service procedure. **G4-33**

 For details on the Group's structure, scope of consolidation, interests and subsidiaries, see the Annual Report of JSOC Bashneft and Consolidated Financial Statements for the year ended December 31, 2014

DEFINITION OF MATERIAL ASPECTS AND THEIR BOUNDARIES

Our approach to defining the content of the Sustainability Report for 2014 was based on monitoring and identifying key topics considered in the course of stakeholder engagement. The Report covers events and issues whose disclosure was of crucial importance both for stakeholders and for the Group itself in the reporting year. **G4-18**

We summarize the number and content of requests received through various communication channels. We not only consider the outcomes of stakeholder engagement but also hold consultations with the management of business units and subsidiaries responsible for the aspects presented in the Report. Furthermore, we analyse performance indicators for the reporting year and key events that took place in that year. In addition, we take into account an analysis of best practices used by Russian and foreign oil and gas companies for defining the content of non-financial reports.

Based on the analysis of information that we have gathered, we compile a provisional list of issues that are of the

greatest importance for stakeholders. In the course of discussion with senior executives of various divisions and business units of the Group, a working group identifies a set of aspects that meet the materiality criteria; this set is ranked in terms of relevance for the Group's sustainable development. At the same time, we seek to maintain continuity and consistency with the topics, aspects and indicators disclosed in previous years.

A specific list of material aspects is compiled by Bashneft's supreme governing body taking into account a comprehensive vision of the current situation and the strategic course of future development.

The issues and aspects that we have identified play an important role in the business of all divisions, business units and material subsidiaries.

Appendix 2 'Material aspects of business' contains a list of material aspects analysed and considered in this Report, specifying the degree of their materiality based on their importance for various stakeholder groups and Bashneft's sustainable development. **G4-19, G4-20, G4-21**


Information on management approaches to material aspects of the Group's business is disclosed throughout the Report in the relevant sections.


DIFFERENCES FROM THE SUSTAINABILITY REPORT FOR 2013

The scope of consolidation of data for 2014 includes LLC Burneftegaz, a large oil producer whose main assets are located in the


Khanty-Mansi Autonomous District, and JSC UPC, a company within which the Group's petrochemical assets have been consolidated.

The Report contains certain data on considerable changes compared to previous periods; practically all of them are mentioned and explained in the text. In particular, the differences may involve changes in the scope of consolidation and methodology for calculation of certain indicators. **G4-22, G4-23**

 For details on the acquisition of LLC Burneftegaz and the consolidation of petrochemical assets, see the Annual Report of JSOC Bashneft for 2014

 The Sustainability Report of JSOC Bashneft for 2013 is available on the Group's website at http://www.bashneft.com/files/iblock/540/OUR_2013_ENG.pdf

HIGH STANDARDS IN DEVELOPMENT



THE GROUP'S SUSTAINABLE DEVELOPMENT IS A CRUCIAL ELEMENT OF BASHNEFT'S STRATEGY WHICH PROMOTES LONG-TERM GROWTH AND MAKES IT POSSIBLE TO CREATE ADDED VALUE TAKING INTO ACCOUNT THE INTERESTS OF ALL STAKEHOLDERS.

SUSTAINABLE DEVELOPMENT



‘FOR US, SUSTAINABLE DEVELOPMENT IS NOT CONFINED TO SOCIAL WORK OF THE BUSINESS AND ENVIRONMENTAL PROTECTION. THIS IS AN APPROACH TO MANAGING THE COMPANY, ITS BEHAVIOUR IN THE MARKET, INTERACTION WITH THE GOVERNMENT AND SOCIETY. THIS IS A FOUNDATION FOR OUR LONG-TERM SUCCESS AND OUR CONTRIBUTION TO PROMOTING THE DEVELOPMENT OF OUR COUNTRY’S ECONOMIC POTENTIAL AND ENSURING ITS SOCIAL STABILITY.’

Alexey Tekslar,
Chairman of the Board of Directors of JSOC Bashneft

Sustainable development is an essential prerequisite for our long-term growth. Our commitment to the principles of sustainable development is a considerable competitive advantage enabling to add value in the course of our business taking into account the opinion of all stakeholders.

We are fully aware of our great responsibility towards our shareholders, employees and local communities: we have commitments on environmental protection. We make managerial decisions on the basis of the principles of alignment and balance of interests of all stakeholders.

Bashneft is a vertically integrated oil company; in this context, application of the sustainability approaches and the principles of corporate social responsibility involves improving our performance and minimizing potential negative impacts at all stages of the Group’s operations:

- ✓ paying the closest possible attention to environmental aspects of drilling and operation in the course of production;
- ✓ protecting biodiversity and supporting local communities;
- ✓ deriving the maximum value from raw materials;

- ✓ creating the best possible working conditions in the refining segment;
- ✓ producing and selling fuel of the highest quality to minimize atmospheric emissions.

In the course of our business we are guided by sustainability principles, and we are convinced that this is the only possible approach that will ensure impressive achievements in the long term.

AIMS AND VALUES IN THE SPHERE OF SUSTAINABLE DEVELOPMENT AND THE GROUP'S MISSION G4-56

THE FACT THAT BASHNEFT GIVES PRIORITY TO THE VALUES AND PRINCIPLES OF SUSTAINABLE DEVELOPMENT IS REFLECTED IN ITS MISSION: 'TO CREATE ENERGY FOR OUR STAKEHOLDERS, WITH MAXIMUM EFFICIENCY, SOCIAL RESPONSIBILITY AND CARE FOR THE ENVIRONMENT'.

Commitment to sustainable development principles allows us to contribute substantially to increasing the competitiveness of the Russian economy, to support social and economic development of our operating regions, to be a reliable partner of the government and all parties who are interested in creating a stable and favourable social environment.

Our understanding of sustainable development and social responsibility is embodied in our values: quality, efficiency, safety, professionalism and team spirit. Our values help to develop a common approach to achievement of strategic goals and unite all of Bashneft's employees, from the Group's senior managers to ordinary workers. We apply sustainability principles in order to enhance the Group's long-term development potential and to increase the positive impact made by the Group on its operating regions in the course of its business. We have noticed that compliance with

international standards and commitment to best practices in the course of our business have made a substantial positive economic and social impact both in our operating regions and in the country as a whole. We contribute to making Russia's economy more competitive and pay proper regard to environmental protection and development of environmental awareness, including among our partners.

We aim to become a leader among Russian oil companies in this sphere and to adhere to internationally recognized norms and standards.

Principles underlying our work in the sphere of sustainable development and corporate responsibility

- ✓ respect for human rights, including the right for safe working conditions;
- ✓ strict compliance with the letter and spirit of the law;
- ✓ environmental protection that is not confined to our operating regions;
- ✓ respect for the interests and opinion of absolutely all stakeholders on the basis of an open dialogue with them;
- ✓ ethical and honest behaviour conforming to established business norms accepted in the Russian market and international practice;
- ✓ comprehensive development of the Group's potential both through expansion of production capacities and talent development; maintaining a high business reputation.

GOALS AND TASKS IN THE SPHERE OF SUSTAINABLE DEVELOPMENT

Our goals and tasks forming part of the sustainable development policy include the following:

| Area of sustainable development | Main goals | Main tasks |
|---------------------------------|---|--|
| The Group's economics | To improve the corporate governance system | <ul style="list-style-type: none"> To further develop the corporate governance system in accordance with international best practices in corporate governance and governance standards adopted by state-owned companies To integrate recommendations given in the Code of Corporate Governance into the corporate governance system |
| | Investor and shareholder engagement | <ul style="list-style-type: none"> To continue to safeguard the rights and legitimate interests of shareholders and investors To fully integrate the goals and tasks of the new owner into the Group's operations To make the Group still more attractive to investors and further improve the transparency of its business To achieve a further improvement in the quality and quantity of non-financial information disclosed by the Group To seek external assurance of the Group's public non-financial reports |
| | To improve economic efficiency and stability | <ul style="list-style-type: none"> To boost oil production at brownfields in the Republic of Bashkortostan by introducing new technologies and improving the efficiency of the existing ones To develop new oil-producing regions in Timan-Pechora and Western Siberia To continue the geological exploration programme in all of the Group's key operating regions To study and develop gas projects and unconventional hydrocarbon resources |
| | | <ul style="list-style-type: none"> To completely switch over to production of Euro 5 fuels in accordance with the Technical Regulations To continue the refinery upgrade programme aimed at increasing the output of light products, improving the energy efficiency of refineries and ceasing to produce fuel oil and VGO |
| | | <ul style="list-style-type: none"> To achieve a further increase in the sales of high-margin products through integrated development of guaranteed marketing channels and expanding direct access to consumers To develop sales of niche products: jet fuel, bunker fuel, bitumen and lubricants |
| HSE measures | To follow the policy of zero tolerance to corruption | <ul style="list-style-type: none"> To further improve the systems and procedures for preventing corruption To integrate the procurement system in accordance with the standards set for state-owned companies |
| | <ul style="list-style-type: none"> To reduce the number of occupational injuries To protect the health of employees | <ul style="list-style-type: none"> To conduct a comprehensive analysis of causes of occupational injuries and to take measures for preventing injuries and responding to incidents To adopt a zero tolerance approach to violations in the sphere of occupational safety To create favourable working conditions To reduce the number of workplaces characterized by harmful working conditions To provide personnel training and conduct certification in occupational safety To implement programmes aimed at protecting employees' health |

| Area of sustainable development | Main goals | Main tasks |
|---------------------------------|---|---|
| HSE measures | <ul style="list-style-type: none"> • To reduce the negative impact on the atmosphere • To protect water resources in the Group's operating regions • To process and treat waste, including oil sludge • To improve reliability of pipelines and equipment | <ul style="list-style-type: none"> • To continue to improve the system for controlling and monitoring harmful emissions • To reduce direct emissions of pollutants, including by increasing associated gas utilization • To reduce indirect air pollution by switching over to production of engine fuels meeting higher environmental standards • To reduce water consumption, to improve the efficiency of the use of water resources • To increase the share of recycled water • To improve wastewater treatment, including by completing the renovation of wastewater treatment facilities at the refineries in Ufa • To construct and repair water supply systems • To improve and develop mechanisms for oil sludge processing, to eliminate sludge pits • To ensure the safety of pipelines and prevent accidents • To reclaim land and to build sites for processing of solid domestic waste |
| Social work | <ul style="list-style-type: none"> • To develop stakeholder engagement • To develop operating regions and do charity work • To communicate with employees, to develop social guarantees and the corporate culture | <ul style="list-style-type: none"> • To use new stakeholder engagement mechanisms • To develop the methods and forms of dialogue with stakeholders currently in use, including an increase in frequency of communication and expansion of the geographical scope • To efficiently develop social and economic infrastructure and improve the quality of life in the Group's operating regions • To support local communities and indigenous peoples in the operating regions • To increase public confidence in the Group and build up its reputation • To implement an efficient GR policy in regions when dealing with social issues • To develop the best competencies in the industry • To improve the system of incentives, including non-financial incentives and social benefits and guarantees • To develop social partnership within the Group: to cooperate with employee councils, trade unions, retirees, veterans • To continue to form a modern corporate culture |

We believe that it is necessary to align efforts in all areas of sustainable development, and we attach considerable importance to all elements of corporate social responsibility. Furthermore, our efforts in the sphere of sustainable development form an

integral part of an overall corporate strategy.

We believe that it is necessary not only to meet operational and financial targets, but also to tackle environmental and social tasks at the same

time. In doing so, we follow best practices in sustainable development, which helps to make the Group more competitive and to improve its performance. Thus, we improve energy security on the regional and national levels.



CHARTERS AND MEMBERSHIP OF ASSOCIATIONS

Our activities in the sphere of sustainable development are based on the ISO 26000:2010 International Standard [Guidance on Social Responsibility], the GOST R ISO 26000-2012 standard [Guidance on Social Responsibility] and guidelines on human rights, employment relations, environmental protection and anti-corruption measures set out in the UN Global Compact Blueprint for Corporate Sustainability Leadership.

Bashneft subscribes to the principles and main provisions of the Social Charter of Russian Business of the Russian Union of Industrialists and Entrepreneurs. We also took them into account when defining the content of this Report in terms of following a responsible business practice.

The Group's non-financial disclosures in this Report are based on the Global Reporting Initiative 4.0 methodology for information disclosure, which is integrated into its own methods for preparing and gathering information. Overall, the Group has been preparing sustainability reports since 2009.

Bashneft subscribes to principal provisions of the precautionary principle (Principle 15 of the Rio Declaration on Environment and Development of the UN, 1992). We take into account potential environmental implications when making decisions on long-term projects. In the course of preparation for project implementation we carry out an environmental impact assessment. **G4-14**

Bashneft is a member of the International Petroleum Industry Environmental Conservation Association (IPIECA). The Group has also joined the International Association of Oil & Gas Producers (OGP). Membership of these associations formed part of Bashneft's ongoing efforts to improve its corporate governance and approaches to social responsibility, health, safety and environment. **G4-16**

In addition, Bashneft is a member of the Russian National Committee of the World Petroleum Council in order to strengthen the Group's position in the global oil industry. The Group is also a member of Autonomous

Non-Commercial Organization Russian-Arab Business Council; in 2014 Bashneft's President Alexander Korsik chaired the Russian-Iraqi Business Council.

In addition to the above associations and organizations, Bashneft has been a member of the Chamber of Commerce and Industry of the Republic of Bashkortostan since 2000. This membership enables the Group to lobby for the Company's interests in the industry and maintain its business reputation, provides GR support and additional opportunities for building up business contacts.

In addition, JSOC Bashneft and some of its subsidiaries are members or participants of a number of specialized industrial self-regulated organizations and non-profit partnerships, which enables us to obtain permission for certain types of work.



THE GROUP'S KEY EVENTS IN THE SPHERE OF SUSTAINABLE DEVELOPMENT G4-13

An Extraordinary General Meeting of Shareholders of Bashneft approved the decision on reorganization through consolidation of CJSC Bashneft-Invest with JSOC Bashneft. The Meeting also resolved to reduce JSOC Bashneft's authorized share capital approved and a new version of the Company's Charter.

In accordance with the decision of the Federal Subsoil Resources Management Agency (Rosnedra), the Company transferred the licence for the R. Trebs and A. Titov fields to its subsidiary, LLC Bashneft-Polyus.



Bashneft completed the acquisition of a network of filling stations operating under the OPTAN brand name and comprising 91 filling stations and 11 land plots in 12 regions of the Russian Federation.

FEBRUARY

MARCH

Bashneft acquired LLC Burneftegaz, an exploration and production company based in the Khanty-Mansi Autonomous District. The Group gained the right to develop the Sorovskoye and Tortasinskoye fields and licences for geological exploration of the Severo-Ityakhskiy 3 and Vostochno-Unlorskiy subsoil blocks.



Bashneft acquired LLC Promenergore-surs, a leading operator on the retail engine fuel market in Magnitogorsk in the Chelyabinsk Region.

An award from the President of Bashneft for achievements in the sphere of health, safety and environment was handed out for the first time. The Award is given annually for outstanding achievements in this area.

MAY

JSOC Bashneft and LLC Lukoil-Komi established a new joint venture, LLC Vostok NAO Oil Company, to conduct geological exploration and prospecting and produce hydrocarbons at licence areas in the Nenets Autonomous District.

JSOC Bashneft launched a reorganization of its system for retail sales of petroleum products. The reorganization involves consolidation of the Group's subsidiaries and branches specializing in retail sales into a single legal entity, LLC Bashneft-Retail Sales.



AUGUST

JUNE

The Annual General Meeting of Shareholders of Bashneft made a decision to pay dividends for 2013 amounting to 211 roubles per share in addition to dividends of 199 roubles per share for the said period that had been paid earlier.

Bashneft started pilot operation of a catalytic cracking gasoline hydrotreater. The project is aimed at ensuring compliance with the requirements of the Technical Regulations for fuel quality. The launch of the hydrotreater will enable the Group to completely switch over to producing Euro 5 gasoline.

The Group conducted its first-ever Investor Day in London attended by Bashneft's senior managers

Bashneft started pilot operation of a new hydrogen production unit, which will enable Bashneft to ensure that all of its gasoline and diesel fuel output meets the Euro 5 emission standard.

The Board of Directors approved a new Code of Corporate Governance of JSOC Bashneft. The Code incorporates the requirements of Russian legislation, international best practices and principles of business ethics and established approaches to corporate governance developed by the Group. The document incorporates the provisions of the Code of Corporate Governance approved by the Bank of Russia.

EVENTS AFTER THE REPORTING DATE

SEPTEMBER

At an auction for the right to conduct geological exploration, prospecting and production of hydrocarbons, Bashneft won the rights to the Leonovskiy subsoil area in the Republic of Bashkortostan.

Bashneft gained control over 98% of shares of JSC United Petrochemical Company (UPC) through termination of the agreement on the sale of these shares to OJSC JSFC Sistema concluded in September 2013.



NOVEMBER

Bashneft completed the acquisition of a 100% stake in LLC AZS AKTAN, which owns a network comprising 17 filling stations in the Samara Region.

In accordance with the judgement by the Moscow Commercial Court dated October 30, 2014, 122,971,934 ordinary shares and 6,192,245 preferred shares of JSOC Bashneft comprising a 71.62% stake in the Company's authorized share capital and previously owned by OJSC JSFC Sistema and CJSC Sistema-Invest were transferred to the Federal Agency for State Property Management. As a result, effective control over Bashneft's operations was transferred from OJSC JSFC Sistema to the Russian Federation.

On December 29, 2014, subject to the judgement by the Moscow Commercial Court dated November 7, 2014 (case No. A40-155494/2014) and on the basis of the request by the Federal Agency for State Property Management, CJSC Sistema-Invest transferred ownership of 4,107,996 ordinary and 87,831 preferred shares of JSOC Bashneft (together comprising 2.3% of the authorized share capital) to the Russian Federation. As a result, the Russian Federation became the owner of 84.40% of the total number of ordinary shares and 21.08% of the total number of preferred shares of the Company, together comprising 73.94% of the authorized share capital of JSOC Bashneft.

DECEMBER

MARCH 2015

An Extraordinary General Meeting of Shareholders of JSOC Bashneft decided to reduce the Company's authorized share capital by cancelling 2,724,173 ordinary shares with a par value of one rouble each, which were recorded as treasury shares bought back from shareholders as of December 31, 2014.

ACHIEVEMENTS IN THE SPHERE OF SUSTAINABLE DEVELOPMENT IN 2014 G4-2

| Area of sustainable development | Key achievements in 2014 |
|---------------------------------|---|
| The Group's economics | <p data-bbox="293 544 560 577">Exploration and production</p> <ul data-bbox="293 589 1457 969" style="list-style-type: none"> • The reserve replacement ratio totalled 179% • Bashneft and OJSC Lukoil established a joint venture, LLC Vostok NAO Oil Company, to conduct geological exploration and prospecting and produce hydrocarbons at licence areas in the Nenets Autonomous District • Bashneft won a competition for a subsoil area in the west of the Republic of Bashkortostan • The Group continues to adopt and introduce new promising technologies for oil production, which help to increase the efficiency of production and are more environmentally friendly. Annual oil production increased by 10.8% to 17.8 million tonnes • For a fifth year in a row, production at brownfields continues to grow. A significant increase in production (+3.4%) was achieved due to geological and engineering operations • The millionth tonne of oil was produced at the R. Trebs and A. Titov fields • Bashneft acquired LLC Burneftegaz, whose resources are concentrated in the Khanty-Mansi Autonomous District. Thus, Bashneft gained access to a new region of production: 665 thousand tonnes of oil were produced at the newly developed Sorovskoye field <p data-bbox="293 992 379 1025">Refining</p> <ul data-bbox="293 1037 1457 1193" style="list-style-type: none"> • New oil refining units were put into operation, which will enable us to completely switch over to producing Euro 5 engine fuels • Bashneft achieved an increase in refining depth and in the share of light products to 84.8% and 61.1% respectively • The Nelson Index of Bashneft's refining complex increased to 8.93 • The share of Euro 5 gasoline in the total gasoline output amounted to 85.6% <p data-bbox="293 1216 395 1249">Marketing</p> <ul data-bbox="293 1261 1134 1361" style="list-style-type: none"> • Bashneft's own retail network was expanded to 582 filling stations • In 2014 retail sales of high-margin petroleum products increased to 1.5 million tonnes • Bashneft continued to implement its large-scale rebranding programme <p data-bbox="293 1384 671 1417">Investor and shareholder engagement</p> <ul data-bbox="293 1429 1457 1664" style="list-style-type: none"> • In late 2014 the controlling shareholder was replaced. As a result, 73.94% of the Company's authorized share capital is now owned by the Russian Federation represented by the Federal Agency for State Property Management • JSOC Bashneft's shares were included in the top tier quotation list of the Moscow Exchange • Bashneft paid dividends for 2013 amounting to 410 roubles per share • Bashneft held a large number of events for investors, including the Group's first-ever Investor Day in London attended by Bashneft's President and senior management; the Group's management held meetings with investors from the Asia-Pacific region for the first time, and Bashneft's senior executives participated in major investment conferences in Russia and abroad <p data-bbox="293 1686 512 1720">Corporate governance</p> <ul data-bbox="293 1731 1417 1933" style="list-style-type: none"> • The Group continued to further improve the corporate governance system in accordance with best international practices • Bashneft was one of the first Russian companies to have developed and approved a new version of the internal Code of Corporate Governance under a resolution of the Board of Directors; the Code complies with the provisions of the document recommended by the Bank of Russia • Bashneft started to integrate governance practices used in state-owned companies into its corporate governance system following a change of the Company's controlling shareholder <p data-bbox="293 1955 687 1989">Improvement of the corporate structure</p> <ul data-bbox="293 2000 1430 2089" style="list-style-type: none"> • We completed the last stage of a large-scale reorganization of Bashneft Group: cross-holdings in the Company were eliminated through consolidation of CJSC Bashneft-Invest with Bashneft • Bashneft launched a programme to consolidate regional networks of filling stations within LLC Bashneft-Retail Sales |

| Area of sustainable development | Key achievements in 2014 |
|---------------------------------------|---|
| HSE measures | <p>Environment</p> <ul style="list-style-type: none"> • Direct harmful atmospheric emissions were reduced by 2.4 thousand tonnes • Indirect atmospheric pollution was reduced due to an increase in the output of engine fuel meeting stricter emission standards, which was made possible as a result of refinery upgrades in Ufa • The associated gas utilization rate increased to 74.8% across the Group and to 82.1% at brownfields • Bashneft continued to upgrade biological treatment facilities of its Integrated Refining Complex • The pipeline failure rate decreased to 0.084 spills per kilometre • Oil sludge processing increased to 78.4 thousand tonnes • Over 400 kilometres of pipelines were upgraded and repaired, which is almost 37% more than in 2013 • The Group continued to implement measures to repair the damage to aquatic fauna: over 30 thousand young whitefishes were released into the Pechora River <p>Occupational safety</p> <ul style="list-style-type: none"> • The lost time injury frequency rate (LTIFR) declined by 22% to 0.35 • The number of workplace accidents decreased by 34% • We continued implementing administrative and engineering measures aimed at improving safety in the workplaces in the Group <p>Process safety</p> <ul style="list-style-type: none"> • The Group continued to implement programmes to ensure compliance of hazardous production facilities with the requirements of process safety rules <p>Emergency preparedness</p> <ul style="list-style-type: none"> • 216 exercises and trainings in emergency response were conducted. The exercises and trainings were attended by almost eight thousand employees <p>Energy efficiency</p> <ul style="list-style-type: none"> • The economic effect from measures aimed at improving energy efficiency totalled 139.8 million roubles • The Group increased the volume of electricity purchased in the wholesale market and continued certification of commercial energy meters in accordance with the requirements of the wholesale market • Bashneft developed new programmes to improve energy efficiency and updated the programmes currently in place at its enterprises |
| Social work | <p>Employees</p> <ul style="list-style-type: none"> • The Group continues to maintain the average salary level significantly above the average level in the Republic of Bashkortostan • Bashneft launched a Programme to Attract Young Specialists. The programme is aimed at making Bashneft as an employer more attractive to university graduates and young professionals • The Group continues to implement a programme aimed at protecting employees' health; priority is given to measures for preventing cardiovascular diseases • The Group continued to implement corporate social programmes aimed at forming corporate culture: sports competitions, celebrations and other events • We are actively developing a volunteering programme: the volunteer movement already comprises over 600 people <p>Development of operating regions and charity</p> <ul style="list-style-type: none"> • The Economic Agreement between the Administration of the Nizhnevartovsky District of the Khanty-Mansi Autonomous District and JSOC Bashneft was renewed until mid-2015 • Charitable funding for social development of the Republic of Bashkortostan totalled 1.1 billion roubles • Bashneft provided 250 million roubles as financial assistance to help to respond to the natural disaster that happened in Bashkortostan in summer • Bashneft continued to implement the programme aimed at providing the districts of the Republic of Bashkortostan with high-quality drinking water |

IMPRESSIVE RESULTS

+407.8 MLN
BAR-
RELS

OF 3P RESERVES

+10.8%

OIL PRODUCTION GROWTH

85.6%

SHARE OF EURO 5
GASOLINE

+97

OWN FILLING STATIONS



ABOUT THE GROUP



‘LAST YEAR WE ACHIEVED OUTSTANDING OPERATIONAL AND FINANCIAL RESULTS ONCE AGAIN. THE GROUP PERFORMS EXCELLENTLY, AND WE ARE READY TO MOVE FORWARD.’

Alexander Korsik, President of JSOC Bashneft,
Chairman of the Management Board

HISTORY OF OUR GROUP

1932

1932 saw the discovery of the Ishimbayskoye oilfield. This marked the start of oil production in Bashkortostan.

1935

In 1935, in order to enable commercial oil production at the Ishimbayskoye oilfield, the Bashneft trust was set up. In 1936 the first trunk oil pipeline in the Urals and Volga Region between Ishimbayevo and Ufa was constructed. In 1938 the Ufimsky Refinery Plant (UNPZ) was put into operation.

1937

Key milestones in the history of the development of the Group's resource base include: the discovery of the Tuimazinskoye field (1937), where Russia's first high-yield Devonian oil deposits were discovered in 1944; subsequent discoveries of the Shkapovskoye, Chekmagushevskoye and Mancharovskoye fields (between 1950 and 1954) and the vast Arlanskoye field, the largest oilfield in the region (1955).

1951

As oil production volumes increased, Bashneft's oil refining complex expanded: in 1951 the Novo-Ufimsky Refinery (Novoil) was put into operation; in 1957 construction of the third refinery forming part of the Ufa group, Ufaneftekhim, was completed; it specializes in manufacturing fuel and petrochemicals.

1967

In 1967 Bashneft Production Association achieved the highest level of annual oil production at the fields in Bashkortostan: it totalled 67 million tonnes.

1995

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

2009

In March 2009 OJSC JSFC Sistema became the principal owner of six fuel and energy enterprises in the Republic of Bashkortostan, including JSOC Bashneft. In 2010 JSOC Bashneft bought controlling interests in OJSC Ufaneftekhim, OJSC Novoil, OJSC Ufimsky Refinery Plant, OJSC Ufaorgsintez and OJSC Bashkirnefteprodukt from OJSC JSFC Sistema and became the parent company for the new oil holding.

2011

In February 2011 Bashneft entered the Timan-Pechora oil province after obtaining a licence for the development of a federal subsoil area including the Trebs and Titov fields in the Nenets Autonomous District. In December 2011 the Group signed an agreement with OJSC Lukoil on joint implementation of the project.

2013

2013 saw the completion of formation of a federal-scale vertically integrated oil company (VIC). JSOC Bashneft completed its reorganization through the consolidation of its five subsidiaries (OJSC Ufimsky Refinery Plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt) with the Company. This marked the first step in implementing a comprehensive strategy aimed at simplifying the corporate structure.

In 2012 and 2013 Bashneft joined international upstream projects in Iraq and Myanmar as an operator.

In 2013 LLC Bashneft-Polyus, a joint venture of JSOC Bashneft and OJSC Lukoil, started oil production at the R. Trebs and A. Titov fields in the Nenets Autonomous District.

In the autumn of 2013, as part of integration of Bashneft's refining complex in Ufa, management of the three production facilities was centralized on the basis of the Bashneft-Ufaneftekhim Branch.

2014

In the spring of 2014 consolidation of CJSC Bashneft-Invest with Bashneft marked a successful completion of the final stage of the Group's reorganization aimed at streamlining the corporate structure and eliminating cross-holdings in JSOC Bashneft.

In March 2014 Bashneft achieved a major expansion into the West-Siberian oil and gas province through the acquisition of LLC Burneftegaz, an upstream company developing the Sorovskoye field.

In May 2014 JSOC Bashneft and OJSC Lukoil established a new joint venture, LLC Vostok NAO Oil Company, to conduct geological exploration at licence areas in a promising region in the north-east of the Nenets Autonomous District.

In 2014 the Group consolidated its subsidiaries specializing in retail sales into LLC Bashneft-Retail Sales and centralized the management of a network comprising 582 filling stations in 16 regions of Russia.

In December 2014 in accordance with the court ruling OJSC JSFC Sistema transferred a controlling stake in JSOC Bashneft to the Russian Federation represented by the Federal Agency for State Property Management.

STRUCTURE OF THE GROUP AND SHARE CAPITAL STRUCTURE

**‘TODAY, BASHNEFT’S CORPORATE STRUCTURE IS CLEAR,
TRANSPARENT AND CONVENIENT FOR ALL EXISTING
SHAREHOLDERS AND POTENTIAL INVESTORS.’**

Alexander Korsik,
President of JSOC Bashneft, Chairman of the Management Board

STRUCTURE OF THE GROUP

At present, Bashneft is a vertically integrated oil company with a transparent shareholder structure.

During the period from 2012 through 2014 we implemented a large-scale reorganization of the Group’s corporate structure in order to promote long-term growth of our share value and protect the interests of minority shareholders. The range of measures aimed at improving our corporate structure included three key stages: switchover to standardized shares; spin-off of non-core assets; elimination of cross-holdings. **G4-13**

✓ Switchover to standardized shares.

In order to reform a historically complex corporate structure, in 2012 JSOC Bashneft conducted reorganization through consolidation of its five subsidiaries (OJSC Ufimsky Refinery Plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt) with the Company. This transformation resulted in a switchover to standardized shares.

✓ Spin-off of non-core assets.

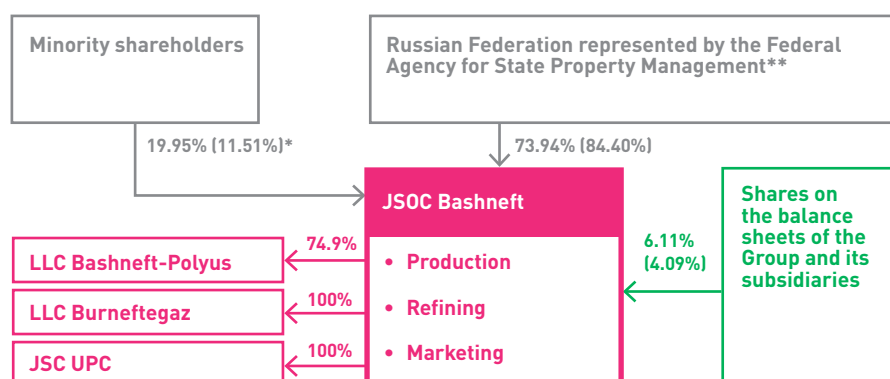
After the VIC was formed and the corporate structure was simplified, in 2012 and 2013 Bashneft implemented a number of measures

aimed at consolidation and spin-off of non-core assets in order to improve the performance of its core business. The Group divested oilfield service and transportation assets.

✓ Elimination of cross-holdings.

The reorganization of JSOC Bashneft through consolidation of CJSC Bashneft-Invest with the Company in late 2013 and early 2014 made it possible to eliminate cross-holdings in Bashneft. The final stage of reorganization of Bashneft enabled the Group to develop its operations and to achieve a considerable increase in its shareholder value.

The Group’s structure (as of December 31, 2014)

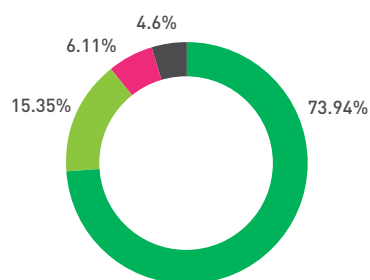


* Figures represent interest in the authorized share capital; figures in brackets represent interest in ordinary shares (%).


** In December 2014, OJSC JSFC Sistema and CJSC Sistema-Invest transferred ownership of ordinary and preferred shares of JSOC Bashneft (together comprising 73.94% of the authorized share capital) to the Federal Agency for State Property Management. For more details, see: 'Investor & Shareholder Information – Shareholder structure.'



Share capital structure as of December 31, 2014



- The Russian Federation represented by the Federal Agency for State Property Management
- Other legal entities (including nominees)
- Shares on the balance sheets of JSOC Bashneft and subsidiaries
- Individuals

 For more details, see the Annual Report of JSOC Bashneft for 2014

The main achievement consisted in a transition to a transparent structure of a vertically integrated company. Measures to improve the structure by switching over to standardized shares, eliminating cross-holdings in Bashneft and divesting non-core businesses were implemented within an unprecedentedly short time frame of three years. As a result, we achieved a considerable improvement in the transparency of business processes and the Group's performance and reduced administrative costs.

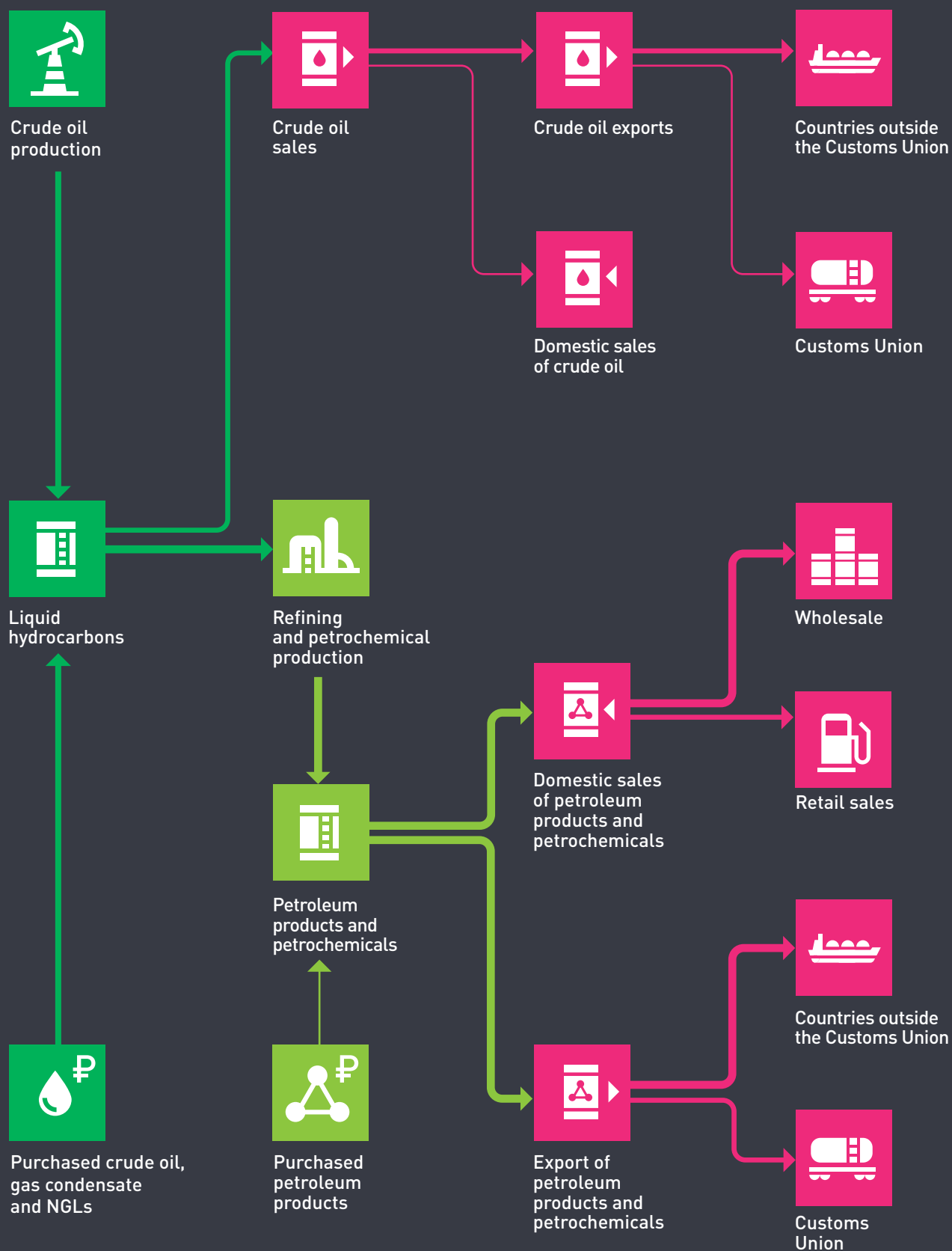
AUTHORIZED SHARE CAPITAL AND SHAREHOLDER STRUCTURE

As of December 31, 2014, the Company's authorized share capital totalled 180,358,674 roubles and comprised the same number of shares of two types: ordinary (about 83% of the authorized share capital) and class A preferred shares (about 17%) with a par value of one rouble each.

Shares of JSOC Bashneft are traded on the Moscow Exchange; in mid-2014 the Company's ordinary shares were included in the First (Top) Tier quotation list of the Moscow Exchange. As of December 31, 2014, JSOC Bashneft's market capitalization totalled US\$ 3.55 billion (about 216 billion roubles).

As of the end of 2014 the Russian Federation was the controlling shareholder owning 127,079,930 ordinary shares and 6,280,076 preferred shares of JSOC Bashneft (73.94% of its authorized share capital).

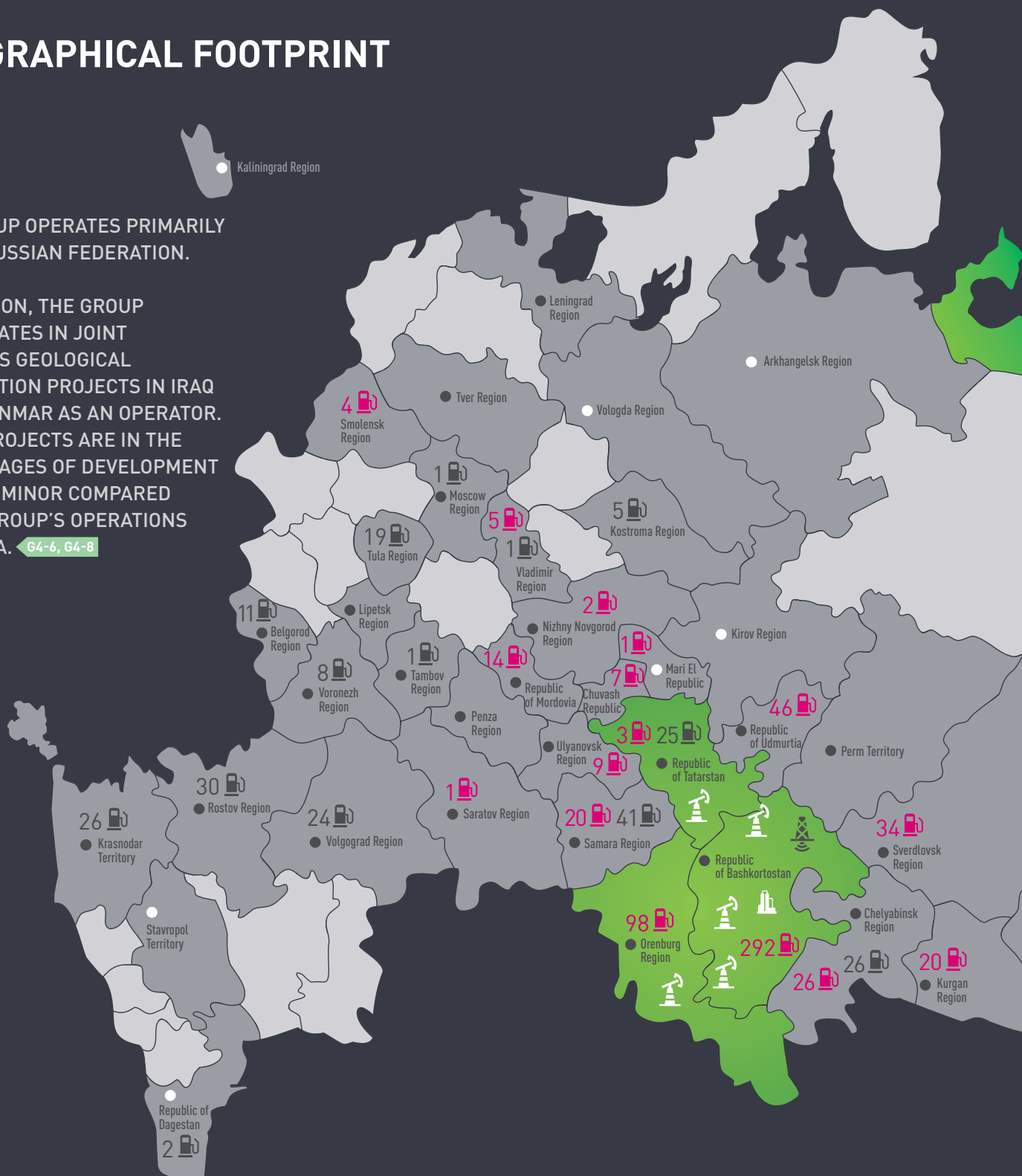
BUSINESS MODEL G4-2



GEOGRAPHICAL FOOTPRINT

THE GROUP OPERATES PRIMARILY IN THE RUSSIAN FEDERATION.

IN ADDITION, THE GROUP PARTICIPATES IN JOINT OVERSEAS GEOLOGICAL EXPLORATION PROJECTS IN IRAQ AND MYANMAR AS AN OPERATOR. THESE PROJECTS ARE IN THE EARLY STAGES OF DEVELOPMENT AND ARE MINOR COMPARED TO THE GROUP'S OPERATIONS IN RUSSIA. **G4-6, G4-8**



LEGEND:

- Exploration
 - Production
 - Refineries
 - Own filling stations
 - Partner filling stations
 - Regional sales offices
 - Distant sales offices
- 802
Total number
of filling stations

17.8 OF OIL
PRODUCED
IN 2014
million tonnes

21.7 OF OIL
PROCESSED
IN 2014
million tonnes

ASSETS WITH POTENTIAL FOR FURTHER DEVELOPMENT

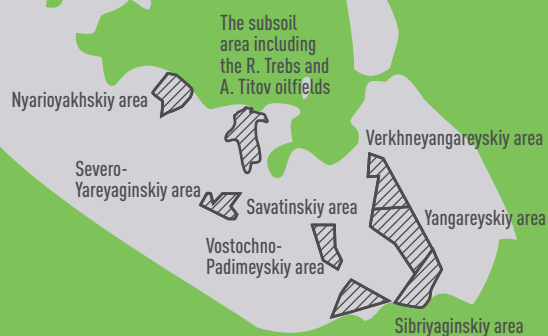
NENETS AUTONOMOUS DISTRICT

828

THOUSAND TONNES
OF OIL PRODUCED IN 2014

8

LICENCE AREAS



KHANTY-MANSI AUTONOMOUS DISTRICT

665

THOUSAND TONNES OF OIL
PRODUCED IN 2014

4

LICENCE AREAS





‘WE HAVE CONCLUDED LONG-TERM CONTRACTS FOR OIL SUPPLY WITH SHELL AND LUKOIL. THESE CONTRACTS ALLOW US TO BE CONFIDENT THAT OUR REFINERIES WILL BE REGULARLY SUPPLIED WITH FEEDSTOCK.’

Alexander Korsik, President of JSOC Bashneft, Chairman of the Management Board

SUPPLY CHAIN G4-12

Bashneft’s core operations include oil production and refining, and sales of crude oil, petroleum products and petrochemicals.

Bashneft produces oil in the Republic of Bashkortostan, the Republic of Tatarstan, the Orenburg Region, the Khanty-Mansi Autonomous District and the Nenets Autonomous District.

Oil is produced by upstream companies forming part of the Group:

- ✓ LLC Bashneft-Dobycha produces oil at oilfields in the Republic of Bashkortostan and the Republic of Tatarstan and in the Orenburg Region;


- ✓ in the Khanty-Mansi Autonomous District, oil is produced by LLC Burneftegaz, a company acquired in 2014 which owns the rights to exploration and development of the Sorovskoye field via its wholly owned subsidiaries;

- ✓ in the Nenets Autonomous District, oil is produced by LLC Bashneft-Polyus, a joint venture of JSOC Bashneft (74.9%) and OJSC Lukoil (25.1%) which conducts exploration and produces oil at the R. Trebs and A. Titov fields.

To ensure the optimal throughput of its refineries and optimize its product mix, Bashneft uses its own oil (10.6 million tonnes) and purchases West Siberian oil and gas condensate from third-party suppliers (10.9 million

tonnes). In 2014 the cost of purchased crude oil, gas and petroleum products totalled 139.8 billion roubles, up by 10.6% year on year. In the supply chain, a large share of crude oil is purchased from Lukoil and Shell Trading Russia B.V. G4-EN1

In addition, we purchase other feedstock that is less important for the Group’s operations, goods, materials, work and services. We seek to diversify our suppliers and organize procurement through competitive tendering.


 For details on procurement, see ‘Stakeholders – Suppliers and business partners – Organization of the procurement process’

POSITION IN THE INDUSTRY

In 2014 oil production in Russia increased by 0.7% to 526.7 million tonnes, while oil refining in Russia added 6% and totalled 288.9 million tonnes.

Bashneft reports the strongest growth among Russian oil companies and ranks sixth in terms of annual oil production. As of the end of

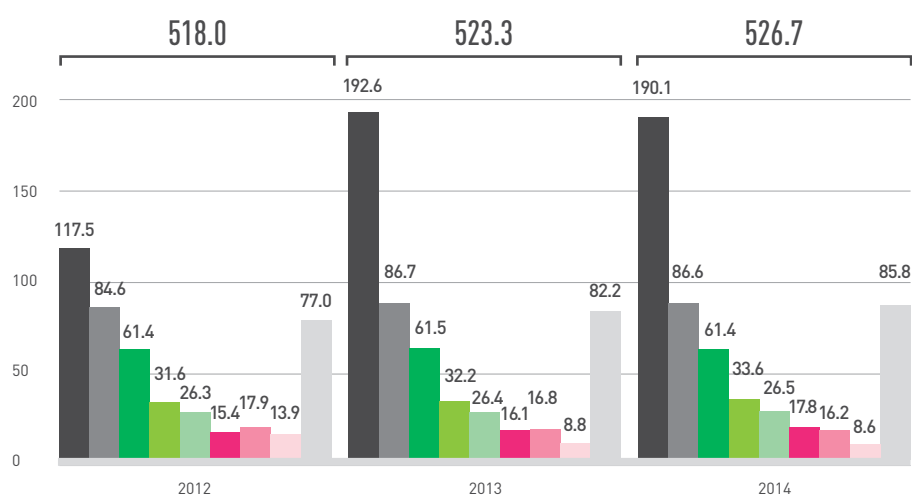
the reporting year, Bashneft ranked fourth among Russian companies in terms of crude oil refining; it refined 21.7 million tonnes of hydrocarbons. Bashneft's refining depth remains one of the highest in the industry and totals 84.8%. Bashneft is also one of the industry leaders in terms of the share of light products in the total output. **G4-2, G4-9**

 For more details, see the Annual Report of JSOC Bashneft for 2014

Change, 2014/2013

| | |
|-----------------|--------------|
| Rosneft* | -1.3% |
| LUKOIL | -0.1% |
| Surgutneftegas | -0.1% |
| Gazprom Neft | 4.5% |
| Tatneft | 0.5% |
| Bashneft | 10.8% |
| Slavneft | -3.7% |
| RussNeft | -2.8% |
| Other | 4.4% |

Oil production by the largest Russian oil companies, million tonnes

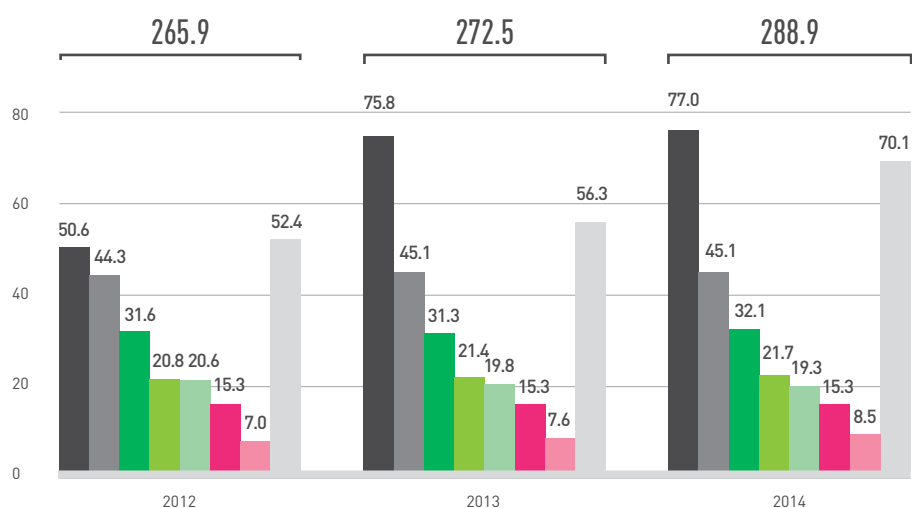


Source: CDU TEK, company data

Change, 2014/2013

| | |
|------------------|-------------|
| Rosneft | 1.6% |
| LUKOIL | 0.0% |
| Gazprom Neft | 2.4% |
| Bashneft | 1.2% |
| Surgutneftegas | -2.7% |
| Slavneft | 0.0% |
| Tatneft (TANECO) | 12.1% |
| Other | 24.4% |

Oil refining by the largest Russian oil companies, million tonnes



Source: CDU TEK, company data

* Starting from 2013 the figure includes oil production by TNK-BP

STRATEGY AND OPERATING RESULTS

We do business in accordance with the strategy adopted in the Group. This approach enables us to set medium- and long-term goals which we think it necessary to achieve in order to promote the Group's sustainable development. It usually takes several years to achieve our strategic goals and objectives. We use a system of key performance indicators (KPIs), which is closely linked with a system of incentives for employees, as a tool for setting short-term goals and tracking the achievement of targets.

STRATEGY AND KPIS

Our development is aimed at establishing a highly efficient and fast-growing vertically integrated oil company; this goal was set as early as in 2010.

We adjust our plans taking into account objective external factors affecting the industry as a whole, such as changes in the situation on the market for oil and petroleum products, macroeconomic conditions, the tax burden, as well as specific features of the Group's development, and we focus on improving its performance and making it more competitive.

Successful implementation of the strategy from 2010 through 2014 helped to make the Group one of the industry leaders and to form a vertically integrated oil company characterized by growing production, use of advanced refining technologies, reliable marketing channels and strong financial performance.

Amid changes in macroeconomic factors in 2014 and 2015, including a fall in prices for oil and petroleum products, the tax manoeuvre, depreciation of the rouble, tighter logistic and financial restrictions, the Group began making adjustments to the current strategy, which involve development of strategic initiatives aimed at improving operational and financial performance, cost optimization, fostering import substitution, as well as integrating the goals and objectives of the new owner into the Group's operations.


To ensure that the Group efficiently achieves its strategic goals, a system of KPIs was introduced in 2009 and is functioning.

The KPI system helps to express goals and objectives in the form of a set of specific quantifiable indicators. This enables continuous monitoring of

achievement of the goals and managerial decision-making based on an analysis of findings of the monitoring.

The KPI system includes financial and economic performance indicators, operational performance indicators and project-related indicators. Targets are set for each indicator. To incentivize its employees and managers to attain strategic goals and objectives in an efficient manner, the Group applies a principle of cascading of strategic indicators depending on management levels in accordance with the Company's organizational structure and functions of various executives.

Our KPI system is closely linked with a system of incentives for the Group's senior managers and employees. Achievement of the set KPIs is one of the main conditions for bonus payments to Bashneft's managers and employees. Thus, the Group incentivizes its top management and other employees to achieve strategic goals and objectives set out in the business plan.

 For more information on our strategy, see the Annual Report of JSOC Bashneft for 2014



BRIEF OVERVIEW OF OPERATING RESULTS IN 2014 G4-13

LICENSING, GEOLOGICAL EXPLORATION AND RESERVES

Expansion of the resource base and long-term production growth are among the Group's key objectives. In accordance with the adopted strategy we increase the number of development licences in the Group's key regions. At the same time, we give up licences for areas where further development and operations are unprofitable.

As of the end of 2014, the number of the Group's licences of all categories related to exploration and production of hydrocarbons totalled 237.

The duration of our licences is convenient for us and enables us to plan long-term projects with confidence. We do not expect any difficulties in renewing licences for hydrocarbon production.

Geological exploration is conducted primarily in Bashkortostan, the Nenets Autonomous District and the Khanty-Mansi Autonomous District. The Group's priority in geological exploration is to use mineral resources efficiently while strictly complying with environmental safety standards and widely using modern technology.

In 2014 the reserve replacement ratio amounted to 179%, while the reserves-to-production ratio totalled 17 years.

As of December 31, 2014, the Group had 194 fields, including 175 fields in commercial operation. In the reporting year the Group's proved reserves added 4.9% and totalled 300.9 million tonnes. All of the Group's ABC1 reserves are covered by an annual audit. G4-061

182 out of our 194 fields are located in the Republic of Bashkortostan, including the four largest ones: the Arlanskoye, Tuimazinskoye, Yugomashhevskoye and Chetyrmanskoye fields. These fields account for about 40% of Bashneft's total proved reserves according to the PRMS classification.

In addition, we own development licences for four gas condensate fields. As of December 31, 2014 possible reserves at the fields forming part of the Saratovsko-Berkutovskoye group located in the south of Bashkortostan amounted to 24.8 billion cubic metres.

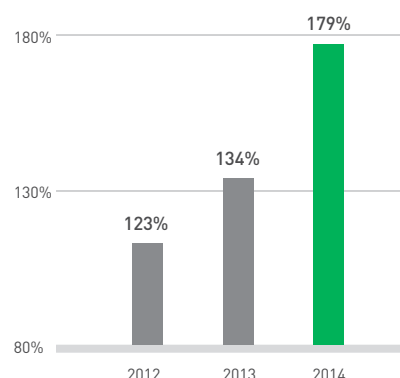
OVERSEAS PROJECTS

The Group participates in joint geological exploration projects in Iraq and Myanmar as an operator.

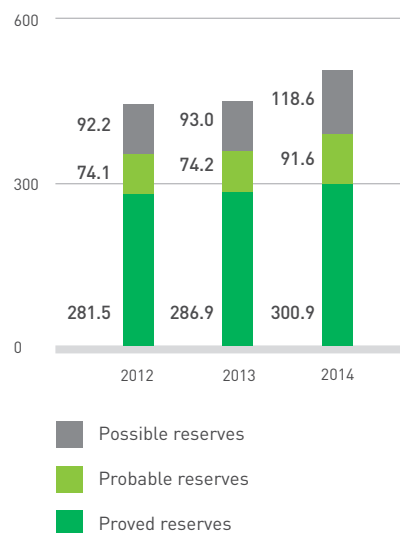
The project in Iraq involves geological exploration at Block 12. The obligatory five-year geological exploration programme at Block 12 can be extended twice for a two-year period. In 2012 a consortium comprised of Bashneft and Premier Oil was awarded an exploration, development and production service contract for Block 12. At the end of 2012 Bashneft International B.V. (JSOC Bashneft's wholly owned subsidiary) was established to implement the project. In 2014, under the terms of the licences, seismic surveys totalled 192 kilometres (2D) and 702 sq. km (3D).

The project in Myanmar involves conducting geological studies at Block EP-4. In 2014 Bashneft International B.V. signed the PSC for Block EP-4 with Myanmar Oil and Gas Enterprise (MOGE) in Naypyidaw. Under the PSC for Block EP-4, the partners will implement a three-year geological exploration programme (which may be extended for another three years) that includes seismic surveys and drilling of two prospecting wells.

Reserve replacement ratio




Breakdown of the Group's reserves, million tonnes

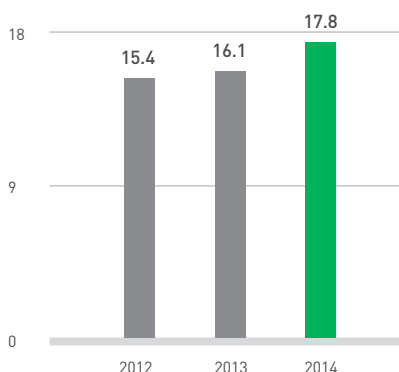


OUR ACHIEVEMENTS

In the reporting year, at an auction for the right to conduct geological exploration, prospecting and production of hydrocarbons, Bashneft won the rights to the Leonovskiy subsoil area.

 For more information on geological exploration, licensing and reserves, see the Annual Report of JSOC Bashneft for 2014

Oil production, million tonnes



OUR ACHIEVEMENTS

In 2014 Bashneft acquired LLC Burneftegaz, whose main resources are located in the Khanty-Mansi Autonomous District. As of December 31, 2014 an audit firm Miller and Lents estimated proved oil reserves of the company's key asset, the Sorovskoye field, at the current stage of development at 5.1 million tonnes.

OUR RESPONSIBILITY

The Group's priority in geological exploration is to use mineral resources efficiently while strictly complying with environmental safety standards and widely using modern technology.

'BURNEFTEGAZ IS AN EXCELLENT ACQUISITION. THERE IS NO DOUBT THAT OIL PRODUCTION AT BURNEFTEGAZ WILL GROW.'

Mikhail Stavskiy, First Vice President for Upstream and Geology

PRODUCTION

A comprehensive set of measures to maintain production at brownfields, successful development of new promising fields and acquisition of assets support sustainable growth of annual production. In 2014 the Group boosted oil production by 10.8% to 17.8 million tonnes.

We seek to diversify our oil-producing regions. In 2014 the share of oil production in the Republic of Bashkortostan in total production decreased from 94% to 88%, while the share of production in the Khanty-Mansi Autonomous District, the Nenets Autonomous District, Tatarstan and the Orenburg Region increased to 12%.

In 2014 the amount of production drilling (including the results of LLC Bashneft-Polyus and LLC Burneftegaz) more than doubled year on year to 272 thousand metres. In 2014 the Group commissioned 93 new wells, including 82 newly drilled wells. As a result of commissioning of new wells and acquisition of LLC Burneftegaz, the average production rate of existing wells across Bashneft increased to 3.4 tonnes per day.

REFINING

We have a unique refining complex, which is technologically advanced and manufactures high-quality products. Close cooperation between our refineries and their integration provides

the Group with flexibility in terms of feedstock supplied to refineries and their product mix.

Bashneft's integrated refining complex consists of three refineries: Ufaneftekhim, Ufimsky Refinery Plant (UNPZ) and Novoil, whose crude oil distillation capacity totals 24.1 million tonnes. The refineries are adjacent to each other and closely cooperate as a single processing complex.

Feedstock for the refining complex consists of oil produced by the Group itself and oil purchased from third-party suppliers to ensure full capacity utilization.

Our product mix is made up primarily of diesel fuel (38%) and gasoline (25%).

In 2014, as part of refinery upgrades, two new units were put into operation: a hydrogen production unit and a catalytic cracking gasoline hydrotreater. This helped the Group to ensure that 100% of fuel it produces meets the Euro 5 standard in accordance with the Technical Regulations. In 2014 the share of Euro 5 gasoline in the total gasoline output reached 85.6%, while the share of Euro 5 diesel fuel in the total output of diesel fuel totalled 36%. To compare, in 2013 these figures stood at 67.2% and 28.5% respectively.

Starting from 2013 the Group no longer produces engine fuels of grades that are lower than Euro 3.

For details on oil production, see the Annual Report of JSOC Bashneft for 2014

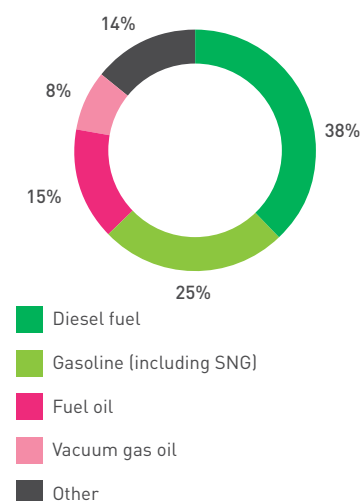
'BY 2019 WE WILL HAVE CEASED TO PRODUCE CHEAP HEAVY PETROLEUM PRODUCTS.'

Maxim Andriasov,
First Vice President for Refining and Commerce

Key characteristics of Bashneft's integrated refining complex as of the end of 2014

| | |
|--|-------|
| Crude oil distillation capacity, million tonnes per year | 24.1 |
| Oil refining per year, million tonnes | 21.7 |
| Capacity utilization rate, % | 90.0% |
| Total refinery output, million tonnes | 19.9 |
| Refining depth, % | 84.8% |
| Share of light products, % | 61.1% |
| Nelson Index | 8.93 |

Product mix of Bashneft's refineries in 2014



OUR RESPONSIBILITY


In 2011 the Federal Antimonopoly Service (FAS) of Russia, the Federal Service for Environmental, Technological and Nuclear Supervision (Rostekhnadzor), the Federal Agency for Technical Regulation and Metrology (Rosstandart) and twelve Russian oil companies (including Bashneft) signed four-party agreements aimed at preventing violations of antitrust laws, upgrading production capacities and improving the quality of petroleum products supplied to the domestic market. Under these agreements, we have assumed an obligation to upgrade our refineries to switch over to production of fuel of higher quality, and to ensure that a sufficient amount of engine fuel is produced and supplied to the domestic market in accordance with the Technical Regulations. We fulfil all our obligations on schedule.

In the future, the Group plans to complete projects which will allow it to cease production of fuel oil and vacuum gas oil. Implementation of this programme will enable Bashneft to completely cease to produce heavy petroleum products.

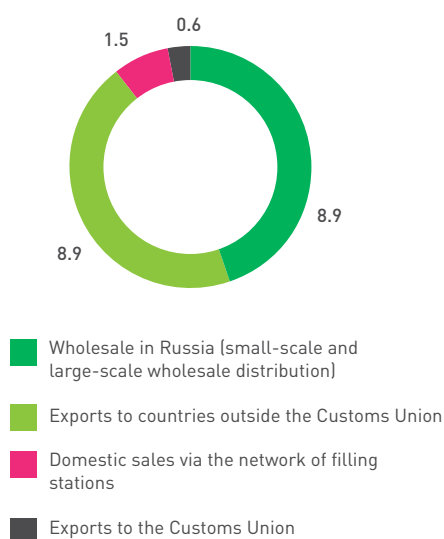
Bashneft's production capacities include assets producing petrochemicals: OJSC Ufaorgsintez, LLC Tuimazinskoye Gas Processing Plant, LLC Shkapovskoye Gas Processing Plant,

and a bisphenol A production complex. In addition, our petrochemical assets also include the aromatic hydrocarbon production facility of the Bashneft-Ufaneftekhim Branch.

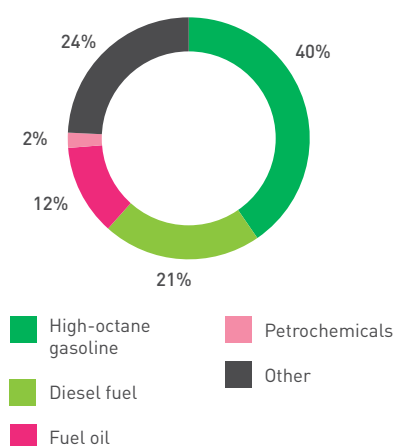
We produce a wide range of petrochemicals, including liquefied petroleum gas, polypropylene, paraxylene, polyethylene, benzene, phenol, orthoxylene, acetone, bisphenol A (diphenylolpropane) and ethylene.

 For details on refining and petrochemical production, see the Annual Report of JSOC Bashneft for 2014

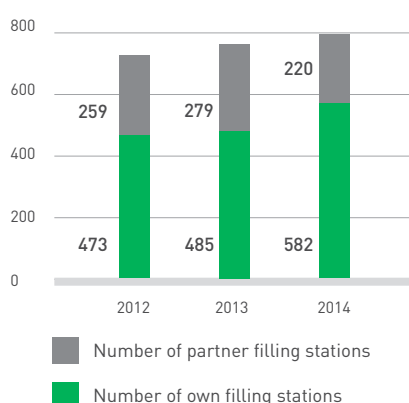
Breakdown of sales of petroleum products and petrochemicals, million tonnes



Breakdown of domestic sales of petroleum products and petrochemicals



Retail network of filling stations



MARKETING G4-4

We sell crude oil, petroleum products and petrochemicals on the domestic market and export them.

Oil sales

We use about 60% of the oil we produce as feedstock for the Group's refining complex. The remaining volumes are sold in the domestic market and exported. In 2014 export sales of oil totalled 5.8 million tonnes. Like in the previous year, main destinations of oil exports included the port in Novorossiysk (35%) and Hungary (23%).

Bashneft increased domestic sales of oil to 1.3 million tonnes, as additional volumes of oil became available for sale due to consolidation of production of LLC Burneftegaz.

Sales of petroleum products and petrochemicals

Petroleum products and petrochemicals are sold on the domestic market and exported. On the domestic market, petroleum products are sold both wholesale and retail via a network of own and partner filling stations. In

addition, we are developing small-scale wholesale distribution of petroleum products on the domestic market.

Domestic sales of petroleum products

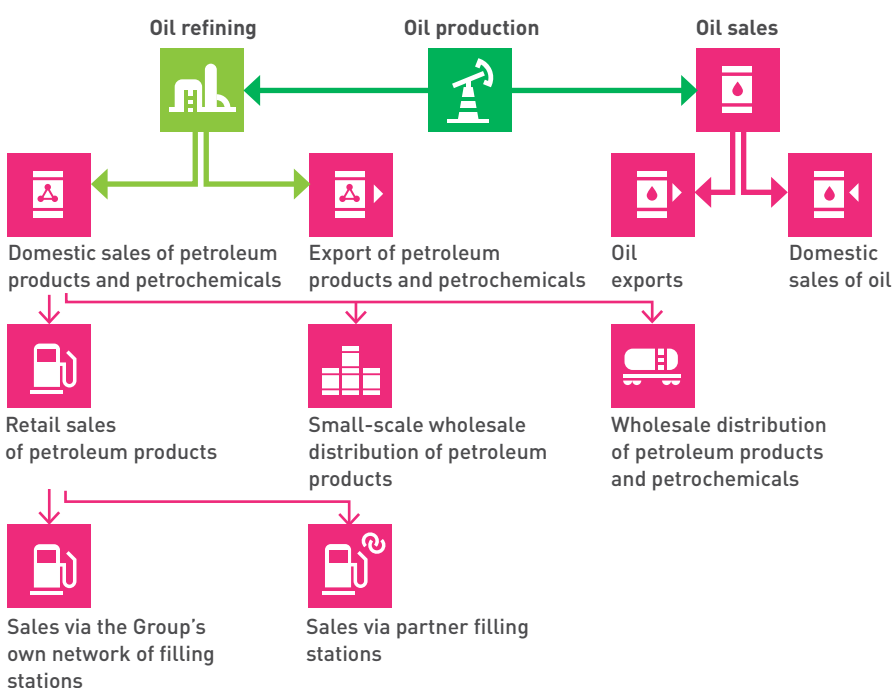
In 2014 domestic sales totalled 10.4 million tonnes, with high-octane gasoline and diesel fuel accounting for the biggest share of sales (40% and 21% respectively). We pay special attention to the development of sales of high-quality niche products, including both light products such as jet fuel, bunker fuel, liquefied petroleum gases, and heavy products including a wide range of lubricants, bitumen, petroleum coke, as well as sulphur. JSOC Bashneft is a major player in the Russian market for bulk delivery of lubricants; its market share totals 8%.

Retail sales

Bashneft actively develops its marketing channels to gain access to consumers. In 2014 high-margin sales of petroleum products through Bashneft's own retail network totalled 1.5 million tonnes.

Bashneft sells only Euro 5 fuel via its own retail network. Moreover, in 2013 the Group developed ATUM premium

The Group's marketing channels



fuel in cooperation with BASF and started selling it; this fuel is more environmentally friendly and helps to keep the fuel system and the engine clean.

In 2014 the retail network expanded from 764 to 802 filling stations, 582 of which are owned by the Group.

In late 2012 Bashneft launched a programme to rebrand its filling stations. It was aimed at increasing customer loyalty and improving brand recognition.

In 2013 and 2014, 163 of Bashneft's own filling stations were rebranded.

Wholesale

In 2014 the amount of petroleum products and petrochemicals sold wholesale totalled 8.9 million tonnes.

In accordance with the requirements of the Ministry of Energy and the FAS of Russia and in order to improve the transparency of information on sales, Bashneft has considerably increased sales of petroleum products via the St. Petersburg International Mercantile Exchange. In 2014 the Group sold a total of 1.3 million tonnes of petroleum products on the exchange.

In 2014 Bashneft became a full-fledged member of the St. Petersburg International Mercantile Exchange.

The small-scale wholesale business is conducted via the Bashneft-Regional Sales Branch (previously LLC Bashneft-Region, a marketing subsidiary). The enterprise manages a network of regional sales companies supplying petroleum products from the refining complex in Ufa to more than 30 regions of Russia.

Export sales of petroleum products

In 2014 exports of petroleum products totalled 9.5 million tonnes, with diesel fuel accounting for the biggest share of export sales (54%).

Geographically, more than 90% of exports are destined for countries outside the Customs Union, mainly Northern Europe.

In 2014 we increased the amount of capital expenditure in the Upstream Unit to implement a large-scale programme of development of the Trebs and Titov oilfields. In addition, the growth of capital investment was driven by the Group's acquisition of a strategic asset: LLC Burneftegaz.

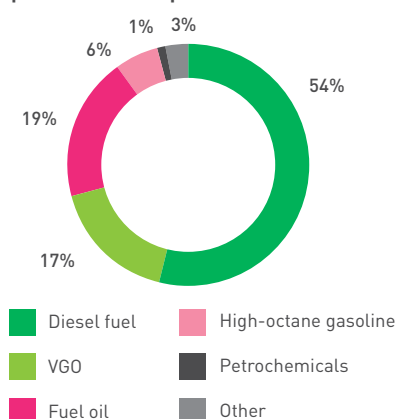
Net cash flow from operating activities continued to grow: in 2014 it added 28% and reached 106.1 billion roubles.

FINANCIAL RESULTS G4-9

In 2014 Bashneft's revenue increased by 13.1% compared to 2013 and totalled 637.3 billion roubles. EBITDA (earnings before interest, taxes, depreciation and amortization) under IFRS remained at the level reached in the previous year and totalled 100.8 billion roubles, despite unfavourable macroeconomic conditions, including a reduction in global oil prices.

Capital investment increased by 59% year on year and exceeded 48 billion

Breakdown of exports of petroleum products and petrochemicals in 2014



For more details, see the Annual Report of JSOC Bashneft for 2014

Key financial indicators of Bashneft, million roubles G4-EC1

| | 2013 * | 2014 |
|----------------------------------|---------|---------|
| Revenue | 563,296 | 637,271 |
| Operating expenses | 480,938 | 560,274 |
| Labour costs | 34,085 | 29,886 |
| Retained earnings | | |
| Income for the year | 46,399 | 43,021 |
| Retained earnings at year-end | 199,131 | 130,494 |
| Payments to suppliers of capital | | |
| Interest accrued on borrowings | 8,652 | 12,356 |
| Dividends accrued | 42,548 | 35,730 |

* Certain comparative information has been reclassified to ensure its consistency with the method of presentation used in financial statements in 2014

CORPORATE GOVERNANCE



‘ADOPTION OF BEST PRACTICES IN CORPORATE GOVERNANCE AND COMMITMENT TO MEETING THE HIGHEST STANDARDS IN THIS SPHERE ENABLES THE GROUP TO ENSURE THAT ITS DEVELOPMENT IS WELL-BALANCED AND DYNAMIC AND THAT IT MEETS THE NEEDS OF ALL STAKEHOLDERS.’

Kirill Andreychenko,
Vice President for Corporate Governance and Legal Issues

We actively adopt best practices in corporate governance as we seek to meet the highest international standards. We believe that this approach enables us to ensure that our development is well-balanced and dynamic and that it meets the needs of all stakeholders. We are convinced that an efficient corporate governance process will help us bring our operational performance to a new level and to improve our performance in the sphere of CSR and HSE.

Improvement of our corporate governance system is aimed at ensuring unconditional respect for the interests of shareholders and investors and safeguarding their rights, increasing

the Group's value and improving the perception of its business.

Fundamental principles of corporate governance to which we adhere include the following:

- ✓ respecting and safeguarding the rights and legitimate interests of participants of corporate relations;
- ✓ ensuring information and financial transparency;
- ✓ an active and professional Board of Directors;
- ✓ consistent and collective decision-making;

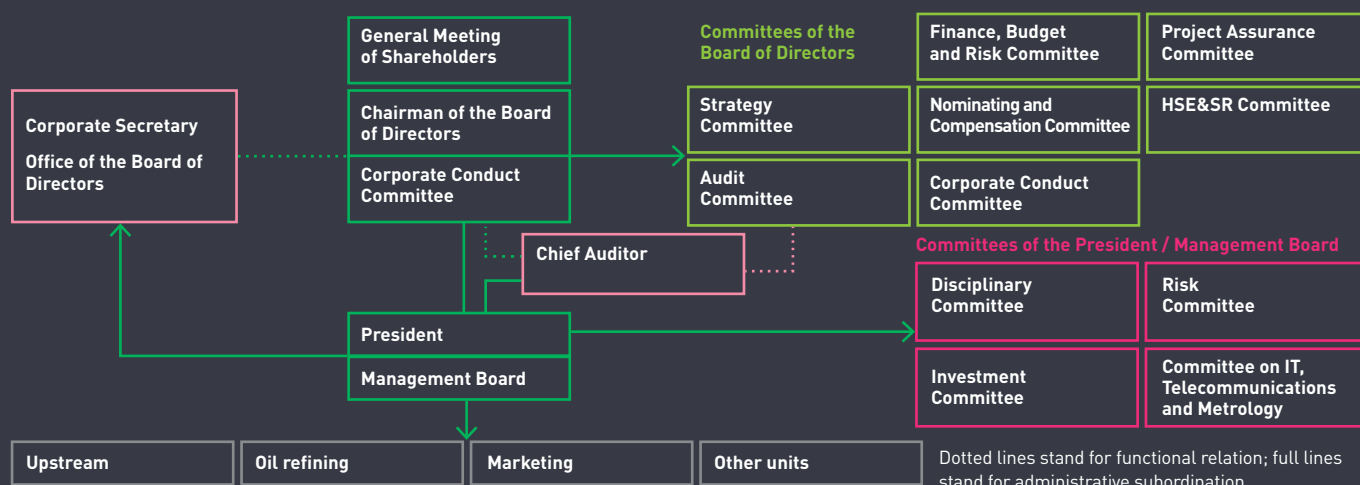
- ✓ combating corruption;
- ✓ compliance with the norms of business ethics;
- ✓ corporate social responsibility of our business.

The Group's corporate governance system is based on the requirements of Russian legislation, listing rules of the Moscow Exchange, recommendations from the Russian Code of Corporate Governance, international standards in corporate conduct and business ethics, and the principles of openness and transparency.



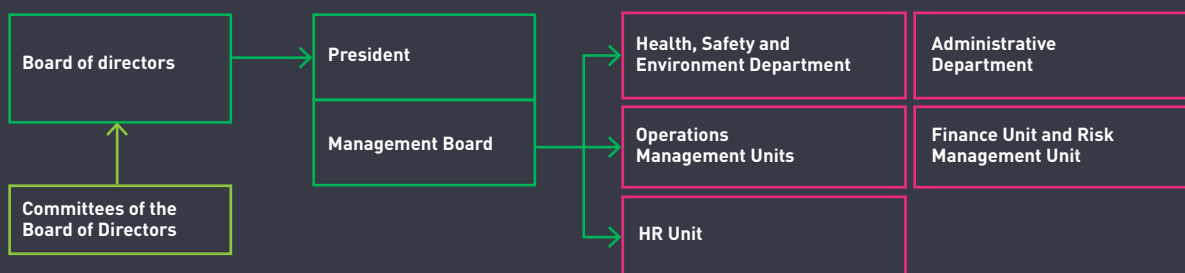
CORPORATE GOVERNANCE STRUCTURE G4-34

The Group's corporate governance structure as of December 31, 2014



For details on the structure and composition of Bashneft's governance bodies, see the Annual Report of JSOC Bashneft for 2014

STRUCTURE AND POWERS OF THE GROUP'S GOVERNANCE BODIES RESPONSIBLE FOR DECISION-MAKING ON ECONOMIC, ENVIRONMENTAL AND SOCIAL ISSUES



Decision-making functions with regard to economic, environmental and social issues are distributed among the Group's governing bodies and divisions within the scope of their powers and competences stipulated in Bashneft's internal documents and applicable legislation.

As of December 31, 2014, the Group had the following corporate governance structure in the sphere of health, safety, environment and social responsibility.

BOARD OF DIRECTORS G4-42, G4-45

The Board of Directors is responsible for developing and analysing the Group's strategy concerning

economic, environmental and social impacts, and for supervising its implementation. The Board of Directors determines the main budget parameters and supervises its implementation, ensures timely and complete disclosure of comprehensive and reliable information on the Group's operations, makes decisions on core projects and major transactions within the scope of its powers. In addition, the Board of Directors is responsible for establishing effective internal control over the Group's financial and business operations and creating a risk management system.

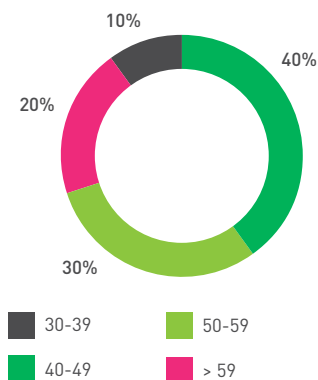
As the Company's supreme governing body, the General Meeting of Shareholders elects members of the Board of Directors and approves the

Regulations on the Board of Directors, which stipulate the procedure for forming the Board of Directors, its status, membership, functions, aims and objectives, its powers, the procedure for its work and cooperation with other governing bodies of the Company. The current version of the Regulations was approved by the General Meeting of Shareholders on June 27, 2013.

The Regulations on the Board of Directors contain recommendations concerning education, age and experience of candidates elected to the Board of Directors by the General Meeting of Shareholders. G4-40

Information about candidates nominated to the Board of Directors is posted in the Russian and English

Age distribution of members of the Board of Directors G4-38, G4-LA12



languages on the Group's website together with other materials for the General Meeting of Shareholders where the Board of Directors is to be elected. A transparent procedure of election to the Board of Directors enables shareholders to obtain information about the candidates' personal and professional qualities, the initiator of nomination, and information as to whether the candidate owns the Company's shares and as to whether the candidate serves on the governing bodies of other companies.

As of December 31, 2014, the Board of Directors of JSOC Bashneft comprised the Chairman (a non-executive director), one executive director (the Group's President), five non-executive directors and three independent directors (including citizens of the UK, Austria and France). All members of the Board of Directors are men.

Members of the Board of Directors have profound professional knowledge and expertise in areas that are of the greatest importance to the Group (strategic planning skills, industry-specific skills, expertise in finance and management).

The Board of Directors considers quarterly reports on the Group's development in various areas of its operations, including in the sphere of health, safety, environment and social responsibility. Reports include

status updates on key measures in these areas and an analysis of indicators related to economic, environmental and social impacts. The Board of Directors has created the Health, Safety, Environment and Social Responsibility Committee tasked with preliminary consideration of the relevant issues. The Board of Directors also reviews and approves the Sustainability Report of JSOC Bashneft.

Independent directors play an important role in defining the Group's strategy, policy and objectives with regard to economic, environmental and social impacts. They participate in annual strategic sessions, which centre on a discussion of updates to the Group's strategy on finance, environment, social responsibility, personnel management and security. Results of a strategic session are submitted to the Board of Directors for review.

The Board of Directors has approved the Regulations on Risk Management, which outline the Group's key approaches to risk management, the overall organization of the risk management process, the allocation of roles and responsibility for risk management. Issues related to internal control and risk management are regularly considered at meetings of the Board of Directors. The Board of Directors has created two committees tasked with preliminary consideration of such issues: the Finance, Budget and Risk Committee and the Audit Committee.

Matters related to health, safety, environment and social responsibility fall within the competence of the relevant Committee.

HEALTH, SAFETY, ENVIRONMENT AND SOCIAL RESPONSIBILITY (HSE) COMMITTEE OF THE BOARD OF DIRECTORS

The Committee monitors the implementation of the Group's strategy and achievement of its objectives in the sphere of HSE.

The Committee is tasked with producing recommendations for the Company's Board of Directors on the following matters:

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

The Committee considers data on injuries and industrial safety in the Group on a monthly basis. The Committee is actively involved in developing HSE leadership and develops recommendations for performance improvement in the sphere of environmental protection and social responsibility. The Committee is responsible for preliminary consideration of quarterly HSE reports to be approved at a meeting of the Group's Board of Directors. As of the end of 2014, the Committee comprised three independent directors. G4-47

In 2014 the Committee held five meetings, during which it considered issues related to the Group's HSE strategy, HSE KPIs for employees, findings of investigations of workplace accidents, projects and measures, including measures for reducing the number of occupational injuries and measures related to HSE training provided to the Group's employees. In addition, the Committee considered the findings of an audit of the Group in the sphere of HSE conducted by an independent company.

SELF-ASSESSMENT OF THE BOARD OF DIRECTORS AND ITS COMMITTEES G4-44

The Group conducts internal performance evaluation of the Board

of Directors in the form of a survey among the Board members using a questionnaire; the survey is conducted on conditions of anonymity.

The internal evaluation process is coordinated by the Corporate Secretary of JSOC Bashneft. The results of the evaluation are used in order to improve the practice of organizing the work of the Board of Directors and the Board Committees.

The results of performance evaluation of the Board of Directors in general and its members are taken into account when:

- ✓ assigning duties and business areas to be supervised among the Board members;
- ✓ forming the Board committees;
- ✓ nominating candidates to be elected to the new Board at the General Meeting of Shareholders.

MANAGEMENT BOARD

The Management Board of JSOC Bashneft facilitates the achievement of the Group's strategic goals by implementing business plans, investment programmes and programmes in the sphere of health, safety, environment and social responsibility.

The Management Board is responsible for preliminary consideration of issues to be discussed at the meetings of the Board of Directors and its committees and for preparing proposals to the Board of Directors concerning approval of JSOC Bashneft's budget and its financial and business plan.

The Management Board reports to the Board of Directors on a wide range of economic, environmental and social issues specified in the Charter and internal documents of JSOC Bashneft.

The number and the list of members of the Management Board are approved by the Board of Directors at the suggestion of the President. The procedure

for forming the Management Board, its aims and objectives and the powers of members of the Management Board are governed by the Regulations on the Management Board.

As of December 31, 2014, the Management Board comprised 11 persons, including the Chairman of the Management Board. All members of the Management Board are men.

PRESIDENT

The President is a permanent sole executive body of the JSOC Bashneft and chairs the Company's collective executive body (the Management Board).

The President manages the Company's day-to-day operations and is responsible for implementing resolutions of the General Meeting of Shareholders and the Board of Directors and for facilitating efficient work of the Management Board.

The area of competence of the President includes matters related to the implementation of the Group's strategy on health, safety, environment and social responsibility and the Group's compliance with environmental requirements.

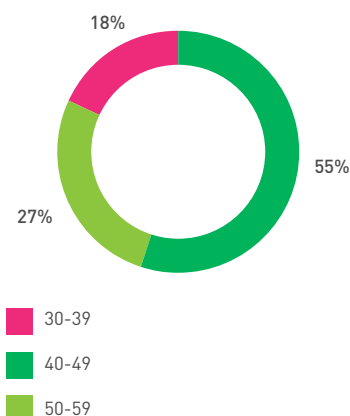
The President must act in the interests of shareholders, ensure the Company's profitability and competitiveness, safeguard the rights of shareholders and provide the Group's employees with social guarantees.

The President reports on his work to the Board of Directors.

REMUNERATION AND COMPENSATIONS G4-51, G4-52


The procedure for determining remuneration and compensations for members of the Board of Directors and the procedure for paying remuneration and compensations are stipulated in the Regulations on Rewards and Compensation to Members of the Board of Directors of JSOC Bashneft.

Age distribution of members of the Management Board



OUR RESPONSIBILITY

The President must act in the interests of shareholders, ensure the Company's profitability and competitiveness, safeguard the rights of shareholders and provide the Group's employees with social guarantees.

 For information on the results of performance evaluation of the Board of Directors in 2014, see the Annual Report of JSOC Bashneft for 2014

In accordance with the Regulations on Rewards and Compensation to Members of the Board of Directors of JSOC Bashneft, the following types of remuneration are paid for serving on the Board of Directors:

- ✓ base pay;
- ✓ remuneration for participating in meetings of the Board committees;
- ✓ performance-based remuneration for the corporate year.

The Group's system of remuneration for the Board of Directors allows it to engage highly professional directors who have a considerable experience of working in the relevant areas of business.

The total amount of remuneration¹ accrued and paid to members of the Board of Directors for 2014 was 43,996 thousand roubles. Reimbursement for expenses incurred by members of the Board of Directors totalled 6,815 thousand roubles.

The key principle underlying the Group's system of remuneration for members of the Management Board consists in a balance between the interests of the management and those of the shareholders. In 2014 remuneration of members of the Group's Management Board comprised the following components:

- ✓ salary;
- ✓ bonuses forming part of the short-term incentive programme (annual bonuses);
- ✓ bonuses forming part of long-term incentive programmes (a long-term incentive programme for senior executives).

The total amount of remuneration¹ accrued and paid to members of the Management Board of JSOC Bashneft

for 2014 was 1,724,559 thousand roubles. Reimbursement for expenses incurred by members of the Management Board amounted to 4,725 thousand roubles.

INTERNAL AUDIT

The Group has in place the Internal Audit Unit, which is responsible for appropriate assessment of its internal control, risk management and corporate governance system.

The Internal Audit Unit assists the Board of Directors and executive bodies of the Group in improving the efficiency of the Group's management, improving its financial and operational performance, advises the Group's management on managing economic, environmental and social risks and conducts special checks at the request of the Group's senior management.

Internal audit tasks and functions for the year are approved by the Board of Directors. In addition, the Internal Audit Unit may carry out certain instructions of the Board of Directors, the Audit Committee of the Board of Directors and the President of JSOC Bashneft.

The work of the Internal Audit Unit is governed by the Regulations on Internal Audit.

CORPORATE GOVERNANCE QUALITY AUDIT


The Group annually conducts an independent corporate governance quality audit (self-assessment), which covers the following three components:


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


The results of the audit are communicated to members of the Board of Directors.


In 2014 we conducted an independent analysis of corporate governance practice on the basis of the Guidelines for Self-Assessment of Corporate Governance Quality in State-Owned Companies. Preliminary findings of the self-assessment indicate that the level of corporate governance in the Group is high.

The Group also engaged an external auditor to conduct external assessment of corporate governance quality. The external audit revealed a number of improvements in the organization of the work of the governing bodies, information disclosure and safeguarding of shareholder rights compared to the previous year.

 The Regulations on Rewards and Compensation to Members of the Board of Directors of JSOC Bashneft are available on our website at http://www.bashneft.com/shareholders_and_investors/charter/

 For details on the components of remuneration paid to members of the Board of Directors, see the Annual Report of JSOC Bashneft for 2014

 For details on the system of remuneration and incentives for senior managers, see the Annual Report of JSOC Bashneft for 2014

 For details on the functioning of the Internal Audit Unit, see the 'Corporate Governance' section of the Annual Report of JSOC Bashneft for 2014

1. Information on the amount of remuneration paid in 2014 is taken from JSOC Bashneft's financial statements under RAS.

PREVENTION OF CONFLICTS OF INTEREST G4-41

Internal regulations of the Group establish supervisory and monitoring mechanisms for preventing actions which could indicate a conflict of interest. The Nominating and Compensation Committee carries out preliminary consideration of reports on compliance with the Code of Corporate Governance, the Code of Ethics, and the Anti-Corruption Policy adopted in the Group; the reports are then brought to the attention of the Board of Directors.

The Group has in place a system for notifying members of the Board of Directors and executives of the Group about the necessity of compliance with applicable requirements of the legislation and internal corporate documents.

We use efficient tools to mitigate the risk of conflicts among shareholders. For instance, special procedures have been established for voting on related-party transactions (which stipulate that interested shareholders must abstain from voting); recognized independent appraisers are engaged for valuation of assets in related-party transactions; maximum transparency and openness is ensured

when preparing and holding General Meetings of Shareholders. Minority shareholders can communicate with the management, members of the Board of Directors and the Audit Commission.

In case of a potential conflict of interests of a member of the Board of Directors, including cases when the Board member is an interested party with regard to a transaction to be made by the Company, such member of the Board of Directors should notify the Company's Board of Directors, giving priority to the Company's interests over his/her own interests. Such director should refrain from making decisions on issues in relation to which they have a conflict of interest or refrain from attending the Board meeting when such issues are discussed.

COMBATING CORRUPTION

The Group takes measures aimed at forming elements of corporate culture, rules and procedures preventing corruption. We seek to comply strictly with the norms of Russian, international and applicable foreign anti-corruption laws. Anti-corruption procedures are incorporated into a number of the Group's internal documents.

The Group regularly monitors the efficiency and supervises the implementation of anti-corruption standards and procedures that it has adopted. When assessing the reliability of partners and counterparties, the Group takes into account the extent of their opposition to corruption in the course of business. Furthermore, compliance with anti-corruption principles is viewed as an important prerequisite for establishing contractual relationships.

On the corporate level, we inform our employees and conduct training in anti-corruption procedures. The Company's employees sign a statement of compliance with anti-corruption legislation. The Group runs a Hotline 'Employees Raise Concerns'

RISK MANAGEMENT SYSTEM AND INTERNAL CONTROL G4-46

When working to achieve its goals, the Group faces internal and external operational risks. One of JSOC Bashneft's main tasks is to monitor and forecast risks inherent in its business operations. We regularly monitor potential risk events and take measures to prevent them. When these events are inevitable, we take all necessary measures to reduce their negative impact.


Basic documents

- Anti-Corruption Policy
- Policy on Business Gifts
- Code of Ethics
- Code of Corporate Governance
- Anti-Fraud Policy
- Policy on Procurement
- Regulations on Contractual Work
- Regulations on the Whistleblower Programme 'Employees Raise Concerns'
- Regulations on Monitoring IT Security Events
- Regulations on Overall Security

Procedures and instructions

- Procedure for Selection and Recruitment of Employees
- Procedure for Conducting Official Inspections
- Procedure for Conducting Investigations
- Procedure for Conducting Due Diligence
- Procedure for Approving and Concluding Contracts
- Procedure for Organizing Procurement of Goods, Works, Services at JSOC Bashneft
- Guidelines on Actions of a Security Officer in Case of Irregularities in the Procurement Process

 The Group has adopted and complies with the Code of Corporate Governance and the Regulations on Insider Information. These documents are available on the corporate website at http://www.bashneft.com/shareholders_and_investors/charter/

 For details on prevention of conflicts of interest, see the 'Corporate Governance' section of the Annual Report of JSOC Bashneft for 2014



The Risk Management System (RMS) was developed and implemented in 2010 in cooperation with one of the 'Big Four' consulting firms, based on common conceptual risk management models developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO ERM Enterprise Risk Management – Integrated Framework).

We use a systematic approach to management of all types of risks inherent in the Group's business across its entire organizational structure and operating regions. This process is based on the Group's strategic goals and the aims of specific processes. An important principle underlying the operation of the risk management system consists in ensuring cost efficiency and feasibility of risk management measures.

The Company's Board of Directors considers a semi-annual risk report

prepared by the Company's internal department responsible for analysing, systematizing and assessing the Group's risks and for developing measures for risk mitigation and prevention. The Board of Directors annually considers an action plan aimed at developing the risk management function. In addition, the Company has in place the Finance, Budget and Risk Committee of the Board of Directors.

Key risks that are constantly monitored include country and regional risks, industry-specific, financial, legal and operational risks. From the perspective of sustainable development, operational risks are the most important ones. **G4-2**

ENVIRONMENTAL RISKS

Environmental risks arise in the course of construction and operation

of production facilities if there is a possibility of a negative environmental impact. In addition, the tightening of regulations on environmental pollution and the need to respond to potential industrial accidents could have a material adverse impact on the Group.

To mitigate environmental risks, Bashneft continuously monitors and analyses the negative impact on the atmosphere, water bodies and land; it also monitors the quality of groundwater.

We invest heavily in environmental measures, including modernization of production facilities and introduction of cutting-edge technologies in order to reduce the negative environmental impact. Bashneft also takes measures in the sphere of environmental protection, including refinery upgrades and introduction of advanced environmentally friendly technologies.

We implement a programme aimed at improving the reliability of pipelines in order to minimize the number of ruptures and the risk of a negative impact on land resources.

The Group has created and constantly analyses an environmental risk map. The international ISO 14001 standard in environmental management has been introduced. The Group's enterprises arrange public liability insurance for owners of hazardous production facilities for damage resulting from an accident at the hazardous facility; they also arrange civil liability insurance, including insurance against liability for environmental damage.

OCCUPATIONAL HEALTH AND SAFETY RISKS

Bashneft's operations involve the use of technologically complex industrial equipment. Risks associated with the failure of industrial equipment may result in a shutdown of production facilities and lead to failure to meet operating and financial targets, cause damage to assets and human health and result in liability to third parties.

To reduce the likelihood of this risk, the Group has in place a health and safety system which involves constant monitoring of the condition of process units, an equipment upgrade programme, measures for preventing industrial accidents and incidents, and development of a health and safety culture. The Group has implemented a system for assessing risks in this sphere.

Bashneft's integrated HSE management system was issued with certificates confirming its compliance with the OHSAS 18001 standard in 2013. Following the first compliance audit, Bashneft Group's HSE management system has been assessed as efficient, and it has been recommended that certificates of compliance with the international ISO 14001 and OHSAS 18001 standards be renewed.

In addition, Bashneft has implemented a comprehensive insurance programme, including property insurance, civil liability insurance and voluntary insurance of operating personnel against accidents.

INTERNAL CONTROL

Internal control in Bashneft is aimed at ensuring:

- ✓ efficiency and effectiveness of the Group's business on the level of individual operations;
- ✓ reliability and accuracy of financial statements and other reports;
- ✓ compliance and conformity with laws and established rules, including in the course of business and accounting.

We seek to introduce internal control elements in accordance with the COSO Internal Control – Integrated Framework into each stage of the Group's management and at the same time to ensure that procedures and methods applied in all areas of the Group's business remain neutral and transparent.

MANAGEMENT IN THE SPHERE OF HEALTH, SAFETY AND ENVIRONMENT


We use a holistic approach to organizing management in the sphere of Health, Safety and Environment (HSE); this approach is based on uniform principles and an integrated corporate functional strategy and covers all key business processes: contractor management, procurement management, HR management and logistic management.


The Group has in place the Committee on Health, Safety, Environment and Social Responsibility of the Board of Directors, which functions as part of the Group's supreme governing body and is responsible for developing recommendations for the Board of

Directors and monitoring implementation of measures in the field of HSE in order to help implement the functional strategy and accomplish the Group's tasks in this area. On a lower level, the HSE management structure comprises the Group's departments responsible for implementation of adopted resolutions within the scope of their functions and powers.

In 2013 the British Standards Institution (BSI) acknowledged the Group's HSE Management System to be efficient and issued Bashneft with certificates confirming conformity of its HSE Management System with the OHSAS 18001 standard and conformity of the Environmental Management System with the ISO 14001 standard. Thus, Bashneft has successfully completed a project to create an integrated corporate management system in the sphere of health, safety and environment and ensure its conformity with internationally accepted standards.

The following aspects were highlighted in the course of certification: an integrated nature of the HSE management system; the fact that the Group has in place the HSE Policy and uniform HSE standards; additional training provided to employees; establishment of an internal audit institute; development of corporate and standardized risk registers and operational hazard maps; and monitoring of key indicators. The scope of certification included all core enterprises of the Group.

 For information on the organizational structure of the Group's risk management system, see the Annual Report of JSOC Bashneft for 2014

 For details on all risks that we consider as significant, see the Annual Report of JSOC Bashneft for 2014



In 2014 Bashneft successfully passed the first compliance audit of its HSE management system; certification was subsequently confirmed.

The Group continuously improves its HSE management processes and the HSE management system and continues to adopt the best practices and standards in the course of its operations.

INNOVATION MANAGEMENT

The Group's research and technological potential is one of our competitive advantages. We have made considerable progress in establishing a research and development centre of regional importance on the basis of our corporate research and development institute, LLC BashNIPIneft. The Group invests heavily in this process and is forming a facility for efficient

technical research and development of application-oriented industry-specific technologies.

Free access to scientific and technological achievements of leading companies in the industry is facilitated by the fact that in 2013 the Group joined the International Association of Oil and Gas Producers (OGP) and the International Petroleum Industry Environmental Conservation Association (IPIECA).

The Group uses an R&D management system consisting of three management levels:

- ✓ strategic management (a system for determining the key areas of innovative development, issues and technologies);
- ✓ a system for R&D project portfolio management;

- ✓ R&D project management system.

In 2014 the Group updated its Unified R&D Programme – a List of the Group's R&D Priorities for the period from 2014 through 2020. In accordance with this List, in the near future the Group will continue to actively develop the following areas of activity: exploration and production; refining and commerce; administration and management; social responsibility

OUR OBLIGATIONS TO IMPROVE CORPORATE GOVERNANCE

In 2014 the Group assumed a number of obligations to improve its corporate governance quality.

As JSOC Bashneft's shares have been included in the First (Top) Tier quotation list of the Moscow Exchange, our plans for the period from 2014 through 2016 include ensuring compliance of



the Group's corporate governance system with the requirements of the Moscow Exchange for issuers and trading participants.

Besides, due to the transfer of title to 84% of the Company's voting shares to the Russian Federation, starting from December 2014 a number of additional corporate governance development measures have become applicable to the Group.

We also seek to further develop and improve the corporate governance system by following best practices, improving the performance of the Group's governing bodies and optimizing the management of subsidiaries.

Additional corporate governance development measures:

- ✓ analysis of the Code of Corporate Governance of the Central Bank of Russia and development of a road map for its implementation;
- ✓ taking into account the requirements of federal executive agencies for the Group's strategic planning and business planning cycle and the relevant changes in the corporate governance cycle;
- ✓ application of methodological guidelines on the work of the Board of Directors, the committees and the Corporate Secretary
- developed by federal executive agencies;
- ✓ updating the Group's dividend policy;
- ✓ change in the approach to information disclosure, given special features typical of state-owned companies;
- ✓ use of IT resources (first and foremost, the Interdepartmental Portal) developed to optimize governance processes in state-owned companies.

HIGH LEVEL OF COMMUNICATION

AN OPEN AND TRANSPARENT DIALOGUE WITH ALL STAKEHOLDERS IS A FUNDAMENTAL PRINCIPLE UNDERLYING BASHNEFT'S OPERATIONS.



БАШНЕФТЬ
АКЦИОНЕРНАЯ НЕФТЯНАЯ КОМПАНИЯ



STAKEHOLDERS

‘IN RECENT YEARS, DIRECT AND OPEN DIALOGUE WITH ALL CATEGORIES OF STAKEHOLDERS HAS BEEN INCREASINGLY IMPORTANT: COMPANIES SHOULD BOTH SPEAK TO EXPRESS THEIR POSITION AND LISTEN TO RECEIVE FEEDBACK. WE LIVE IN AN INCREASINGLY INTERCONNECTED WORLD WHERE COMMUNICATION IS BECOMING A KEY ELEMENT OF DEVELOPMENT. WE ARE AWARE OF THESE CHANGES, AND THE GROUP IS CHANGING ACCORDINGLY.’

Alexander Korsik,
President of JSOC Bashneft, Chairman of the Management Board

We are aware of the great responsibility that the Group is bearing in the course of stakeholder engagement. As our business is based on respect for the interests of absolutely all stakeholder groups, we seek to follow a responsible approach to stakeholder engagement. An open dialogue with stakeholders makes it possible to improve business efficiency, provides opportunities for achieving impressive results and helps to strengthen the Group's brand. Regular cooperation enables us to align and focus our efforts to achieve common goals in the sphere of sustainable development.

As a large and efficient company, Bashneft seeks to lead and initiate positive changes. We realize that our efforts in the sphere of sustainable development extend beyond the company or our supply chain, and we set an example of socially responsible


and ethical behaviour of a large market player. Our goals include further development of the dialogue with stakeholders, on the one hand, and achievement of synergy from cooperation both for the Group and for stakeholder representatives, on the other hand. We engage stakeholders in the discussion of corporate responsibility issues through various means of communication. The Group cooperates with its stakeholders on a regular basis.


We divide representatives of stakeholders that are most closely connected with the Group's operations into six groups. We believe that these groups of people can be influenced considerably by the Group's operations and products and that, in their turn, they can make an impact on the Group's ability to attain its strategic goals. The basic principles that we have applied when identifying stakeholder groups

include the following: shared interests and expectations about the Group; the nature of their influence on the achievement of strategic goals; stakeholder engagement tools that we use to communicate with them. **G4-25**

‘WE WOULD LIKE TO OFFER YOU A CONTINUOUS DIALOGUE, EXCHANGE OF INFORMATION AND COMMUNICATION. IT IS IMPORTANT FOR US TO UNDERSTAND THE PROBLEMS AND CHALLENGES THAT YOU ARE FACING, TO HELP YOU AND TO BE ABLE TO EXPECT YOUR SUPPORT IN RETURN. BESIDES, WE WOULD LIKE TO KNOW YOUR OPINION ON OUR SHORTCOMINGS AND ASPECTS THAT YOU THINK REQUIRE IMPROVEMENT. WE ARE WILLING TO COOPERATE.’

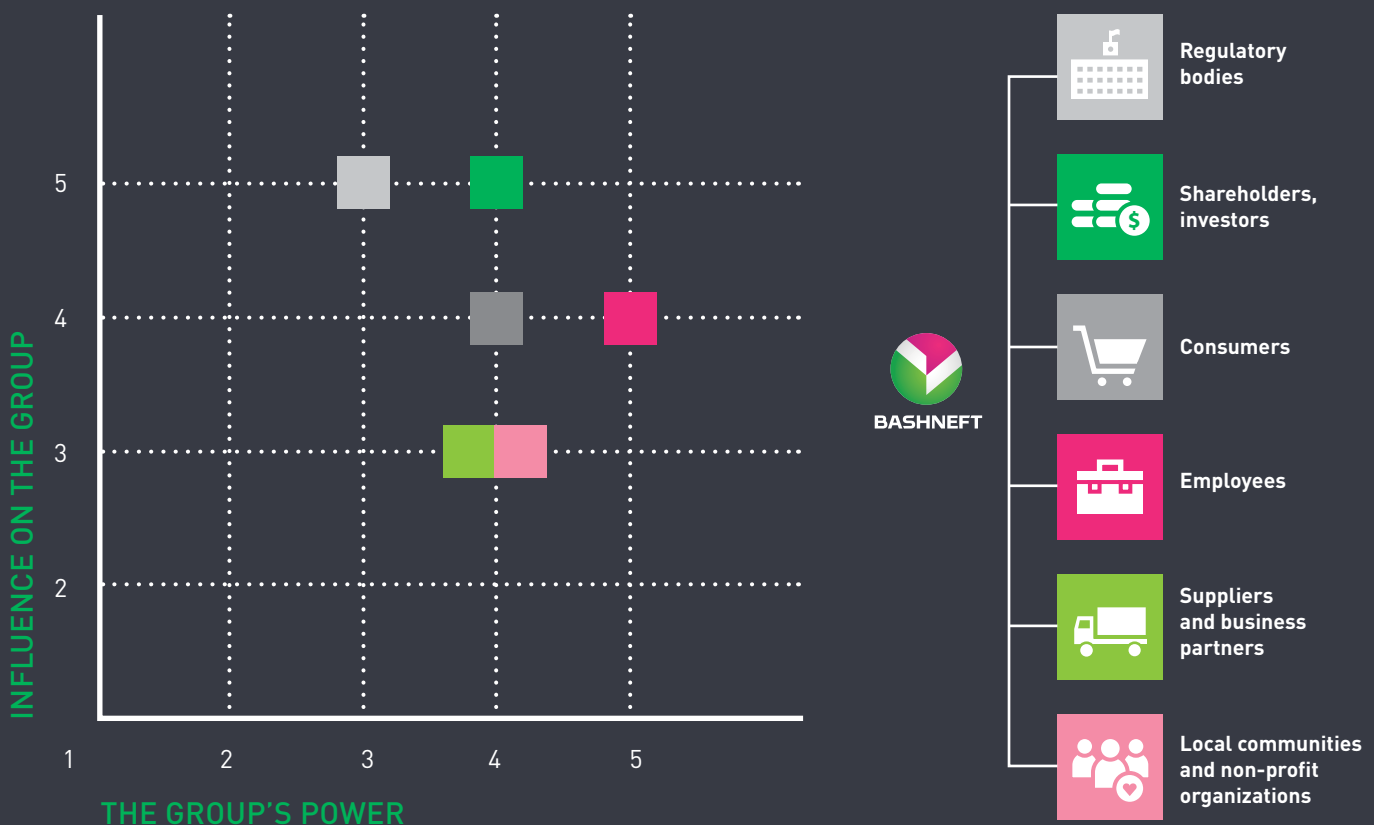
Alexander Korsik,
President of JSOC Bashneft, Chairman of the Management Board

 We invite you to enter into dialogue, and we would like you to fill in the feedback form at the end of the report or to send your comments to sustainabilityreport@bashneft.ru

Stakeholder engagement is governed by corporate social responsibility principles which are based on the Policy on Corporate Social Responsibility adopted in 2010. Specific forms of engagement of individual stakeholder groups are developed on the basis of the relevant policies and regulations of the Group. 

During the preparation of this Report we did not take any special additional stakeholder engagement measures. In the course of stakeholder engagement we are guided by the principle of continuity and regularity; therefore, we continuously implement all stakeholder engagement measures that we believe to be relevant and effective.

STAKEHOLDER MAP



SHAREHOLDER AND INVESTOR ENGAGEMENT

Shareholders and investors are a stakeholder group that has the strongest impact on the Group. Therefore, we build our relationship with them on the basis of the principles of openness, information transparency and protection of the rights and legitimate interests of this stakeholder group. We strictly adhere to the norms of business ethics and seek to use international best practice as part of investor and shareholder engagement. In addition, functioning of the corporate governance system incorporates the principles outlined in the Code of Corporate Governance.

We seek to maximize the Group's value by maintaining a high level of dividend yield and improving business performance. Our efforts to ensure financial sustainability and business efficiency are appreciated by experts and investment community.

Bashneft holds a close dialogue with shareholders and investors and uses all available opportunities.

We maintain regular contact with the investment community, regularly hold meetings with investors and road shows, promptly communicate information and analytical findings, participate in investment conferences, and arrange on-site visits and other corporate events for investors.

Key measures in the sphere of investor engagement in 2014:

- ✓ JSOC Bashneft held its first-ever Investor Day in London attended by the Group's President and senior management; as part of the event, the Company disclosed its medium-term development strategy. The event was highly acclaimed by the investment community;

- ✓ for the first time, the Group's management held meetings with investors from the Asia-Pacific Region in Beijing, Singapore and Abu Dhabi, as well as meetings with major investors as part of six road shows in the US, the UK and Continental Europe.

SHAREHOLDER INFLUENCE ON THE DECISION-MAKING PROCESS

Late 2014 saw a change of controlling shareholder of JSOC Bashneft. Starting from December of the reporting year, the Company's largest shareholder is the Russian Federation. Minority shareholders include over 35 thousand individuals and legal entities.

Our principal goal in the field of shareholder engagement is to create all conditions for the efficient decision-making by the shareholders.

The main instrument of shareholder influence on the decision-making process is the participation in General Meetings of Shareholders. The Company provides shareholders with complete information on all agenda items in a timely manner in the materials for General Meetings. Each shareholder of the Group has the right and opportunity to choose between attending the General Meeting in person and participating by absentee voting and enjoys equal voting rights in either case. At shareholders' requests, we provide them with copies of documents in accordance with the requirements of the Federal Law on Joint-Stock Companies.

The Group arranges and holds General Meetings of Shareholders so as to provide easy access to them for

OUR ACHIEVEMENTS

Bashneft has been included in the list of the 50 most successful and dynamic private-sector companies in the BRICS countries and other emerging markets, according to 2014 BCG Local Dynamos, a report prepared by the Boston Consulting Group (BCG), a leading global management consulting firm.



For more information on shareholder and investor engagement, see the Annual Report of JSOC Bashneft (the sections 'Investor & Shareholder Information' and 'Corporate Governance')

Forms of engagement and communication

- ✓ Annual General Meeting of Shareholders (in 2014 one meeting was held)
- ✓ Extraordinary General Meetings of Shareholders (in 2014 three meetings were held)
- ✓ Scheduled meetings with shareholders and investors
- ✓ Publication of IFRS financial statements (quarterly and interim financial statements)
- ✓ Regular meetings between the Group's management and representatives of investors and shareholders
- ✓ Non-deal road shows for leading investment funds
- ✓ Meetings with major Eurobond investors as part of road shows in the U.S. and Europe
- ✓ Ongoing efforts to maintain and expand contact with investment banks

OUR ACHIEVEMENTS

Over the last three years, Bashneft's Annual Reports and Sustainability Reports have become winners or nominees in the relevant Russian competitions 11 times. This proves that experts recognize the high quality of preparation or reports and information disclosure.

all shareholders. Special attention is given to facilitating the participation of private shareholders, who mainly comprise employees of the Group or of its subsidiaries and affiliates.

The mechanism for appointing members of the Board of Directors is a crucial aspect of the shareholders' influence on the Group's operations. Selection of candidates and formation of the Board of Directors falls within the competence of the General Meeting of Shareholders. This enables the shareholders to make an indirect impact on the Group's strategy and to gain additional control over the actions of the Group's executive bodies.

INFORMATION TRANSPARENCY

We have a responsible approach to maintaining a high level of information transparency for investors to enable them to make the right investment decisions. We seek to follow international best practices in this field and to comply with all legislative requirements in all cases.

The Group's corporate website (<http://www.bashneft.ru>),

<http://www.bashneft.com>) is one of the key means of information disclosure. It contains information on the Group's financial and business operations, sustainable development and corporate responsibility. Bashneft posts the latest press releases and news, annual reports and sustainability reports on its website. It also publishes quarterly financial statements and obligatory information disclosures required under the legislation of the Russian Federation.

Major sources of information on the Group's operations include the Annual Report and the Sustainability Report. The high quality of information disclosure is confirmed by awards won by Bashneft in Russian competitions of annual reports.

High standards of investor and shareholder engagement are maintained by the Investor Relations Department and the Corporate Relations Department. The Corporate Secretary also plays an important role in ensuring that relevant bodies and executives of the Group comply with procedural requirements which protect the rights and legitimate interests of shareholders.

EMPLOYEES

WE VIEW THE GROUP'S EMPLOYEES AS A STAKEHOLDER GROUP THAT DEPENDS TO THE GREATEST EXTENT ON OUR ACTIONS. THIS MEANS THAT WE HAVE TO BEAR ADDITIONAL RESPONSIBILITY WHEN DEALING WITH THE GROUP'S EMPLOYEES AS ONE OF OUR STAKEHOLDERS.

Bashneft has in place the Code of Ethics. Provisions of the Code stipulate that the Group's governing bodies and employees must avoid any discriminatory behaviour. The Code of Ethics also ensures that all employees have equal rights and opportunities in terms of salaries and promotion. The Group never uses child labour, forced or compulsory labour or any other non-standard forms of employment which reduce, directly or indirectly, the level of social protection of employees.

We seek to be an employer that is most attractive to our employees. Bashneft offers stable employment and long-term career planning opportunities. Salaries in the Group are significantly above the regional level. In addition, the Group provides its employees with a large package of social benefits and securities and ample opportunities for professional training and development. The Group has concluded a Collective Agreement with all of its employees. The Agreement was signed in 2013 and is valid until 2015.

Bashneft is constantly engaged in an open and constructive dialogue with its employees focused on the adherence to codes and standards adopted by the Group, and holds public meetings between senior management and staff. Strong emphasis is given to informal meetings at which employees can put questions directly to the managers. In addition, the Group has in place another tool for receiving feedback: a hotline 'Employees Raise Concerns', which enables senior management to receive information on any violations or wrongdoings from employees.



Forms of engagement and communication

- ✓ Cooperation with the United Employee Representative Body in the process of negotiating the Collective Agreement
- ✓ Cooperation with Employee Councils of Bashneft and trade unions representing the majority of the Group's employees in the normal course of business
- ✓ Anonymous hotlines
- ✓ Interaction with the Youth Council of the Group
- ✓ Meetings between senior management and staff
- ✓ Corporate portal (Intranet) and media
- ✓ Professional training and development programmes

CONSUMERS

Our business model involves controlling the entire value chain, from oil production to sales of crude oil and petroleum products. Therefore, we pay considerable attention to our customers and consumers of our products. Our key objective in this field is to attain the highest level of service and perfect quality of products supplied to consumers. While tackling this task, the Group attaches considerable importance to convenience and seeks to ensure that partnership with the Group is not only profitable but also comfortable for consumers. We develop a wide range of marketing channels, from wholesale supply of crude oil via pipelines to small wholesale business and retail sales via our own network of filling stations.

Product quality is another aspect that is important to consumers. To meet their requirements in this sphere, the Group produces sophisticated modern products meeting the latest standards and requirements. Continuous upgrades of Bashneft's refining complex help it to meet the most requirements of the demanding customers.

We recognize our responsibility towards our customers and seek to build up an excellent reputation. To achieve this, we constantly improve our product quality assurance process. Complete information on product characteristics is available on our corporate website, in advertising materials and other public sources. Products manufactured at Bashneft's facilities undergo certification in strict accordance with legal requirements.

To improve the quality of our products and services, the Group runs a Hotline for customer complaints. Consumers can post their feedback about our products and related services on our website. In addition, we conduct regular customer surveys to evaluate the level of consumer satisfaction with product quality. Findings of the surveys are used in the product improvement system.

In 2014 there were no incidents of non-compliance of product quality with regulations and voluntary codes concerning product and service information and labelling.

OUR ACHIEVEMENTS

Bashneft's filling stations sell a new generation fuel under the ATUM brand name; it is more environmentally friendly, and fuel performance has been improved. AI-92 ATUM gasoline meeting the Euro 5 standard helps to improve engine performance and, consequently, reduce fuel consumption and atmospheric emissions. The fuel is environmentally friendly and resistant to cold and ensures a high level of protection of the key engine components against corrosion.

Forms of engagement and communication

- ✓ Hotlines for consumer complaints about product and service quality
- ✓ Receiving and processing complaints and suggestions concerning Bashneft's filling stations on the Group's website at www.bashneft-azs.ru
- ✓ Regular customer surveys to evaluate the level of consumer satisfaction with product quality
- ✓ The Mystery Consumer programme aimed at monitoring the quality of customer service at the filling stations
- ✓ Preparation of reports on the Group's quality assurance initiatives
- ✓ Customer service and support, settlement of claims and disputes
- ✓ Customer data protection and confidentiality
- ✓ Publication of information on the Group's operations on the corporate website
- ✓ Ongoing implementation of the programme to improve product quality through further refinery upgrades
- ✓ Use of a standardized corporate style of Bashneft at the Group's full-service filling stations to increase customer loyalty and improve brand recognition

SUPPLIERS AND BUSINESS PARTNERS

We use a responsible approach to the selection of suppliers and contractors. Bashneft's business partners greatly appreciate the Group's reputation as a customer due to our commitment to established standards of ethical business conduct.

We focus on ensuring the selection of the best possible suppliers and terms of supply of goods, performance of work and provision of services in order to satisfy the needs of production and functional units properly and on time. Our top priorities in the sphere of cooperation with suppliers are to promote competition and to standardize counterparty relationships.

Suppliers are selected primarily through public tenders and competitive bidding with guaranteed access of a broad range of participants. We make efforts to create equal conditions for participation in the procurement procedures and to minimize the role and impact of subjective factors on awarding procurement contracts: objective criteria are applied for admitting potential bidders and for assessing bids.

We adhere to the principle of zero tolerance to corruption and use a wide range of anticorruption tools and

methods to create equal conditions for all suppliers, contractors and business partners. Since 2011 we have been successfully following the Anti-Corruption Policy of JSOC Bashneft.

ORGANIZATION OF THE PROCUREMENT PROCESS

Bashneft is a major customer and consumer of materials, work, goods and services. Therefore, we seek to ensure that the procurement process is transparent and efficient and to prevent any potential incidents of corruption when selecting counterparties.

Organization of procurement in the Company, its branches, subsidiaries and affiliates is standardized and based on the following principles:

- ✓ equal rights, fair treatment, no discrimination or restrictions of competition;
- ✓ the winner is selected by means of an open tender on the basis of the best price/quality ratio, delivery and payment terms;
- ✓ the winner is selected on the basis of objective criteria for admission and assessment;

OUR RESPONSIBILITY

The Group follows the practice of including clauses on compliance with requirements for occupational, industrial, fire and road safety and environmental protection into its contracts with suppliers.

- ✓ information transparency, use of modern information technologies (automation, e-commerce, electronic document management tools);
- ✓ mutual responsibility in the course of procurement on the part of both the employees of the organizer of the procurement process and its participants.

Process transparency is supported by the use of advanced information technologies, e-commerce tools, electronic document management systems, and automation of key stages of procurement procedures.

Forms of engagement and communication

- ✓ Publication of information on the Group's operations on the corporate website
- ✓ Regular participation in various special exhibitions and conferences
- ✓ Public tenders at the official procurement and sales website of JSOC Bashneft (www.zakupki.bashneft.ru) and/or the B2B-Bashneft electronic marketplace
- ✓ Signing of cooperation agreements
- ✓ Minimization of corruption risks by checking potential counterparties in terms of a number of formal characteristics before making transactions (Due diligence)

JSOC Bashneft, its branches, subsidiaries and affiliates have in place the Central Procurement Commission and local procurement commissions to improve the efficiency of the procurement process. The Central Procurement Commission of JSOC Bashneft supervises major purchases. The work of procurement commissions of the branches, subsidiaries and affiliates is supervised by the Tendering Department.

The Group has developed and adopted regulations on the management of major purchases to improve the efficiency of procurement operations and maintain the transparency of costs through market research and the analysis of price changes, contract performance quality and inventories. The regulations improve the transparency and quality of procurement operations, including through obligatory prequalification of suppliers. We seek to formalize most tendering requirements in order to minimize the impact of subjective factors on the selection of partners.

The main method of procurement is the public tender, which involves publishing an invitation to tender notice on JSOC Bashneft's official procurement and sales website (www.zakupki.bashneft.ru) and/or the B2B-bashneft electronic marketplace. Electronic bidding guarantees that access is provided to a broad range of suppliers for certain procurement categories and reduces the impact of subjective factors.

Over 11% of all procurement is conducted through bidding on an independent electronic marketplace, www.b2b-bashneft.ru, which has been developed based on the B2B-center platform.

In addition to the independent electronic marketplace, B2B-Bashneft, the Group has developed and is upgrading its own electronic marketplace in order to switch over to a simpler method of electronic procurement (for transactions whose value is less than 250 thousand roubles net of VAT) and sell Bashneft's unclaimed and non-liquid property.

In late 2014 the controlling stake in the Company passed into the ownership of the Russian Federation. As a result, organization of procurement in the Group was changed to meet the requirements of Federal Law No. 223-FZ on Procurement of Goods, Works and Services by Certain Types of Legal Entities dated July 18, 2011. Starting from March 2015 procurement operations are conducted in strict accordance with these regulatory requirements.


We make efforts to ensure that our suppliers and contractors have a responsible attitude to occupational, industrial, fire and road traffic safety and environmental protection. To achieve this, the Group includes relevant clauses in contracts and demands that its partners comply with HSE regulations. Where necessary, we

conduct prequalification audits of contractors to check if they comply with requirements in the field of health, safety and environment.

In addition, Bashneft ranks suppliers and contractors on the basis of HSE criteria. A number of measures in the sphere of road traffic safety apply both to Bashneft's departments and to our partners.

Savings from procurement procedures (including VAT), billion roubles

| | 2012 | 2013 | 2014 |
|--|-------|------|-------|
| Volume of procurement | 87.9 | 79.9 | 107.4 |
| including electronic procurement | 12.91 | 10.2 | 11.4 |
| Total budget savings from procurement procedures | 7.6 | 10.3 | 7.4 |

 For more details on environmental requirements for counterparties, see the section 'Environmental Protection'

'WE ARE SWITCHING OVER FROM ONE-TIME TRANSACTIONS BETWEEN A SELLER AND A BUYER TO A PARTNERSHIP. AND THIS INVOLVES THE READINESS OF A SUPPLIER TO CONSIDER OUR NEEDS IN DETAIL, THE WILLINGNESS TO COOPERATE WITH OUR TECHNICAL EXPERTS, WHICH IS OF CRUCIAL IMPORTANCE. OUR GOAL IS TO COOPERATE DIRECTLY WITH PRODUCERS, WITHOUT ANY KIND OF INTERMEDIARIES.'

Dmitry Ryabchenko,
Vice President for Capital Construction and Logistic Support

REGULATORY BODIES



The Group's management regularly interacts with representatives of various regulatory bodies at all levels. Our cooperation with regional authorities is based on agreements on social and economic development of the regions and environmental cooperation agreements. In addition, we are beginning a very important dialogue with federal government agencies as representatives of the new controlling shareholder; the dialogue is focused on outlining areas of the Group's development, forming its governing bodies, determining the amount of dividend payments and dealing with other key issues related to its business.

The Group seeks to engage in constructive dialogue with regulatory


bodies to ensure compliance with all procedural requirements set out in laws and assist in addressing social issues within the scope of its competence. The Group's efforts in this area are governed by the Policy on Government Relations. **G4-37**

Active participation of the Group's representatives in the work of joint committees and commissions provides regulatory bodies with professional expert assessments and recommendations on industry legislation.

The Group's representatives participate in working groups and expert councils affiliated with regulatory bodies. Bashneft's President Alexander Korsik sits on the Presidential

Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security and the Government Commission on the Fuel and Energy Sector and Improving the Economy's Energy Efficiency.

The Group's representatives take part in specialized meetings convened by regional governments and in working groups of the Russian Ministry of Energy, namely:

 For more information on the development of our operating regions and cooperation with regional governments, see the section 'Charity Work'

Forms of engagement and communication

- ✓ Publication of information on the Group's operations on the corporate website
- ✓ Participation in meetings and sessions of committees and commissions of legislative bodies and local authorities
- ✓ Publication of reports on the Group's operations
- ✓ Participation in working groups affiliated with regulatory bodies
- ✓ Regional executive bodies act as intermediaries hearing complaints from residents about environmental issues
- ✓ Consultation with representatives of the federal government on issues related to the Group's development and management
- ✓ Expert and advisory participation in the drafting of laws and regulations

- ✓ The working group of the Ministry of Energy on efficient associated gas utilization;
- ✓ The working group on the development of the Federal Target Programme on Elimination of Accumulated Environmental Damage in 2014 – 2025;
- ✓ The working group of the Ministry of Energy on the formulation of proposals for designing tax, tariffs, and customs policy guidelines for the oil industry;
- ✓ The Advisory Council on anti-trust legislation, pricing and tariff policy of the State Duma Committee on Economic Policy, Innovative Development and Business;

- ✓ The Advisory Council of the State Duma Committee on Budget and Taxes;
- ✓ The Advisory Council of the State Duma Committee on Energy;
- ✓ The Issuers Committee of the Moscow Exchange,

as well as other working groups and advisory councils. Several experts representing the Group act as deputies to the Government Assembly (Kurultay) of the Republic of Bashkortostan.

Although the Group closely cooperates with government agencies, in fact we do not receive or use financial assistance from the government. In 2014 benefits and financial assistance

received by the Group from the government totalled 24.9 million roubles; given the scope of our operations, this amount is negligible. **G4-EC4**

On the other hand, we do not finance political parties, institutions or movements to gain commercial advantage for specific projects of the Company, its subsidiaries and affiliates; we do not make political donations either. **G4-S06**

LOCAL COMMUNITIES AND NON-PROFIT ORGANIZATIONS

In the course of its operations the Group seeks to respect the interests of local communities, as we are aware that this form of partnership is mutually beneficial for both parties. Bashneft gives proper consideration to the needs of local communities, takes an active part in the economic and cultural development of its operating regions and assists in the development of infrastructure, education, culture and sports. The Group operates in a number of regions of Russia and seeks to preserve the environment in each region for future generations.

The Group implements large-scale programmes that involve investing in

social infrastructure of the Group's operating regions. It also provides targeted support for low-income organizations and individuals. Bashneft's employees take an active part in the development of volunteerism. In addition, in case of natural disasters we are ready to provide assistance to regional governments and local communities. In 2014 the Group assisted the Republic of Bashkortostan in responding to natural disasters by providing financial aid totalling 250 million roubles.

The Group maintains close and mutually beneficial cooperation with representatives of local communities, including regular meetings,

correspondence and conference calls with competent officers to promptly address any issues and identify promising areas of cooperation.

Whenever possible, the Group takes part in community life and provides direct assistance (including financial aid) to communities. One of the frequently used formats of basic partnership between the Group and local communities is the lease of land in areas where Bashneft operates, and compensation for losses resulting from utilization of natural sites and environmental damage to them. In 2014 the Group had no conflicts with local communities or indigenous peoples.

Forms of engagement and communication

- ✓ Meetings and consultations with local authorities
- ✓ Signing of agreements on cooperation in the sphere of the social and economic development of the regions
- ✓ Support for social initiatives
- ✓ Charity work
- ✓ Preparation of presentations
- ✓ Meetings and consultations
- ✓ Providing information on the Group's operations on the corporate website

KEY AREAS OF STAKEHOLDER ENGAGEMENT

KEY ISSUES DISCUSSED AS PART OF STAKEHOLDER ENGAGEMENT G4-27

| Unit | Issues | |
|--|---|---|
| Strategy and Development | • Strategic targets and their achievement | • External and internal factors behind Strategy adjustment |
| | • Bashneft's updated Strategy | • The Group's measures for attaining strategic goals |
| | • Bashneft's value | |
| Investor and Shareholder Engagement | • Engagement in the preparation for the planned SPO | • Start of a dialogue with the new controlling shareholder |
| | • Amount of dividend payments | |
| Corporate Governance | • Implementation of best corporate governance practices | • Reorganization results |
| Geology and Development / Upstream | • Production level | • Further development of the R. Trebs and A. Titov fields |
| | • Expansion of the resource base | |
| Oil Refining | • Implementation of best practices in the sphere of technology | • Measures to increase refining depth |
| | • Refinery upgrades | • Improving operating performance of refineries |
| Marketing and Logistics | • Export volumes | • Development of niche product sales |
| | • Domestic sales volumes | • Development of retail sales |
| Economy and Finance | • Revenue | • Level of tax expense |
| | • Changes in financial performance under the updated Strategy | • Comprehensive approach to cost cutting |
| | • Long-term financial model | • Cost control |
| | • Debt level | • Dividends |
| Human Resources | • Talent pool development | • Medical insurance |
| | • Stable employment | • KPIs |
| | • Remuneration | • Social investments |
| | • Competitive salaries | • Opportunities for professional and career development of employees |
| | • Social benefits | |
| Health, Safety and Environment (HSE) | • Reduction in the number of injuries; development of the occupational safety culture | • Waste management |
| | • Key HSE initiatives | • Reduction of harmful emissions |
| | • HSE costs | • Energy efficiency |
| | • Minimization of environmental impact | • Efficient use of water resources |
| | • Associated gas utilization | • Transparent disclosure of data on HSE performance |
| Social and Charity Work | • Infrastructure development in operating regions | • Expenditure on social and charity work |
| | • Areas of social and charity work | • Assistance to the regions in responding to natural disasters |
| Capital Construction and Logistic Support | • Investment volumes | • Capital expenditure volumes (growth) |
| Introduction of Innovations and Information Technologies | • Key areas of innovative development in the Upstream, Refining and Marketing Units | • The use of advanced information technologies in key areas of the Group's operations |

The topics discussed as part of stakeholder engagement and the issues identified in the course of their discussion have been taken into account during the preparation of this Report.

HIGH PROFESSIONALISM

38 HOURS

AVERAGE NUMBER
OF TRAINING HOURS
PER EMPLOYEE

33.3 THOUSAND
EMPLOYEES

AVERAGE HEADCOUNT
AS OF THE END OF 2014

67 THOUSAND
ROUBLES

AVERAGE SALARY
LEVEL IN THE GROUP



PERSONNEL AND SOCIAL POLICY



‘IMPRESSIVE RESULTS THAT WE HAVE ACHIEVED OVER THE LAST FEW YEARS ARE DUE FIRST AND FOREMOST TO OUR TEAM. WE HAVE CONFIDENCE IN OUR TEAM AND SEEK TO REMAIN THE MOST ATTRACTIVE EMPLOYER IN OUR OPERATING REGIONS. I AM CONVINCED THAT TOGETHER, WE WILL MAKE OUR COMPANY BETTER.’

Vladislav Pozdyshev,
Vice President for Human Resources

Bashneft's employees are our most valuable asset. A highly qualified close-knit team is a prerequisite for the Group's high achievements. We seek to create safe working conditions, offer opportunities for

professional fulfilment and to create a team spirit and a corporate culture in Bashneft. Employees view the Group as one of the most attractive employers in our operating regions, and our social policy reflects a high

level of Bashneft's responsibility towards its employees. Our investment in human capital is a foundation for the Group's sustainable development in the future.

PRINCIPLES AND KEY AREAS OF OUR HR POLICY

We respect the right of our employees to safe working conditions and fair and decent wages. We provide job guarantees and encourage self-improvement of our employees through training and development.


Our approach to personnel management is based on creating conditions necessary to enable our employees to make high professional achievements, on creating a comfortable atmosphere conducive to effective

work and on offering opportunities for the development of skills and competencies.

The Group's internal documents formalize these principles and are aimed at preventing unethical behaviour, discrimination, corruption, infringement of rights and opportunities. The Group's ethical principles and values are an integral part of our strategy and form the basis of Bashneft's corporate culture.

Principles of personnel management:

- ✓ strict compliance with the norms of Russian and international law;
- ✓ respect for human rights;
- ✓ mutual respect and proper regard for the views of the parties on all matters.

 Bashneft's internal corporate documents, including the Code of Ethics and the Anti-Corruption Policy, are available on our website at http://www.bashneft.com/shareholders_and_investors/charter/

Priority tasks in HR management by business segment



UPSTREAM

- Developing geological and engineering competencies (training/recruitment)
- Creating Project Offices: international operations, unconventional resources, new technologies
- Developing a system of incentives in the subsidiaries and affiliates (including non-financial incentives, job rotation, career)
- Introducing a continuous improvement system



DOWNSTREAM

- Developing competencies for operating new units, cost management (at refineries), service quality control (at filling stations), trading (training/recruitment)
- Developing a system of incentives in the subsidiaries and affiliates (including non-financial incentives, job rotation, career)
- Standardizing the structure of operating personnel



GROUP-WIDE TASKS

- Forming a modern corporate culture
- Introducing an optimal organizational and staffing structure in the Corporate Centre, subsidiaries and affiliates
- Bringing the system of grades and salary levels up to date with the market
- Incentivizing project-related activities
- Creating a system for professional development of employees
- Developing a system for head-hunting / internal recruiting of employees
- Forming an internal and external talent pool
- Automation of processes and systems
- Keeping down the level of staff turnover

Our strategic objectives in the area of personnel management include the following:

- ✓ to provide the Group with qualified personnel, to plan and develop the Group's personnel;
- ✓ to develop the best competencies in the industry;
- ✓ to create a strong corporate culture;
- ✓ to improve the organizational and staffing structure;
- ✓ to implement international standards in the area of HR management;

✓ to introduce transparent and systematic HR processes and control over them while implementing the Group's business strategy;

- ✓ to create centralized personnel management processes using an integrated automatic control system;
- ✓ to develop the Group's social partnership: interaction with employee councils, trade unions, retirees, veterans.

Our priority tasks in personnel management include primarily performance management,

competency management and head-count management.

We constantly improve the system of employee incentives in order to maintain a high salary level, prevent discrimination and ensure that remuneration is linked to an employee's personal contribution to the achievement of the Group-wide goals both in the sphere of operations and in terms of sustainable development.

Bashneft offers an extended package of social benefits and guarantees in order to help its employees maintain an optimal work-life balance and

to maintain the health and well-being of employees and their families; the Group also supports its retired employees. This helps to increase the level of employee engagement and to improve performance.

We prioritize development and promotion of our own employees. To create the conditions for professional development and unlock the potential of employees, we continuously implement personnel training and development programmes. Bashneft has in place programmes aimed at attracting and retaining both young specialists and experienced workers.

In the sphere of social policy special attention is given to improvement of our corporate culture, which is defined as a common system of moral and spiritual values shared by our employees. Bashneft's corporate culture is based on mutual respect among employees, encouragement of teamwork and mutual support, joint efforts to achieve the goals and strong performance.

The Group actively cooperates with trade unions and organizations representing the interests of employees, the largest of which is Bashneft Group's Employee Councils.

Bashneft is implementing an updated functional strategy for HR management for 2013-2015, which includes the following measures:

- ✓ development of the Group's corporate culture and introduction of the Group's values;
- ✓ improvement of the organizational and staffing structure with due regard to the Group's business strategy;
- ✓ development of a system for strategic planning and personnel training;

- ✓ development of the management's competencies;
- ✓ reduction of the turnover of skilled employees;
- ✓ development and implementation of a new policy in the area of remuneration and long-term incentives, which is result-oriented and focused on cross-functional cooperation;
- ✓ improvement of efficiency of key HR management processes in the Company, its subsidiaries and affiliates.

Since 2010 we regularly conduct employee engagement surveys. Findings of the surveys are taken into account when developing the Group's functional strategies, which helps to set the goals and objectives to be achieved in the most efficient way.

The survey conducted in cooperation with Hay Group helps to identify strengths and weaknesses of the organization and key areas for organizational development. We provide employees with an opportunity to share their opinions about Bashneft as an employer. The survey makes it possible to benchmark our results against data on the most successful Russian and foreign companies participating in the survey conducted by Hay Group.

In 2014 Bashneft's survey covered almost 6 thousand people, which amounts to 77% of the total number of the Group's employees invited to participate in the survey.

We make continuous efforts to improve the level of employee engagement and find ways to provide employees with additional opportunities for self-fulfilment.

OUR ACHIEVEMENTS

The 2014 employee engagement survey revealed that Bashneft ranks among top performers or even outperforms them. Moreover, the Group's performance improved compared to 2013.

Employee engagement indicators:

- ✓ 84% of employees believe that there is a link between their work and the Group's goals and strategy;
- ✓ 83% of employees aim to manufacture high-quality products and services;
- ✓ 81% of employees said that the management relied on their ideas and opinions in their work;
- ✓ 81% of employees highlighted close cooperation between various working groups and divisions.



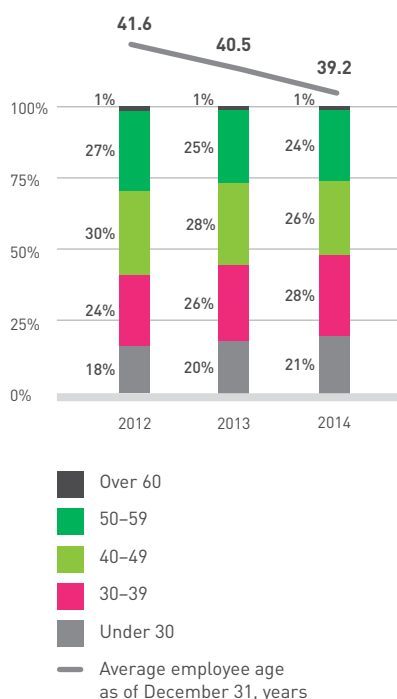
For more details, see 'Our employees – Social benefits and guarantees'

For more details, see 'Our employees – Employee training and development'

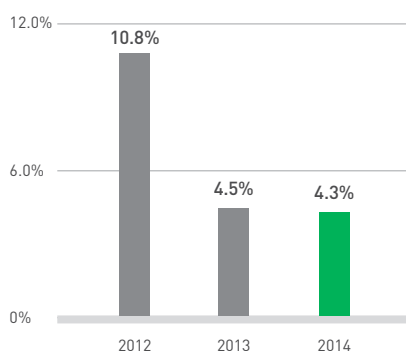
For more details, see 'Our employees – Development of the corporate culture'

OUR EMPLOYEES

Employee age distribution



Staff turnover, %



PERSONNEL SIZE AND STRUCTURE G4-10

As of December 2014 the average headcount of Bashneft Group exceeded 33 thousand employees compared to almost 28 thousand employees a year earlier.

In 2014 the key driver of the growth of headcount consisted in an increase in the number of employees in the refining and petrochemical segment. In 2014 petrochemical enterprises, including OJSC Ufaorgsintez and two gas processing plants, were included in the scope of consolidation again. Another factor behind the increase in headcount consisted in a growing number of assets in the Upstream unit (acquisition of LLC Burneftegaz) and the Downstream unit (new marketing assets included in LLC Bashneft-Retail Sales).

Changes in the headcount in 2012 and 2013 were related to the restructuring of the Group: in 2012 oilfield service companies were included in the scope of the Group's business; they were later spun off in 2013. In addition, in 2013 the Group divested petrochemical assets.

In functional terms, in 2014 the largest number of employees was engaged in oil refining (29%), oil and gas

production (21%) and marketing (18%). The holding company still accounts for only about 4% of the personnel.

PERSONNEL STRUCTURE

Age distribution of Bashneft's personnel is relatively even. The most productive employees aged between 30 and 50 comprise 54% of the total number of employees. The share of young employees is gradually growing: in 2014 it reached 21%. The number of employees aged over 60 is about 1%, or about 200 people.

As of the end of 2014 the average age of the Group's employees amounted to 39.2 years compared to 40.5 years in 2013.

In 2014 women accounted for 36% of the Group's total headcount and 36% of JSOC Bashneft's headcount (including 21% of JSOC Bashneft's management¹).

STAFF TURNOVER

Our efforts to create a favourable working environment and to increase the level of employee engagement are reflected in a low average level of staff turnover. In 2014 this figure stood at 4.3%, which is roughly comparable to the level reached in the previous year. A high turnover rate in 2012 was

Average headcount by business type, employees

| | 2012 | 2013 | 2014 |
|---------------------------------|---------------|---------------|---------------|
| Holding company | 1,134 | 1,118 | 1,173 |
| Well drilling | 1,946 | – | – |
| Oil and gas production | 6,305 | 6,448 | 6,976 |
| Oil refining and petrochemicals | 9,119 | 5,453 | 9,689 |
| Marketing and logistics | 6,042 | 6,023 | 6,124 |
| Research | 920 | 920 | 920 |
| Other | 31,863 | 7,936 | 8,438 |
| Total | 57,329 | 27,898 | 33,320 |

1. Senior and middle managers



related to the fact that at the time the Group's scope of consolidation included oilfield service subsidiaries and affiliates. **G4-LA1**

In the Refining segment, staff turnover reached 1.4%, while in the Upstream segment the figure totalled 2.1%.

Despite the success of Bashneft's HR policy in this area, in a number of segments the turnover rate remains rather high: in the Retail segment staff turnover amounted to 7.3 %, while other assets reported a level of 7.6%. We continue to make efforts to reduce staff turnover.

OUR ACHIEVEMENTS

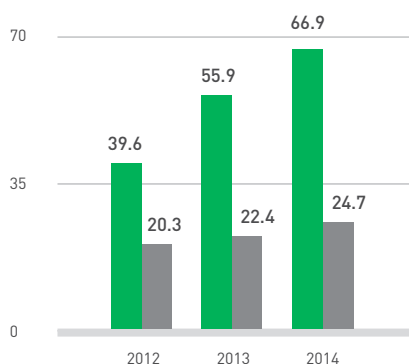
Our efforts to create a favourable working environment and to increase the level of employee engagement help the Group to keep down the level of staff turnover: in 2014 it stood at 4.3%.

'WE SEEK TO ENSURE THAT BASHNEFT FOLLOWS AN HR POLICY AIMED AT RETAINING AND FURTHER DEVELOPING OUR EMPLOYEES. PROFESSIONALISM, EXPANDED CAPABILITIES, TEAM SPIRIT AND INVOLVEMENT IN DELIVERY OF IMPRESSIVE RESULTS: THESE ARE DISTINGUISHING CHARACTERISTICS OF OUR EMPLOYEES. WE APPRECIATE AND RESPECT OUR PERSONNEL, AND OUR EMPLOYEES VIEW BASHNEFT AS ONE OF THE BEST EMPLOYERS IN THE REGION.'

Vladislav Pozdyshev, Vice President for Human Resources

INCENTIVES AND REMUNERATION

Average salary, thousand roubles



■ Average salary level across Bashneft Group
■ Average salary level in the Republic of Bashkortostan

Source: Federal State Statistics Service (Rosstat), official web portal of the Republic of Bashkortostan, the Group's data

OUR ACHIEVEMENTS

In 2014 the average salary in the Group reached nearly 67 thousand roubles, which is 2.7 times higher than the average level in our core operating region, the Republic of Bashkortostan.

We are aware of the importance of employee incentives for the achievement of the Group's goals and objectives and strong performance; therefore, we pay special attention to the system of remuneration for employees. We are committed to paying fair and decent wages to our employees. We adhere to the principle of transparency of calculation of salaries and safeguard the rights of employees by concluding individual employment agreements and collective agreements with them.

Temporary and part-time employees are offered the same package of social benefits and guarantees as full-time employees, regardless of the operating region. **G4-LA2**

REMUNERATION SYSTEM

We seek to attract and retain the most experienced and highly qualified employees in the labour market. One of the key tools of this policy consists in competitive salaries.

The average salary in the Group's core operating region, the Republic of Bashkortostan, amounts to 66.9 thousand roubles compared to the regional average of 24.7 thousand roubles.

As salaries in the Group are growing at a faster rate than in the region as a whole, the salary level in Bashneft is now 2.7 times higher than the regional average, excluding industry-specific features. **G4-EC5**

We pay two-part remuneration to our employees as we think that this approach makes it possible to protect employees and at the same time incentivize them in the most efficient way. Employee remuneration consists of two components:

- ✓ fixed part (salary, additional payments for health risks and a regional coefficient);
- ✓ variable part (bonuses).

The ratio between the fixed part of an employee's remuneration and the bonus depends on the employee's position and can range from 85/15 for entry-level employees to 50/50 for executives.

FIXED PART OF REMUNERATION

Bashneft is one of the most attractive employers in the Republic of Bashkortostan, first and foremost due to a high level of remuneration offered by the Group.

When setting salary ranges, the Group focuses primarily on trends in the labour market in the oil and gas sector. In addition, we also take into account other indicators such as the inflation rate and the growth rate of minimum wages.

We constantly monitor salary levels in the oil and gas sector in order to track the actual trends in remuneration levels in real time. In addition, we monitor the latest trends in personnel management policies. In the course of our work we are guided by reports prepared by international consultancies such as Ernst and Young and Hay Group, which have the most representative data and an impeccable reputation. Thus, based on the data obtained in 2014, salary levels in Bashneft Group were revised.

Remuneration of Bashneft's employees is based on a modern system of grades, which reflects differences between employees' positions depending on their contribution to the business, the level of responsibility

and other factors, and makes it possible to properly assess each employee's contribution to achievement of the Group's objectives. The system of grades is applied to executives, professionals and employees of the Group, i.e. to managers, engineers and technicians.

Bashneft uses a uniform wage scale for workers based on qualifications. This makes it possible to provide equal remuneration for workers of the same qualification, as well as to provide opportunities for increasing workers' wages by benchmarking them against the market level of remuneration.

Starting from 2010 the Group conducts annual employee performance evaluation. In 2014 the evaluation covered about 10 thousand employees from Bashneft's branches and subsidiaries. This approach yields comparable results that are based on the same scale of measurement for the entire Group, which makes it possible to implement systematic personnel development projects. **G4-LA11**

The evaluation is based on the 'Competency Model' standard containing five company-wide and five management competencies. At the main stage of the process, the competencies are assessed and individual development plans are devised. Findings of performance evaluation form the basis for making the most important decisions on personnel development

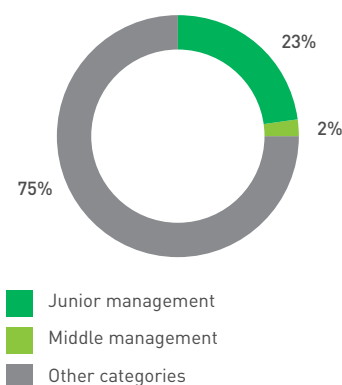
and forming the Group's talent pool. The results of performance evaluation are also used for preparing proposals for revision of salaries and for making other organizational decisions.

VARIABLE PART OF REMUNERATION

The bonus-related part of remuneration is calculated on the basis of KPI delivery/achievement for the month/quarter/year and serves as one of the components of employee performance evaluation.


In order to provide additional incentives, the best employees are paid an additional bonus that does not exceed the employee's double salary. In addition, a bonus is paid for actions that make a substantial positive impact within or beyond the Group, such as accident prevention, emergency response activities at production facilities and participation in new projects that are vitally important for the Group.

Categories of employees that have undergone a performance evaluation



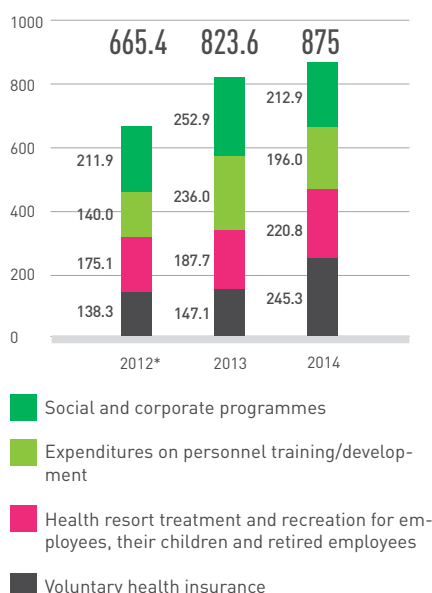
The variable part of employee remuneration meets the requirements of the SMART system. All indicators must be Specific, Measurable, Achievable, Relevant and Timely.

STARTING FROM 2010 THE GROUP CONDUCTS ANNUAL EMPLOYEE PERFORMANCE EVALUATION. IN 2014 THE EVALUATION COVERED ABOUT 10 THOUSAND EMPLOYEES FROM BASHNEFT'S BRANCHES AND SUBSIDIARIES.

 For details on the KPI system, see the Annual Report of JSOC Bashneft for 2014

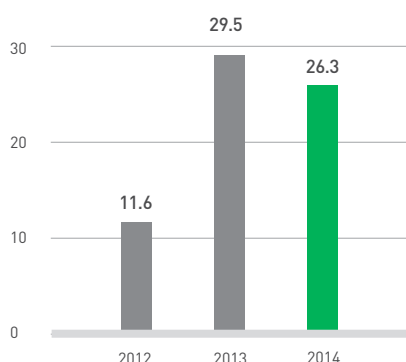
THE GROUP'S SOCIAL POLICY

Expenditures on social policy, million roubles



* As the scope of consolidation and the methodology for calculating individual indicators used in 2012 differed from those used in this Report, the amount of expenditure on social policy disclosed at the time was different: 983 million roubles.

Social expenditure per employee, thousand roubles



OUR RESPONSIBILITY

The Group covers from 50% to 85% of the actual cost of employees' health resort treatment and recreation and 90% of the actual cost of holidays at summer recreation camps for employees' children.

We are aware of the high importance of a responsible social policy. Our efforts in this sphere are aimed at providing employees with social benefits and guarantees, enhancing the potential of our employees through training and development and forming and developing the corporate culture. We view these measures forming part of our social policy not only as a form of non-financial remuneration for our employees but also as an efficient tool for forming a close-knit team, a single community comprising the Group's employees.

SOCIAL BENEFITS AND GUARANTEES

Bashneft offers its employees an extended package of social benefits and guarantees in addition to those stipulated by legislation.

Additional obligations of the employer are stipulated in the Collective Agreement and include, among other things, voluntary medical insurance and insurance against accidents at work. In addition, we provide employees with an opportunity of health resort treatment and recreation. The Group regularly implements measures for preventing and treating occupational diseases and protecting the employees' health.

We respect family commitments of our employees. To help employees maintain a work-life balance, the Group grants them additional paid leave in case of registration of marriage and birth of a child. In addition, we give additional leave to women with many children and additional pre-maternity leave to pregnant women.

The Group has made a decision to introduce additional payments to employees who are on sick leave starting from 2015. Such additional payments will help to compensate for a potential reduction in the level

of remuneration (a difference between the daily wage of an employee and the amount of sick pay). The practice has been adopted in emulation of the best social policies of major companies and is consistent with best practice in the sphere of HR. Employees may receive additional payment for five days per calendar year.

VOLUNTARY HEALTH INSURANCE

We arrange voluntary health insurance in order to maintain and improve the health of our employees.

Voluntary health insurance contracts have been signed with major Russian insurers: Insurance Open Joint-Stock Company VSK, LLC Rosgosstrakh, OJSC IC Allianz and OJSC Ingosstrakh Insurance Company. In addition, some companies forming part of Bashneft Group have concluded accident insurance contracts for their employees with SOGAZ Insurance Group, one of Russia's largest universal insurers.

HEALTH RESORT TREATMENT

Under the Collective Agreement, Bashneft covers part of the costs of holidays at children's summer camps, health resorts and recreation centres incurred by the Group's employees.

The cost of health resort treatment for employees listed in the final report following a medical examination is covered by the Group in full.

Resort and recreation facilities available to employees and their family members include two children's summer camps and four health resorts owned by the Group. In addition, health resort treatment and recreation is provided to employees working in remote areas in third-party health resorts. As far as resort treatment and

‘WE CAN OFFER AMPLE OPPORTUNITIES FOR GROWTH: HORIZONTAL AND VERTICAL MOBILITY, RELOCATION TO A DIFFERENT REGION OR TRAINING IN RELATED PROFESSIONS.’

Vladislav Pozdyshev, Vice President for Human Resources

recreation for children is concerned, a list of additional camps is approved annually to ensure that employees' needs are satisfied in full.

Bashneft provides various types of financial support to its retired employees. For instance, the Group provides retirees with subsidies for resort treatment. If necessary, the Group covers part of the cost of medical treatment for its retired employees.

HEALTH CARE

We pay great attention to preventive and treatment measures, as well as to health care activities. Efforts in this area include measures to minimize hazards in the workplace, measures to prevent occupational diseases, medical examinations and, if necessary, hospital treatment.

To prevent accidents caused by cardiovascular diseases and to prevent such diseases, the Group implemented a corporate programme for preventing cardiovascular diseases and approved a Standard titled 'Prevention of Cardiovascular Diseases'.

To provide emergency and scheduled medical care at the Company's production facilities in case of an accident or an acute disease, the Group has approved the Standard in Organization of Emergency and Scheduled Medical Care for Employees.

In 2014, under voluntary health insurance contracts, some companies forming part of Bashneft Group implemented a programme aimed at preventing cardiovascular

diseases and introduced the positions of primary care physicians on the shop floor. We also made considerable efforts to promote healthy lifestyle; for instance, we conducted five Health Days: the Donor's Day, the No Smoking Day, the Acute Respiratory Disease and Influenza Prevention Day, the Good Eyesight Day and the Stress Prevention Day. Over 5,300 employees were vaccinated against influenza, pneumonia and tick-borne encephalitis. In addition, we designed brochures on healthy eating, prevention of tick-borne encephalitis, prevention of work-related stress, and on harmful effects of nicotine.

In 2015 Bashneft plans to take preventive measures and measures aimed at promoting healthy lifestyle among all employees, which involve:

- ✓ organizing and holding Health Days focused on prevention of tuberculosis, giving up smoking, etc.
- ✓ identifying risks of diseases when holding sporting and public events;
- ✓ maximum engagement and participation of employees in the corporate programme for preventing cardiovascular diseases;
- ✓ working with people facing the risk of cardiovascular diseases;
- ✓ organizing the work of new primary care physicians on the shop floor;
- ✓ measures aimed at developing immunity against influenza, pneumonia and tick-borne encephalitis.

EMPLOYEE TRAINING AND DEVELOPMENT

Priorities of the Group's social policy include offering employees ample opportunities for training and development.

We are aware of the need to develop a knowledge management system that will enable us to retain, spread and develop the knowledge and skills of our employees, which is an essential prerequisite for efficient development of the Group and for unlocking its competitive advantages.


Furthermore, training and development help to attract and retain specialists, who often view opportunities for professional development as an extremely important factor.

We provide two types of training:

- ✓ training aimed at developing the employees' potential, skills and competencies;
- ✓ training and certification of employees in occupational, industrial and fire safety carried out in accordance with legislative requirements.

In 2014 we allocated a total of 196 million roubles for all types of employee training and development programmes (including occupational safety training programmes).

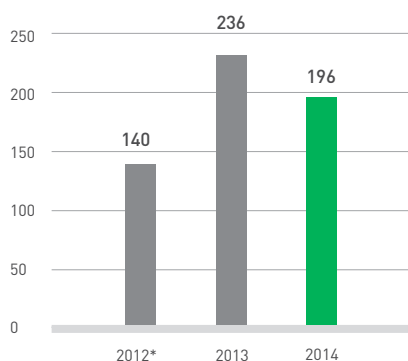
In 2014 the total number of courses provided to employees across Bashneft Group exceeded 70 thousand person-courses compared to 102 thousand person-courses in 2013, including 51.9 thousand person-courses in occupational and

 For information on training and certification of employees in occupational, industrial and fire safety, see 'Health, Safety and Environment – Occupational safety – Training in occupational and industrial safety'


OUR ACHIEVEMENTS

In 2014 the average number of training hours per employee in Bashneft Group reached 38 hours compared to an average of 30 hours per employee in 2013.


Financing of training and development programmes across the Group*, million roubles



* Aggregate data are provided on JSOC Bashneft within the scope of consolidation, including occupational safety training programmes.

industrial safety compared to 32.8 thousand person-courses a year earlier. The reduction in the total number of person-courses was related to development of distance learning and self-tuition, including wider use of the self-tuition portal. 

TRAINING AIMED AT DEVELOPING EMPLOYEES' POTENTIAL

To develop professional competence, we provide our personnel with additional training as part of the Group's Functional Strategy on HR Management. 

Areas in which additional training is provided:

- ✓ professional training in an open format (professional development courses, workshops, trainings, conferences, exhibitions for groups of participants from various organizations in accordance with the schedule and the programme announced in advance);
- ✓ corporate professional training (strategic sessions, roundtable discussions, comprehensive training programmes only for the Group's employees; the programmes are tailored to the Group's needs and objectives to the largest possible degree);
- ✓ training aimed at developing general competencies and management skills;
- ✓ business games and simulations;
- ✓ language courses.

A set of training forms is aimed at creating optimal conditions for the development of employees' potential and includes short-term (up to 72 academic hours), medium-term (from 72 to 500 hours) and long-term training and e-learning

In 2014, in order to provide professional training and retraining

to employees, the Group carried out training activities aimed at developing professional and management skills. Special attention was given to corporate training programmes as this is one of the most effective training forms.

Senior managers and specialists of the Group participated in the Effective Communication and Situational Management and Delegation corporate training programmes. These were aimed at developing the relevant competencies. As part of the Basics of Oil and Gas Industry training programme, employees of the Corporate Centre visited oil and gas production, refining and transportation facilities.

Over 200 employees of the Corporate Centre learned the English language as part of the relevant programme. Managers are trained as part of modular programmes for managers (the School of General Directors).

At the end of 2014 the HR Development Department launched a Training and Development Portal enabling the employees to do the following:

- ✓ undergo distance learning and testing using training courses in electronic form;
- ✓ receive information on the Group's HR policy (news, articles and documents);
- ✓ obtain up-to-date information on all forms of corporate training;
- ✓ actively communicate with colleagues using professional forums and blogs;
- ✓ participate in surveys and complete questionnaires;
- ✓ work with the Group's electronic library and knowledge base.

All employees of the Corporate Centre, branches, subsidiaries and affiliates have access to the Portal.

VIC BUSINESS GAME

Since 2011 JSOC Bashneft's young professionals have been successfully participating in the VIC business game. The game is a computer model of the economic environment in which vertically integrated oil and gas companies operate.

In 2014 five games took place. 27 teams representing the Corporate Centre, branches, subsidiaries and affiliates participated in four try-outs. Participants of the final game included 13 Bashneft's teams, as well as two teams of students from the petroleum and aviation universities. Overall, in 2014 over 200 people participated in the VIC business game.

Prior to the game the employees of the Corporate Centre participated in the workshop 'Finance for Young Professionals' ('Finance for Non-Financial Managers'), which was aimed at discussing the economic basis of a large company's operations.

The Noir Desire team, which won one of the try-outs, achieved a score of 6.89, which is the best result among all Russian oil companies that participated in the VIC business game in 2014.



'SECURITY CAPSULE' SCHOOL OF GENERAL DIRECTORS

In April 2013 the Group implemented a development programme for Bashneft's key executives called the 'Security Capsule' School of General Directors. A year later, in April 2014, participants presented their projects, and the programme was closed.

Objectives of the programme:

- To develop advanced technologies of company management;
- To introduce the philosophy of safe and lean manufacturing;

- To improve the key management and industry-specific competencies of Bashneft's key managers;
- To develop and implement uniform standards in the area of business processes, management and production procedures;
- To form a strong corporate culture in Bashneft Group.

The programme provided participants with practical knowledge which may be used directly in the production process.

Leading experts and practitioners had been engaged to develop the programme on the basis of international best practices.

Students of the school immersed themselves in exploring the special characteristics of all of the Group's business processes and were given an opportunity to gain a better knowledge of their colleagues and their powers and duties, which promoted the development of the team spirit.

THE KNOWLEDGE LABORATORY PROJECT

In 2014 Bashneft continued its project launched in 2013, the Knowledge Laboratory. Any employee participating in the project may apply for and receive information materials from trainings or participate in a roundtable discussion, which will be held by an employee who has completed a course that is interesting and useful for the Group.

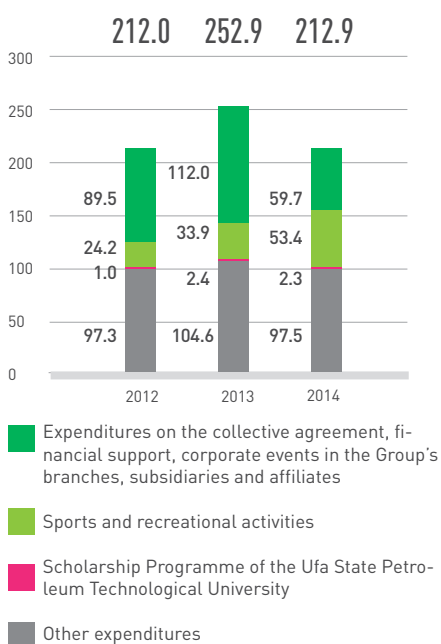
In 2014 the HR Development Department received 263 applications for the transfer of knowledge from the Group's employees, and 10 roundtable discussions attended by 152 participants were held. All employees who filed applications for the transfer of knowledge received training materials in electronic form.

We believe that the Group should always keep up with state-of-the-art technologies and best practices. Such roundtable discussions enable employees not only to share the knowledge gained in the course of training but also to tackle the issues faced by departments together.

OUR RESPONSIBILITY

In 2014 the Group started to implement the Programme to Attract Young Professionals. This programme is aimed at making Bashneft's more attractive as an employer for university graduates and young professionals.

Expenditures on corporate social programmes, million roubles



RECRUITMENT OF YOUNG PROFESSIONALS

We understand how important succession is for HR policy. Apart from experienced specialists we aim to attract promising young people and help them start out on their career in a large oil corporation. We support training of the best students in relevant fields and attract promising graduates to the Group.

Starting from 2010 the best students of the Ufa State Petroleum Technological University (USPTU) are given scholarship. In the 2013/2014 academic year the size of the scholarship was increased by 60% and totalled 4 thousand to 5 thousand roubles per month depending on the year. In the reporting year 2.3 million roubles was spent on this programme.

University students are given the opportunity to do an internship, during which they will receive a salary. Bashneft organizes internship for best performing final year university students. Internships allow the students to gain work experience in a large oil company and subsequently obtain employment.

After scholarship students and interns receive their certificates, they are given priority when the Group is recruiting new employees. The Group covers the costs incurred by young professionals when leasing accommodation in the districts of the Republic of Bashkortostan.

We organize meetings for students with the Group's senior management

in the form of an open dialogue, as well as students' visits to the refineries and enterprises of Bashneft-Dobycha. USPTU students take part in a research and engineering conference for the Group's young professionals. The VIC business game is conducted every year for Bashneft's young specialists and the team of students of USPTU and USATU (Ufa State Aviation Technical University).

In 2014 Bashneft employed 35% of students who did an internship in the Group in the reporting year, 11% of placement students and 70% of scholarship students participating in the Programme.

DEVELOPMENT OF THE CORPORATE CULTURE

We attach great importance to forming the corporate culture aimed at improving employees' performance, developing a sense of responsibility and team spirit.

We aim to form a system of moral and spiritual values shared by employees, create a friendly and welcoming atmosphere, a favourable emotional climate which is conducive to efficient work and achievement of the Group's goals.

While forming the corporate culture, we take into account the existing features of the Group:

- ✓ geographical footprint: a difference in mentalities, traditions and cultures of employees, the fact that the Group's divisions are located in geographically remote areas;

'IMPLEMENTATION OF THE PROGRAMME WILL PROVIDE US WITH AN EFFECTIVE TOOL FOR ATTRACTING AND SELECTING TALENTED YOUNG PEOPLE AND WILL MAKE IT POSSIBLE FOR YOUNG SPECIALISTS TO TAKE ADVANTAGE OF THEIR CAREER OPPORTUNITIES. WE EXPECT THAT AS A RESULT, INVOLVED AND PREPARED YOUNG SPECIALISTS WHO CAN USE THEIR ABILITIES EFFECTIVELY AT BASHNEFT WILL JOIN THE GROUP.'

Vladislav Pozdyshev, Vice President for Human Resources

Key corporate values of JSOC Bashneft



- ✓ remoteness of the Corporate Centre from the main operating regions;
- ✓ industry-specific characteristics of oil production and refining.

To enable new employees to adapt quickly in the Group, Bashneft has in place the institute of leadership and mentoring. We use the principles of information transparency and a consistent strategy and develop a system of internal communications. In addition, we strive to ensure that the corporate culture is consistent with the principles of the Group's core operations.

Bashneft's culture is based on mutual respect of employees regardless of their positions, gender, religion, and other individual characteristics and attitudes.

Social programmes are managed by the HR Unit, including the Corporate Communications Department forming part of the Unit, and the Administrative Department.

In 2014 the budget of corporate social programmes amounted to 212.9 million roubles.

CORPORATE WEBSITE

Bashneft has a single corporate website for all employees. The intranet resource is an important means of communication and helps to unite employees and organize their collaboration.

The corporate intranet portal, which was considerably upgraded in 2013,

has a wide range of functions, including work with documents, use of reference books, conducting opinion surveys and providing employees with training, posting news, information on competitions and volunteer campaigns.

In 2014 information flows were distributed: we began to send out more email newsletters enabling us to communicate urgent information to employees immediately. At the same time, the quality of information in the news feed was improved: requirements for the style of information presentation, the way of its communication and its significance for employees became stricter.

BASHNEFT'S DAY AT USPTU

Bashneft's Day has been conducted at USPTU for the fifth consecutive year and is very popular among students.

In 2014 the event included an official award ceremony for scholarship students. After this Bashneft's senior managers made a presentation on the Group and told the students about opportunities for professional development and social support provided to its employees.

The event promotes long-term cooperation with USPTU, and potential employees receive up-to-date information on the Group and are encouraged to seek employment.

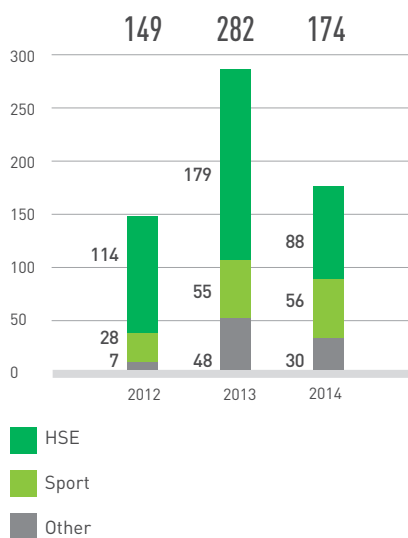


OUR ACHIEVEMENTS

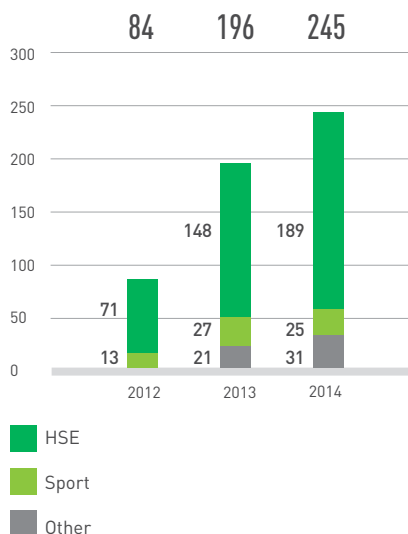
In 2014 four meetings between employees and management were held in various operating regions of the Group; they were attended by over 400 employees of Bashneft. Detailed answers were given to each question asked by employees, and relevant instructions were given concerning the issues raised during the meeting.

Coverage of the Group's activities

Number of publications on the corporate portal



Number of email newsletters



CORPORATE NEWSPAPER

The Group started to issue a corporate newspaper, Bashkirskaya Neft, in 2010. Our own corporate newspaper enables us to support a single information space and communicate news offline.

Topics covered by the newspaper are selected based on the need of our employees for information and include issues related to sustainable development, occupational safety and health. The newspaper also covers employees' professional and other achievements, including reports on sporting and business competitions. Considerable attention is paid to the description of the Group's strategy and employees' contribution to the achievement of corporate goals.

The newspaper is published twice a month and distributed in all of the Group's branches and subsidiaries.

MEETINGS OF THE GROUP'S MANAGEMENT WITH EMPLOYEES

Bashneft holds regular meetings between its top management and employees. Meetings and discussions make it possible to establish a dialogue within the Group, develop openness and involvement of employees in settling the key issues related to Bashneft's operations.

Meetings in a Q&A format increase the effectiveness of such events and provide executives with a very important way to receive feedback. Besides, it is an opportunity to receive up-to-date and non-formalized information on certain aspects of the Group's operations directly from employees at the local level.

JSOC BASHNEFT'S CORPORATE AWARD

Since 2010 an annual competition, Bashneft's Corporate Award, is held to mark the Oil Workers' Day. The

competition is aimed at identifying and rewarding Bashneft's best divisions and best employees for outstanding accomplishments and contributions to the Group's development.

This is the Group's highest award designed to form a single set of values, improve the corporate culture, encourage employees to develop, promote solidarity, the corporate spirit and a sense that each member of the team contributes to the Group's success.

As part of the competition the Award is given to winners in seven categories, including the Best Oil Production Division, the Best Oil Refining and Petrochemical Division and the Best Filling Station.

The Best Project of the Year award is given for the most promising developments in quality assurance, and the President's Award is given for outstanding actions of individual employees of the Group.

The best young professionals are awarded in the Discovery of the Year category. Veterans are given the Legend of Bashneft award for their long-term contribution.

SPORTING EVENTS

An important goal of our social policy is to support sports and promote a healthy lifestyle. We conduct a large number of sporting events and corporate tournaments in a variety of sports: football, volleyball, hockey, table tennis, paintball, billiards, etc.

Sporting events not only help make employees fitter, but also develop features which are consistent with Bashneft's corporate culture: teamwork skills, solidarity and mutual support.

Various sports teams of Bashneft regularly participate in and win Ufa-based and republic-wide competitions. 2014 saw yet another series of the

Group's sporting victories. Bashneft's team won the Summer and Winter Corporate Games in Ufa, the 2014 Ski Track of Russia ski race, as well as the futsal championship of the Ministry of Energy.

In 2014 the Group held annual competitions for volleyball, futsal, table tennis and hockey cups.

The support and development of children's sports is an important part of our social policy. The annual futsal tournament among children's and youth sports schools in Bashkortostan has already become a tradition; it took place again in the reporting year.

In 2014 the Group allocated 53.4 million roubles for organizing and conducting sporting events compared to 33.9 million roubles a year earlier.

VOLUNTEERING

We actively support the volunteer movement and encourage employees' charitable initiatives.

The volunteer movement is not confined to one-time campaigns; it is a continuous effort. Bashneft's employees organize a wide variety of events on their own initiative.

In the summer of 2014 a futsal tournament of the Russian Ministry of Energy took place in Moscow. Apart from Bashneft, other participants of the competition included 15 teams of employees from Russian energy companies. Bashneft's team won the tournament, having defeated 15 rival teams. A champions' cup became yet another of Bashneft's honorary awards. Although our team participated in this tournament for the first time, its performance was brilliant, as in the final round it defeated Gazprom Neft's team, a regular winner.

'SPORTING EVENTS ARE EXTREMELY IMPORTANT FOR EVERYONE, AS PARTICIPATION IN THEM MAKES PEOPLE HEALTHIER, ENABLES THEM TO ENJOY THEMSELVES, PROVIDES THEM WITH VIVID IMPRESSIONS, AND ENCOURAGES MORE PEOPLE TO DO SPORTS!'

Alexander Korsik,
President of JSOC Bashneft, Chairman of the Management Board



OUR ACHIEVEMENTS

Our volunteer movement, Kind Hearts, was launched in the Group in July 2012. It comprises over 600 participants. It has united all concerned and active employees in an effort to help those who need it.

One of the key areas is help to orphans from children's institutions supported by the Group. Volunteers collect necessary things and presents for children, organize dancing, singing and cooking lessons, contests and children's sporting events. Children attend corporate sporting events and voluntary clean-ups in an organized way. The programme covering 20 orphanages in various districts of Bashkortostan is aimed at providing assistance to children who are in a difficult situation and children with health problems, as well as helping them socialize and preparing them for adulthood.

In the reporting year volunteers actively participated in environmental

events (clean-ups), as well as in festivals and official congratulations. For instance, they assisted in conducting an event to congratulate former Bashneft's employees who are veterans of the Great Patriotic War.

These events make it possible not only to achieve practical and socially important results, but also to create an atmosphere of unity, team spirit and commitment to joint achievement of goals. Year by year the movement is developing, and its geographical footprint is expanding.

OTHER CORPORATE EVENTS

We think it necessary to pay proper attention to organizing celebrations, talent contests and team-building trainings which involve employees and their families. These events form an integral part of the Group's corporate culture.

The Oil Workers' Day, the Defender of the Fatherland Day, the Victory Day, International Women's Day, Children's Day and the New Year are major

traditional holidays that are popular among employees. Such events involve not only Bashneft's current employees, but also their families and the Group's veterans. This contributes to the image of a socially responsible Group in the view of both employees and society.

Employees are happy to participate in photo contests and amateur performances. In addition, they can display their professional skills in the 'Best in Profession' competition. The Group also organizes creativity contests for children.

We actively develop a tradition of the corporate KVN (Club of the Cheerful and Sharp-Witted) games. They are not only an impressive show, but also a great way to unite employees and discover new talents.





'KIND HEARTS – A GIFT FROM FATHER CHRISTMAS'

In 2014 the Group conducted another volunteers' charitable event: 'Kind Hearts – A Gift from Father Christmas'. The event comprised 20 programmes to congratulate children from social welfare institutions, rehabilitation centres and orphanages. Gifts were collected by employees, and volunteers formed groups to congratulate children.

An important achievement of the campaign consisted in the fact that new employees of subsidiaries and affiliates participated in the volunteer movement.

KVN

Since 2011 the Group has traditionally conducted the KVN: Merry Oil Workers' Club corporate game.

Based on KVN games conducted in the previous years, it can be said with confidence that the Group's employees are not only highly professional in their field, but also really talented, cheerful and sharp-witted people who are always ready to show team spirit and a great sense of humour. The KVN game unlocks their creative potential and creates a 'situation of success'. Over the past four years the game has become a good tradition uniting active employees of the Group.

In 2014 there were five qualification games in which 25 teams took part.

YOUTH FORUM

In the summer of 2014 the second Youth Forum of JSOC Bashneft was held in the Nurimanovsky District of the Republic of Bashkortostan. It was attended by about 200 young specialists and activists from various divisions of the Group.

Key aims of the event included involvement of young specialists in the Group's corporate culture, exchange of expertise in development of corporate communications, promotion of CSR and HSE projects and development of the volunteer movement.

The youth forum has become a really open platform for communication between employees of various divisions enabling them to discuss various challenges and their experience in tackling them.

HIGH LEVEL OF ENVIRONMENTAL RESPONSIBILITY

+20%

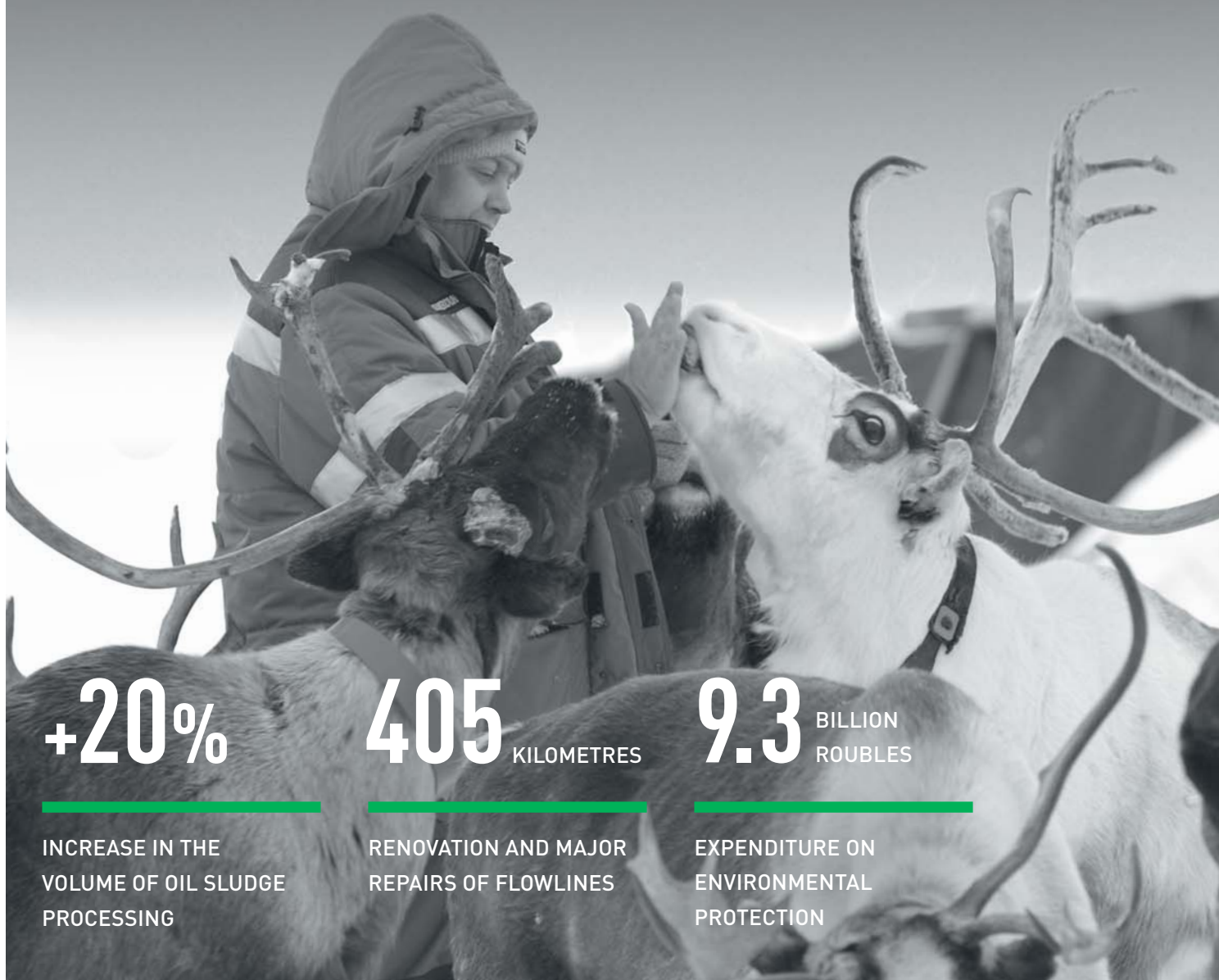
INCREASE IN THE
VOLUME OF OIL SLUDGE
PROCESSING

405 KILOMETRES

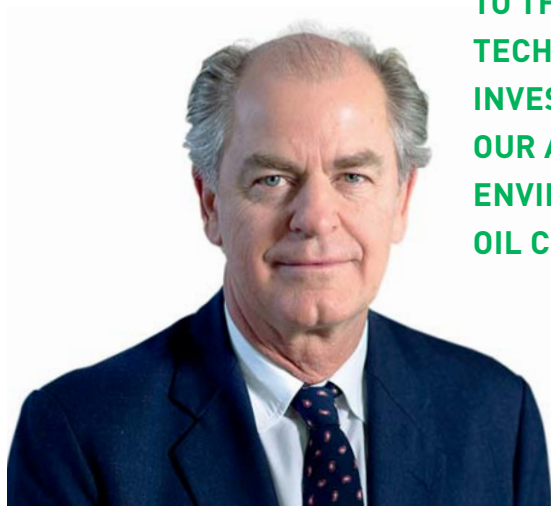
RENOVATION AND MAJOR
REPAIRS OF FLOWLINES

9.3 BILLION
ROUBLES

EXPENDITURE ON
ENVIRONMENTAL
PROTECTION



ENVIRONMENTAL PROTECTION



'WE HAVE TAKEN A RESPONSIBLE ATTITUDE TO THE NATURAL ENVIRONMENT. WE USE THE LATEST TECHNOLOGIES, TAKE NECESSARY MEASURES AND INVEST SUBSTANTIALLY IN ENVIRONMENTAL PROTECTION. OUR AIM IS TO BE THE LEADER IN REDUCING NEGATIVE ENVIRONMENTAL IMPACT COMPARED TO OTHER RUSSIAN OIL COMPANIES.'

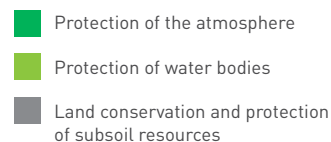
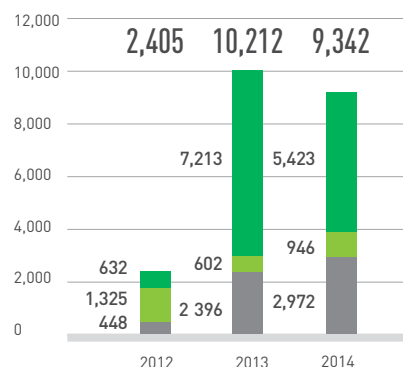
Charles Watson,
independent director, Chairman of the Health, Safety, Environment
and Social Responsibility Committee of the Board of Directors

Being engaged in oil production and refining, we assume the highest level of responsibility for environmental protection.

We understand the need for a rational and careful approach to the extraction of natural resources and are committed to maximizing their economic potential. We evaluate and control the environmental impact of our operations at all stages of our business, from an oil well to a petrol tank.

At the oil production stage, our goal is to eliminate the risk of oil spills and minimize damage to the life of local communities and environment in the process of oil extraction. At the refining stage, we seek to maximize the output of high value added products, reduce energy consumption and curb the negative environmental impact. At the marketing stage, our target is to sell high-quality, high-grade environmentally friendly engine fuel with optimized performance.

Expenditure on environmental protection by area, million roubles



Our environmental protection efforts are based on the following principles:

- ✓ recognizing constitutional human rights for a favourable environment;
- ✓ minimizing the negative environmental impact and maintaining environmental controls in all segments of business, from exploration to sales;
- ✓ compliance with government regulations and international environmental standards;
- ✓ continuous improvement of the environmental management system;
- ✓ transparency and availability of information.

Bashneft has implemented an efficient mechanism for processing environmental complaints. The Group maintains several channels for receiving complaints from population and employees and has a response mechanism in place.

Public complaints are filed with municipal administrations, the Ministry of Emergency Situations and the Ministry of Natural Resources and Environment of the Republic of Bashkortostan and forwarded to the central control unit of the integrated refining complex. Complaints from Bashneft's employees are received via the Group's Hotline. Each complaint is investigated and, if it is confirmed, appropriate corrective measures are taken. **G4-EN34**

OUR RESPONSIBILITY

Bashneft applies HSE standards to potential suppliers and contractors as early as at the tendering stage.

We have adopted the Policy of JSOC Bashneft on Health, Safety and Environment and are implementing the Functional Strategy of JSOC Bashneft on Health, Safety and Environment. These documents reflect the Company's desire to become a leading Russian oil and gas company in terms of reducing the negative environmental impact.

We are using a comprehensive approach to minimizing direct and indirect negative impact on environment, which addresses all aspects of potential impact, including:

- ✓ protection of the atmosphere;
- ✓ protection of water resources;
- ✓ land conservation and waste processing;
- ✓ protection of biodiversity;
- ✓ energy efficiency and efficient use of resources.

In 2014 the Group spent a total of 9.3 billion roubles on environmental protection measures. Overall, from 2014 through 2018 Bashneft plans to allocate more than 46.7 billion roubles for this purpose. **G4-EN31**

RESPONSIBLE APPROACH TO SUPPLIER AND CONTRACTOR SELECTION

We are very careful in selecting our business partners and estimating our impact throughout the supply chain.

Eligibility criteria include environmental protection issues such as whether a contractor has the necessary permits and licences, proper equipment and qualified personnel, as well as other requirements for specific types of work. If necessary, technical audits of bidders are initiated, and bidders failing to meet the requirements are excluded from a tender.

The Group has implemented a Standard on Cooperation with Contractors in the Sphere of Health, Safety and Environment. Compliance of potential contractors with environmental requirements set out in the Standard is a necessary prerequisite for entering into contracts with them. These requirements include, but are not limited to, the following:

- ✓ organization of waste collection, storage and accumulation sites and the transfer of waste for recycling;
- ✓ making payments for negative environmental impact;
- ✓ relevant environmental training of service personnel;
- ✓ compliance of water consumption and discharge processes with environmental legislation.

Prior to the start of any work, the Company runs contractor reviews to check whether the contractor has all necessary permits, whether the contractor's equipment complies with technical requirements and whether the personnel have been properly trained. In the process of work, we monitor contractors' operations to analyse their environmental efficiency. Based on our analysis, we rate our contractors and use such ratings as a basis for terminating or renewing their contracts.

PROTECTION OF THE ATMOSPHERE

Our efforts in the sphere of atmosphere protection focus on keeping the air clean in oil-producing and refining regions and in the country as a whole.

Measures taken by the Group to protect the atmosphere:

- ✓ Upgrading production facilities to reduce direct and indirect air pollution;
- ✓ Improving associated gas utilization;
- ✓ Producing high grade environmentally friendly engine fuel;
- ✓ Controlling and monitoring hazardous atmospheric emissions.

In March 2013 Bashneft and the Government of the Republic of Bashkortostan signed an Agreement on protecting the atmosphere. Under the Agreement, the Company has assumed an obligation to implement a series of additional measures, enhance control and monitoring of air pollutant emissions and upgrade its production facilities in order to reduce the negative environmental impact.

In 2014 Bashneft spent 4.5 billion roubles on measures stipulated in the Agreement compared to 5.6 billion roubles in 2013.

The main environmental impact of refinery upgrades is a reduction in indirect air pollution, i.e. in harmful emissions from motor vehicles using engine fuels produced by Bashneft.

In 2014, despite a large-scale emission reduction programme, the decrease in the total volume of air pollutant emissions was insignificant due to a considerable growth in production during the reporting year. The Company increased crude oil production by

10.8%, while the output of petroleum products grew by 1.5% year on year.

Due to the nature of production processes in the oil industry the Company does not emit any ozone-depleting substances. **G4-EN20**

CONTROL AND MONITORING OF ATMOSPHERIC EMISSIONS

Main sources of atmospheric emissions at Bashneft's production facilities are equipped with automated air pollution sensors. The list of facilities where automated sensors are to be installed was compiled in cooperation with the Ministry of Natural Resources and Environment of Bashkortostan and is an integral part of the above Agreement. In 2014 Bashneft completed testing and adjustments of a system for real-time data transmission from the sensors.

In 2014 Bashneft built two automatic air pollution monitoring stations in the residential area in the northern part of Ufa affected by the Northern Industrial Hub in order to facilitate a prompt detection of, and response to, excessive air pollution levels. The Group also put into operation a mobile environmental unit.

In addition, Bashneft monitors air quality on the boundaries of the sanitary protection area round the clock. In adverse weather conditions the monitoring includes sample collection at night and in the morning, on weekends and holidays.

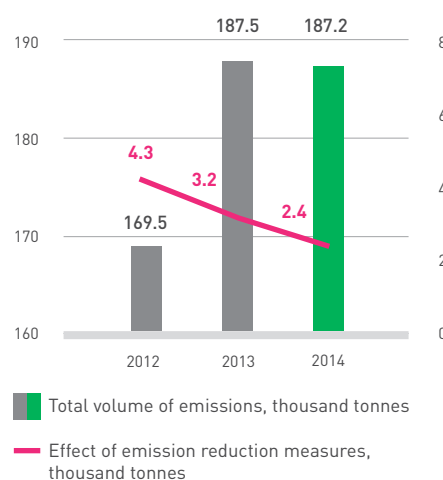
UPGRADING PRODUCTION FACILITIES

We are implementing a comprehensive programme to upgrade production facilities, which is aimed at reducing direct and indirect negative impact on the atmosphere.

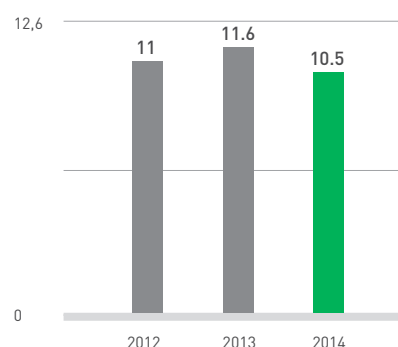
OUR ACHIEVEMENTS

Measures taken in the reporting year resulted in a reduction in pollutant emissions by a total of 2.4 thousand tonnes.

Effect of emission reduction measures, thousand tonnes



Emissions per tonne of oil produced



The programme is implemented in accordance with the Plan of Upgrading Production Facilities and Introducing Modern Technologies to Reduce Negative Impact on the Atmosphere, which has been adopted in accordance with the Agreement between Bashneft and the Government of the Republic of Bashkortostan.

Currently, measures for upgrading Bashneft's refineries fall into two groups. The first initiative focuses on the improvement of engine fuel quality, which will enable a complete transition to the production of high grade, environmentally-friendly fuels. The second one is aimed at increasing refining depth and the output of high margin light petroleum products in order to optimize the product mix while mitigating negative environmental impact.

Key 2014 projects with the highest environmental impact include the following:

- ✓ The launch of a new hydrogen production unit ensuring that that 100% of the Group's gasoline and diesel fuel are produced in accordance with the Euro 5 standard. The unit with the capacity of 420 tonnes per day is one of the largest hydrogen production units in Europe;
- ✓ The Company started pilot operation of a new catalytic cracking gasoline hydrotreater, which has enabled it to produce fuel with extra-low sulphur content of less than 10 ppm (0.001%).

Bashneft's refineries produce a broad range of petroleum products, with gasoline and diesel fuel being the most important of the Company's products sold in the consumer market. In 2014 Bashneft boosted production of fuel that is environmentally friendly and characterized by high performance.

Upgrade projects completed by Bashneft have made a direct impact on the quality and environmental friendliness of fuels produced by the Group and have resulted in a shift in the product mix towards higher-grade, more environmentally friendly fuels.

The transition towards production of high grade environmentally friendly fuel has a direct effect on the environmental impact of our products. For example, a switchover from Euro 3 to Euro 5 gasoline can help to reduce emission of carbon monoxide, nitrogen oxides and sulphur dioxide by a factor of 2.3, 2.5 and 15 respectively, and cut down emission of volatile organic compounds and particulate matter. For diesel fuel, an upgrade from Euro 3 to Euro 5 can reduce emission of CO by 28% and emission of NOx, sulphur dioxide, HC+NOx and particulate matter by a factor of 2.7, 35, 2.4 and 10 respectively. **G4-EN27, G4-068**

OUR ACHIEVEMENTS

We are committed to producing higher-grade, more environmentally friendly fuels. The share of Euro 5 gasoline in the total output grew to 85.6% compared to 70% in 2013, while the share of Euro 5 diesel fuel increased from 29% to 36%.

Engine fuel production by grade, %

| | Gasoline | | | Diesel fuel | | |
|---|----------|-------|-------|-------------|-------|-------|
| | 2012 | 2013 | 2014 | 2012 | 2013 | 2014 |
| Other gasoline for petrochemical production | 4.3% | 4% | 5.7% | – | – | – |
| Lower than Euro 3 | 2.9% | 0% | 0% | 76.4% | 0% | 0% |
| Euro 3 | 19.9% | 8.3% | 8.4% | 0.0% | 68.4% | 64.0% |
| Euro 4 | 52.8% | 20.5% | 0.3% | 10.5% | 3.1% | 0.0% |
| Euro 5 | 20.1% | 67.2% | 85.6% | 13.1% | 28.5% | 36.0% |

Emission standards for engine fuel (for passenger vehicles)

| | Euro 2 | Euro 3 | Euro 4 | Euro 5 |
|---|-------------|--------|--------|--------|
| Emission standards for gasoline | | | | |
| Maximum percentage by volume of benzene, % | 5.0 | 1.0 | 1.0 | 1.0 |
| Maximum sulphur mass fraction, mg/kg | 500 | 150 | 50 | 10 |
| Emission standards for diesel fuel | | | | |
| Maximum sulphur mass fraction, mg/kg | 500 | 350 | 50 | 10 |
| Maximum percentage by weight of aromatic polycyclic hydrocarbons, % | No standard | 8.0 | 8.0 | 8.0 |

ASSOCIATED GAS UTILIZATION

Associated gas utilization is one of the key measures for protecting the atmosphere. To ensure compliance with applicable Russian legislation, the Group has developed and implements the Target Gas Programme (TGP) for 2012-2015 with a budget of over 4 billion roubles. The main objective of the Programme is to improve the associated gas utilization rate.

Despite significant growth of the Group's oil production and the consequent increase in the production of associated gas, in 2014 measures implemented by the Group enabled it to increase its associated gas utilization rate to 74.8% across the Group and from 75.4% to 82.1% at brownfields.

In the reporting year, associated gas was utilized as follows:

- ✓ supply of gas to LLC Bashkir Power Generation Company, LLC Gazprom Mezhregiongaz Ufa and other consumers;
- ✓ internal needs (process furnaces, boiler houses, etc.);

- ✓ processing at the Shkapovskoye and Tuimazinskoye gas processing plants;
- ✓ development of in-house power generation facilities at several oilfields;
- ✓ injection of associated gas into formations to maintain reservoir pressure at oilfields.

In accordance with the Programme, in 2014 the Company put into operation several gas pipelines, which make it possible to significantly increase the supply of gas to Ufa CHPP-4 and Karmanovo District Power Station operated by LLC Bashkir Power Generation Company.

We also commissioned several facilities using associated gas for internal needs and put into operation a 2 MW multiple-unit gas-fuelled power plant. Construction of a 3 MW power plant is nearing completion.

The implementation of the above projects will increase the associated gas utilization rate while reducing the Group's electricity costs.

In 2014 expenditure on the implementation of the Target Gas Programme totalled 1.3 billion roubles compared to 0.9 billion roubles in the previous year, reflecting the Group's commitment to attain acceptable associated gas utilization rates as soon as possible.

Associated gas utilization

| | 2012 | 2013 | 2014 |
|---|-------|--------|-------|
| Associated gas produced, million cubic metres | 500.6 | 605.0 | 662.1 |
| Beneficial use, incl.: | | | |
| Gas injected into formation, million cubic metres | 98.5 | 97.7 | 98.2 |
| Internal operational needs, million cubic metres | 96.4 | 130.7 | 114.5 |
| Associated gas flaring, million cubic metres | 124.2 | 165.0 | 176.0 |
| Associated gas utilization rate, % | 75.2% | 72.7%* | 74.8% |

* Data presented for 2013 have been adjusted to include oilfields that are not covered by the TGP.

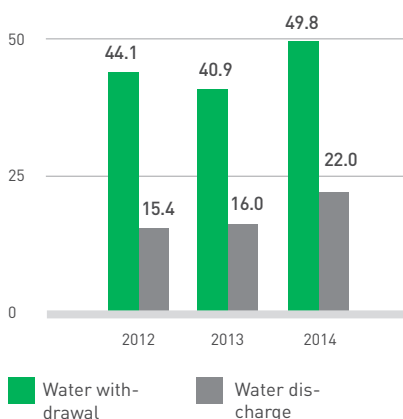


PROTECTION OF WATER RESOURCES

OUR RESPONSIBILITY

Modern drilling methods used by Bashneft prevent contamination of aquifers with brine or wastewater, which may contain chemicals used in well construction.

Water withdrawal and discharge volumes at Bashneft, million cubic metres



The Group's achievements in oil production and refining entail the highest level of responsibility for the condition of surface water and groundwater, encouraging us to reduce water withdrawal and reuse water in our production processes. We believe that efficient and safe production is the basis for the environmentally responsible use of water resources.

WATER WITHDRAWAL AND DISCHARGE

In 2014 Bashneft's water withdrawal totalled 49.8 million cubic meters. Main sources of water withdrawal are surface (53%) and underground (36%) bodies of water. The Upstream Unit accounts for 57% of the Group's total water withdrawal, while the Refining and Commerce Unit represents 43% of total water consumption. **G4-EN8**

In 2014 water consumption totalled 61.5 million cubic meters. The difference between the amount of water withdrawal and consumption is related to the wide use of recycled water.

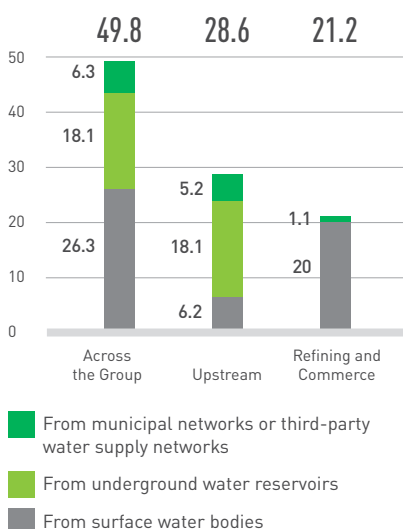
In the Refining and Commerce Unit, the share of reused water amounts to 38%. **G4-EN10**

The most important areas of reuse include supply of wastewater to third parties, for instance to combined heat and power plants for steam generation, and pumping of water into formations to maintain reservoir pressure (each accounting for approximately 30%).

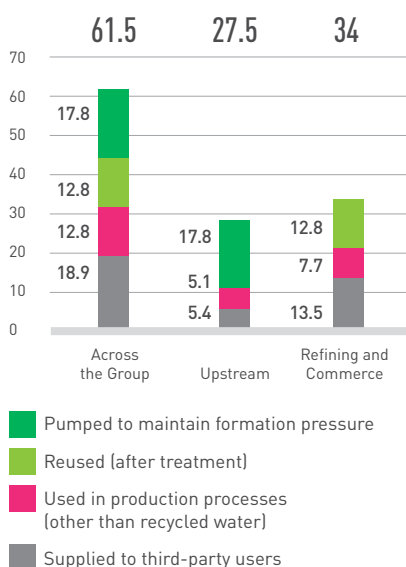
In 2014 the total volume of water discharge across the Group amounted to 22.0 million cubic metres. More than half of the above amount of wastewater was discharged into surface water bodies, and more than one third was discharged into formations, including disposal wells. **G4-EN22**

The volume of formation water produced in the course of oil production totalled 135.3 million cubic meters. As a rule, after separation and treatment in accordance with applicable standards, treated formation water is pumped back into producing formations to maintain reservoir pressure. **G4-065**

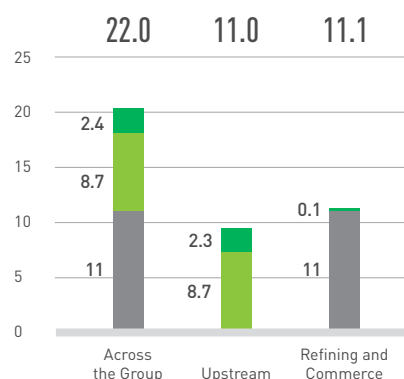
Bashneft's water withdrawal in 2014, million cubic metres

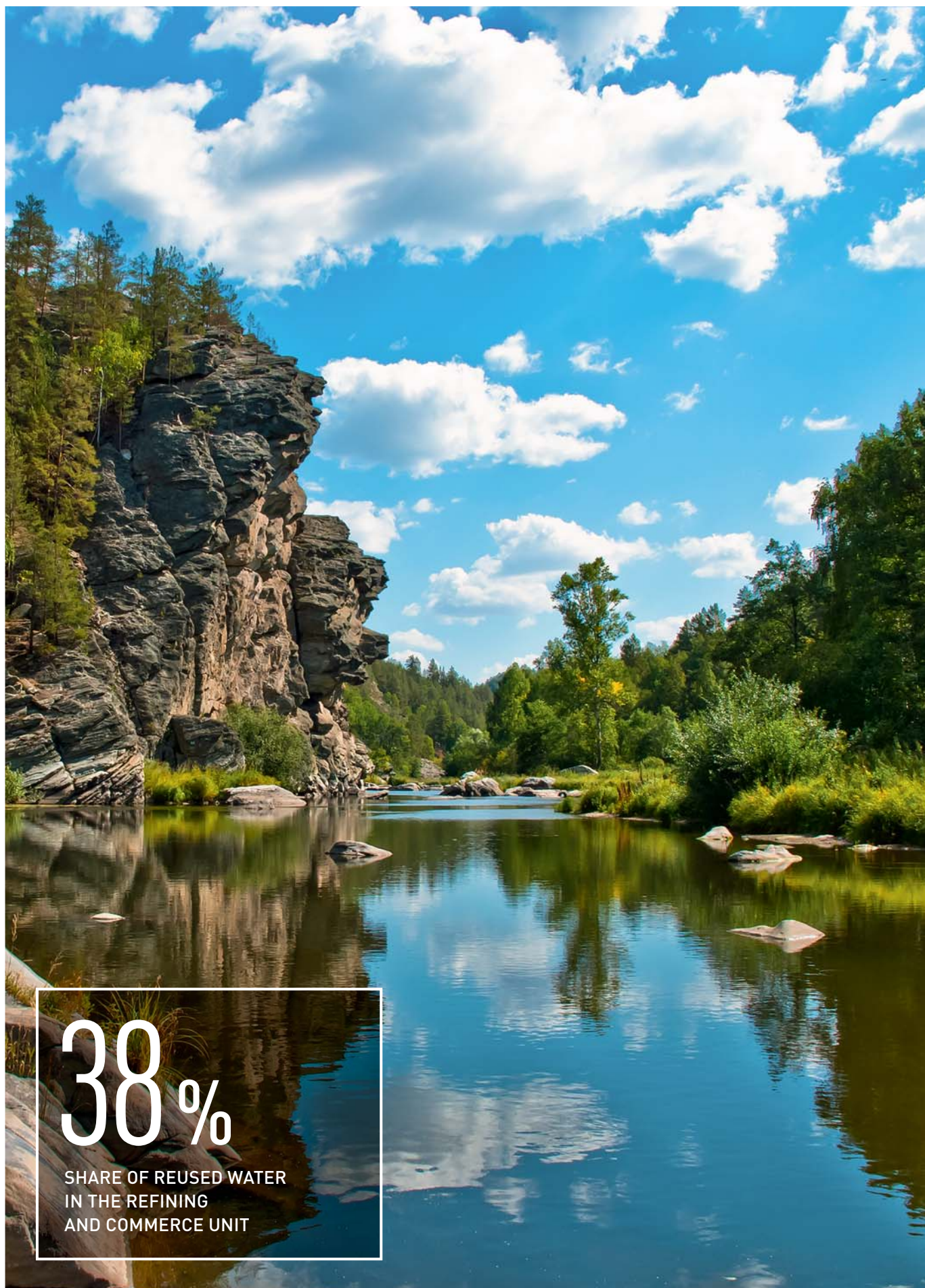


Volumes and areas of water utilization by Bashneft, million cubic metres



Total water discharge by Bashneft, million cubic metres





Withdrawal of water by the Group seriously affects the Belaya River, a tributary of the Kama River, which is located in the Republic of Bashkortostan and classified as a Grade 1 fishery. The river has a basin area of 142 thousand sq. km and is 1,430 kilometres long. Long-term average water discharge in the water protection zone amounts to 850 cubic meters per second. The river is a habitat for the following fish species: perch, common roach, pike, chub, bleak, catfish, burbot, ruffe, bream, silver bream, sterlet, gudgeon, pike-perch, trout (in upper reaches), asp, ide, grayling, dace, sabre fish, nase, blue bream, rudd, white-eye bream, Amur sleeper, and Prussian carp. The taimen population in the Belaya River is threatened with extinction. **G4-EN9**

WATER CONSERVATION

To reduce water consumption, water reuse and recycling systems are increasingly used in the Upstream Unit. Bashneft disposes of industrial wastewater by pumping it into producing formations or thief zones. If necessary, water is treated with antiseptics before pumping it into formations; this is done in order to prevent its contamination with sulphate-reducing bacteria which produce hydrogen sulphide in oil and water.

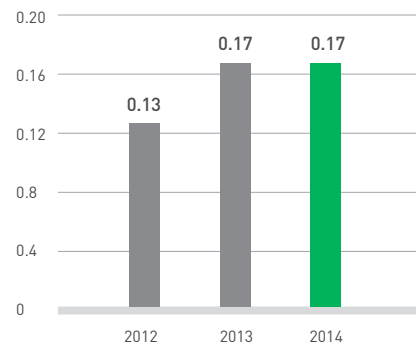
To reduce environmental hazards of industrial wastewater, the Group's refineries use specialized treatment facilities, which are undergoing radical upgrades to ensure that the quality of treated wastewater complies with standards for fisheries. Moreover, we are actively reusing water to reduce discharge into natural water bodies.

The level of contamination of industrial wastewater generated by the Group's refineries with petroleum products amounts to 0.17 mg/l.

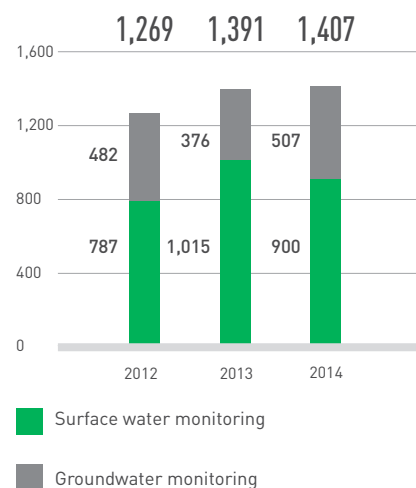
We use biological treatment facilities (BTF) of OJSC Ufaneftekhim for biological treatment of industrial wastewater generated by the integrated refining complex. The BTF have been upgraded several times and have been equipped with new generation aeration systems. Nevertheless, to improve the quality of wastewater treatment, the Group has launched a BTF upgrade project.

The Group pays particular attention to environmental monitoring of natural water bodies. The water quality monitoring network comprises 1.4 thousand monitoring wells, nearly 64% of which are used for monitoring surface water, while the remaining wells are used for groundwater monitoring.

Contamination of industrial wastewater with petroleum products, mg/l



Number of monitoring wells



UPGRADING INTEGRATED BIOLOGICAL TREATMENT FACILITIES **G4-EN22**

The upgrade of integrated BTF of the Ufa group of refineries is our largest water protection project. The upgrade of the treatment facilities based on the best wastewater treatment technologies will help to ensure that the quality of wastewater treatment complies with environmental legislation. The budget of the project totals 6.4 billion roubles, and the project is scheduled to be completed in 2015. Our technology partner in the project is General Electric.

Implementation of the upgrade project will prevent discharges of pollutants in excess of permitted levels, reduce the surface area

of treatment plants and minimize water withdrawal through reuse of treated water in production processes.

As part of the biological treatment facilities upgrade project, in 2014 the Group developed three packages of engineering documents, which were approved by the Main State Expert Review Board.

Project implementation progress in 2014:

- the Group signed an agreement with General Electric on the supply of core process equipment;

- supplies of GE equipment and equipment for disposal wells are in progress (the Group signed contracts for 58% of the total amount of equipment; 75% of GE equipment and 100% of equipment for disposal wells were delivered to our warehouses);
- building permits were obtained;
- the BTF site was transferred to a contractor for dismantling; dismantling work is in progress;
- preparation of a pad for disposal well drilling was completed; installation of drilling equipment is in progress.

LAND CONSERVATION

Our land conservation efforts are focused on the preservation of environmental assets in our operating areas.

We seek to minimize the negative environmental impact by managing waste generated in the course of oil production and refining, in particular oil sludge, and are engaged in land reclamation at abandoned production sites of the Group. We also improve the safety of our pipeline systems and oilfield equipment to prevent pipeline failures.

In 2014 expenditure on subsoil and land conservation totalled 2.9 billion roubles as against 2.4 billion roubles in 2013. Like in 2013, the main cost item was the funding of measures to reduce the flowline failure rate.

WASTE PROCESSING

In 2014 the total volume of processed waste grew 9% year on year to 161 thousand tonnes. The ratio of processed waste to the total weight of waste generated in 2014 amounted to 32%.

Oil sludge is the main type of waste generated in the course of oil production and refining, which makes up a large portion of the total amount of waste. Our strategic goal set in the Functional HSE Strategy of JSOC Bashneft is to reduce the volume of sludge. Measures to reduce sludge contamination include the introduction of advanced sludge treatment technologies, elimination of oil sludge pits and construction of sites for biological treatment of oil sludge. The Group processes approximately 30% of generated oil sludge.

In 2014 we continued our focused effort aimed at sludge processing and elimination of sludge pits.

As part of this activity, in the Upstream Unit the Alfa Laval sludge processing unit was widely used to treat the bulk of sludge from oil production operations. In 2014 the unit processed over 19 thousand cubic meters of oil sludge. Overall, since 2001 the Alfa Laval unit processed over 200 thousand cubic meters of sludge and generated 91.5 thousand cubic meters of processed products.

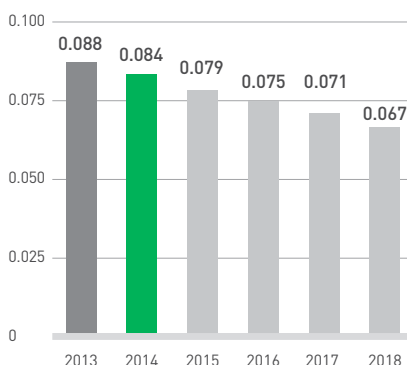
OUR ACHIEVEMENTS

In 2014 the total volume of processed sludge grew by 20% to 78 thousand tonnes from 65 thousand tonnes in the previous year.

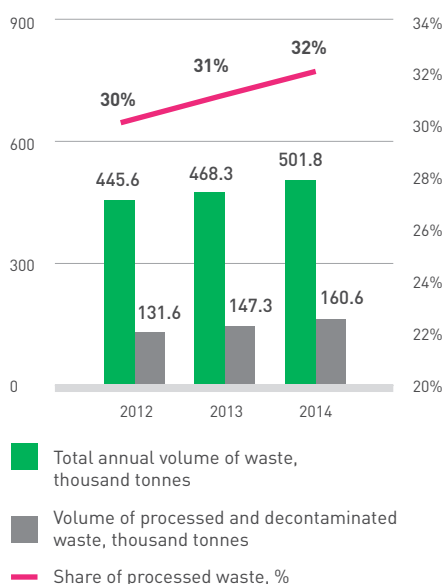
OUR RESPONSIBILITY

In 2014 expenditure on subsoil and land conservation totalled 2.9 billion roubles.

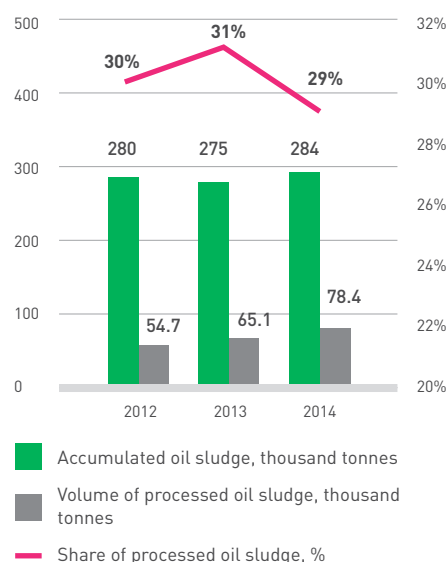
Pipeline failure rate
(number of spills per kilometre
of pipelines) G4-EN24

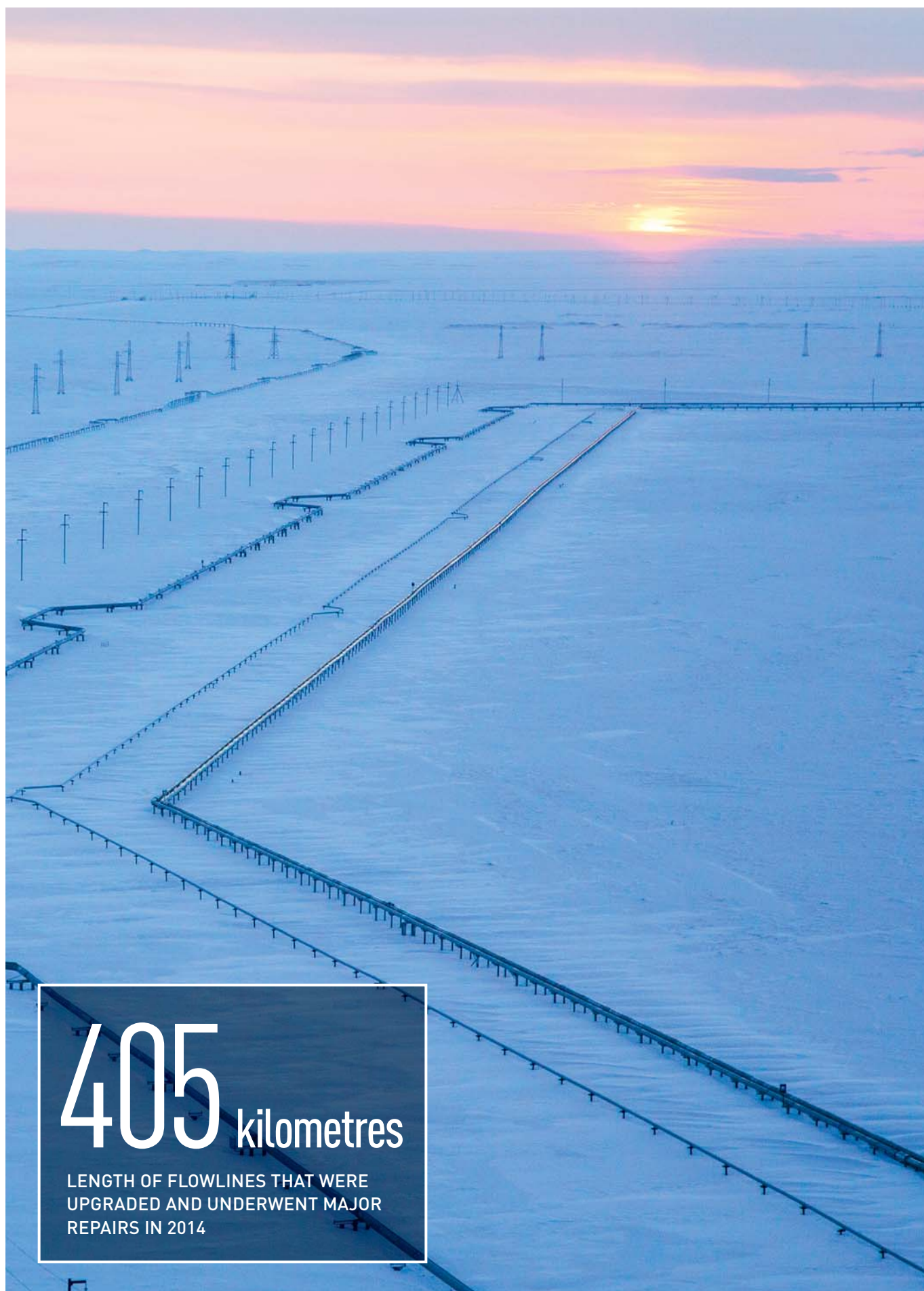


Waste processing G4-EN23



Oil sludge processing G4-OG7





405 kilometres

LENGTH OF FLOWLINES THAT WERE
UPGRADED AND UNDERWENT MAJOR
REPAIRS IN 2014

A new UZG 1M unit put into operation by the Tuimazaneft OGPD processed 1,680 cubic meters of sludge using a thermal process.

180 tonnes of oil-contaminated soil were treated using the bioremediation process at the Mancharovo biological treatment site of the Chekmagushneft oil and gas production department. As part of development of the A. Titov field, the Group initiated the construction of a solid waste landfill.

In the Refining Unit, over 4 thousand cubic meters of liquid sludge were processed in the delayed coker operated by the Bashneft-Ufaneftekhim Branch. In addition, all of the Group's refineries applied centrifugal dewatering to reduce the volume of sludge produced.

In the Refining Unit, the Group is building a plant for thermal processing (dewatering) of oil sludge at the Bashneft-Ufaneftekhim Branch. The plant will use a thermal desorption technology meeting the highest environmental standards.

In 2014 the following steps were taken to implement the project:

- ✓ sampling and analysis of oil sludge;
- ✓ approval of the plant's capacity (75 thousand tonnes per year);
- ✓ preparation of technical specifications for the design and procurement of core equipment; tenders to select the contractor and core equipment supplier for the project.

Planned capital investments into the project will approximate 3 billion roubles. The plant is scheduled for commissioning in 2017.

We do not transport, import, export or treat any waste deemed hazardous under the terms of the Basel Convention. **G4-EN25**

IMPROVING THE SAFETY OF PIPELINES

An important focus of Bashneft's efforts to improve process safety is the programme of improving the safety of pipelines aimed at land and soil conservation. Another objective of the programme is to minimize product losses by reducing the number of equipment failures and the pipeline accident rate.

Bashneft continuously monitors the condition of pipelines, repairs and replaces deteriorated pipelines as part of its Programme to Improve Pipeline Safety for 2013–2018 with a total budget of 23.1 billion roubles. In 2014 the cost of measures to improve the safety of pipelines as part of the Programme totalled 2.8 billion roubles.

In 2014, as part of the Programme, over 405 kilometres of flowlines were upgraded and underwent major repairs (compared to 296 kilometres in 2013), with expenditures totalling 2.6 billion roubles as against 1.4 billion roubles in the previous year. **G4-OG13**

In addition, the Company spent 131.3 million roubles on inhibitors to prevent pipeline corrosion.

In 2014 the Group conducted an industrial safety inspection covering 3.1 thousand kilometres of pipelines to obtain an independent assessment of the potential for extending the safe operation of pipelines. The budget of the initiative amounted to approximately 55.7 million roubles.

OUR ACHIEVEMENTS

In 2014 we completed the upgrade and major repairs of more than 405 kilometres of flowlines and an industrial safety inspection covering 3.1 thousand kilometres of pipelines.

BIODIVERSITY



We monitor population fluctuations and diversity of animal, bird and fish species with habitats in our operating regions. **G4-EN13**

In the Nenets Autonomous District, LLC Bashneft-Polyus, which operates the Trebs and Titov fields, takes measures to restore damage to aquatic wildlife by releasing young whitefish into the basin of the Pechora River.

Such compensatory measures help to restore the population of whitefish and the existing wildlife balance.

We take a responsible attitude to protecting biodiversity across our operating regions. In terms of geographical footprint, our strongest environmental impact on biodiversity is concentrated in the oil-producing regions of the Arctic, mainly the Trebs and Titov fields in the Nenets Autonomous District.

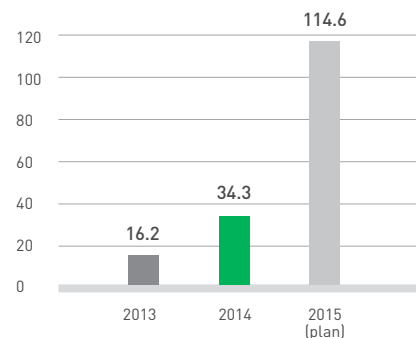
In 2014 we completed a comprehensive fauna assessment of the area covered by the two fields. Our survey identified key wildlife habitats in the assessed areas and provided insights into the current size and density of animal population within the oil-field territory and information on rare animal and bird species listed in the Red Book of Threatened Species of the Nenets Autonomous District.

The areas of the two fields are populated by approximately 110 terrestrial vertebrate species, including 27 mammal species, 86 bird species, 2 amphibian species and 1 reptile species.

Several rare animal species, mainly birds, included in the Red Books of Russia and of the Nenets Autonomous District occur at the Trebs and Titov fields. **G4-EN14**

In several instances our operating areas border nature conservation zones. We pay close attention to potential environmental impacts and take steps to prevent any effect of our operations on the flora and fauna of protected territories.

Young whitefish released, in thousands



Rare bird species which occur in the operating areas

| Species | Population density, per sq. km | Red Book categories* | |
|---|--------------------------------|----------------------|----------------------------|
| | | Russia | Nenets Autonomous District |
| Lesser white-fronted goose (<i>Anser erythropus</i>) | 0.1 | 2 | 2 |
| Bewick's swan (<i>Cygnus bewickii</i>) | 2.0 | 5 | 5 |
| Golden eagle (<i>Aquila chrysaetos</i>) | 0.02 | 3 | 1 |
| White-tailed eagle (<i>Haliaeetus albicilla</i>) | 0.03 | 3 | 3 |
| Gyr Falcon (<i>Falco rusticolus</i>) | 0.1 | 2 | 2 |
| Peregrine falcon (<i>Falco peregrinus</i>) | 0.8 | 2 | 3 |
| Eurasian oystercatcher (<i>Haematopus ostralegus</i>) | n/a | n/a | 3 |
| Great snipe (<i>Gallinago media</i>) | 2.5 | n/a | 4 |
| Bar-tailed godwit (<i>Limosa lapponica</i>) | n/a | n/a | 4 |

* Note to Red Book categories: 1 – Endangered; 2 – Decreasing number; 3 – Rare; 4 – Uncertain status; 5 – Rehabilitated and rehabilitating.

ENERGY EFFICIENCY

Ongoing measures to increase energy efficiency are an integral part of Bashneft's efforts to protect the environment and enhance operational efficiency. The Russian economy is characterized by high energy consumption rates; therefore, the analysis and implementation of new technologies and practices sets an example for other market participants and companies along the supply chain, while facilitating further development of the Group's business.

Key priorities of the Group's energy strategy include the upgrade of production equipment, implementation of energy efficient technologies, optimization of heat generation and consumption, and development of own power sources, including the use of associated gas.

The Group does not generate renewable energy or invest in renewable energy generation.

ENERGY CONSUMPTION WITHIN THE GROUP G4-EN3

The Group consumes electricity, heat, natural gas and associated gas in the course of its operations. It may use boiler and furnace fuel, which is less environmentally friendly, as a backup; however, it did not use this kind of fuel in 2014 or in previous years.

Key drivers of the increase in fuel and energy consumption across the Group in 2014 included geographical expansion of its business, the use of more energy-intensive refining processes and expansion of the sales network.

In 2014 the Group's electricity costs totalled 13.0 billion roubles, while heat costs totalled 4.1 billion roubles.

We have concluded an agreement on the supply of heat to the Group's refineries and petrochemical plants with LLC Bashkir Power Generation Company, which forms part of Inter

RAO Group. Under the agreement, the Group is also obliged to supply its associated gas to power plants in Bashkortostan in 2015 and 2016 (with an option of renewing the agreement until 2022). The agreement is expected to improve Bashneft's associated gas utilization rate.

OUR ACHIEVEMENTS

In the reporting year, economic benefits from implementation of energy efficiency projects across the Group totalled 139.8 million roubles.

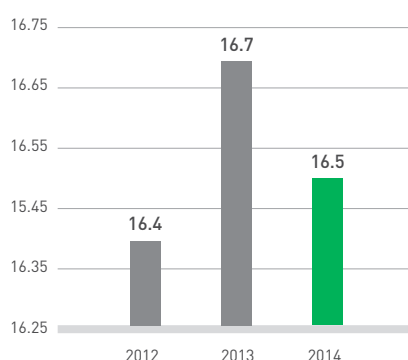
Fuel and energy consumption by Bashneft Group

| | 2012 | 2013 | 2014 |
|---------------------------------------|-----------|-----------|-----------|
| Electricity, thousand kWh | 5,780,168 | 5,331,579 | 5,452,887 |
| Heat, Gcal | 7,677,737 | 5,938,540 | 6,070,018 |
| Natural gas, thousand cubic metres | 284,685 | 227,236 | 202,616 |
| Associated gas, thousand cubic metres | 65,283 | 41,818 | 54,100 |

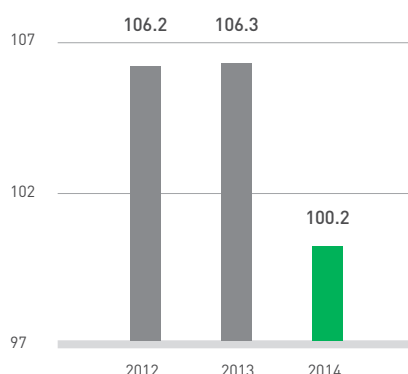
Energy savings

| | 2013 | 2014 |
|--------------------------------------|-----------|----------|
| Heat, Gcal | 36,996.50 | 38,879.8 |
| • upstream segment | 2,144.2 | 271.5 |
| • refining and petrochemical segment | 34,852.3 | 38,608.3 |
| Electricity, thousand kWh | 33,002.30 | 41,215.5 |
| • upstream segment | 32,721.9 | 40,971.0 |
| • refining and petrochemical segment | 280.4 | 244.5 |

Electricity consumption rate per tonne of production fluid, kWh/t



Electricity consumption rate per tonne of processed oil, kWh/t



MEASURES TO IMPROVE ENERGY EFFICIENCY

The Group is implementing a number of initiatives aimed at improving its energy efficiency, including the ongoing energy audit of production processes, analysis of equipment operation modes focused on identifying opportunities to optimize energy consumption, and the introduction of energy efficient technologies.

In 2014 Bashneft further increased wholesale purchases of electricity and continued the certification of its commercial electricity metering stations to meet the requirements of the wholesale electricity market.

We completed the modelling of power and heat consumption by process units in the refining segment and used the models to update standard consumption rates and ensure that they reflect capacity utilization levels and seasonal fluctuations in utilization. This helped to increase the accuracy of planning of energy consumption in the refinery production scheduling system (Aspen PIMS) and to provide inputs for the project aimed at monitoring energy consumption.

Based on the analysis of economic efficiency of boiler houses in the Upstream unit, we have developed the Programme to Renovate and Upgrade the Centralized Heat Supply System in the Upstream Unit until 2018.

In 2014 the Company updated its pool of energy efficiency measures for JSOC Bashneft's branches to reflect the current economic situation and developed the Programme to Increase Energy Efficiency of Production Facilities at JSOC Bashneft's Branches for 2014-2017. Our energy efficiency efforts involved nine initiatives completed in 2014; five of them required major capital investments. [G4-EN6](#)

ENERGY EFFICIENCY IN THE UPSTREAM SEGMENT

In 2014 energy consumption in the upstream segment increased by 7.3%; the growth was driven by the growing number of oil-producing assets of LLC Bashneft-Polyus, the acquisition of LLC Burneftegaz and the increased output of fluid. The economic benefit from energy efficiency measures amounted to 100.6 million roubles.

Energy consumption in the upstream segment

| | 2013 | 2014 | Change, 2014/2013 |
|---------------------------------------|-----------|-----------|-------------------|
| Electricity consumption, thousand kWh | 2,924,600 | 3,139,438 | +7.3% |
| Electricity costs, million roubles | 6,483.7 | 7,624.4 | +17.6% |
| Heat consumption, Gcal | 190,973 | 205,682 | +7.7% |
| Heat costs, million roubles | 376.4 | 388.3 | +3.2% |

Energy efficiency in the refining segment

| | 2013 | 2014 | Change, 2014/2013 |
|---------------------------------------|-----------|-----------|-------------------|
| Electricity consumption, thousand kWh | 2,373,742 | 2,276,112 | -4.1% |
| Electricity costs, million roubles | 5,068.7 | 5,208.8 | +2.8% |
| Heat consumption, Gcal | 5,739,090 | 5,856,091 | +2.0% |
| Heat costs, million roubles | 3,173.5 | 3,691.9 | +16.3% |



The same factors combined with a colder weather in 2014 resulted in a 7.7% year-on-year increase in heat consumption.

In 2014 electricity consumption rate per tonne of production fluid amounted to 16.5 kWh/t, which is largely in line with historical levels.

G4-EN5, G4-EN7

One of the key priorities in the area of safety and energy efficiency improvement in the Upstream unit is to develop small-scale power generation and construct power plants fuelled with associated gas.

ENERGY EFFICIENCY IN THE REFINING SEGMENT

In 2014 electricity consumption in the refining segment declined by 4.1% year on year.

Replacement of existing pipelines and ongoing upgrades of boiler and pumping equipment resulted in heat cost savings of 38.8 million roubles.

In 2014 electricity consumption rate per tonne of processed oil amounted to 100.2 kWh/t, down by 6% compared to 2012 and 2013. G4-EN5, G4-EN7

ENERGY EFFICIENCY IN THE MARKETING SEGMENT

Electricity consumption in the marketing segment increased by 12.3% in volume terms following the expansion of the network of filling stations. Heat costs also went up, being driven by growing heat prices charged by suppliers.

Energy efficiency in the Group's sales offices

| | 2013 | 2014 | Change, 2014/2013 |
|---------------------------------------|--------|--------|----------------------|
| Electricity consumption, thousand kWh | 33,237 | 37,337 | +12.3% |
| Electricity costs, million roubles | 102.1 | 124.9 | +22.3% |
| Heat consumption, Gcal | 8,477 | 8,245 | -2.7% |
| Heat costs, million roubles | 7.1 | 9.3 | +30.6% |

HIGH STANDARDS IN SAFETY

-22%

REDUCTION IN THE LOST
TIME INJURY FREQUENCY
RATE (LTIFR)

2.3 BILLION
ROUBLES

FUNDING FOR OCCUPATIONAL
HEALTH AND SAFETY
PROGRAMMES

>28 THOUSAND
PERSON-COURSES

TRAINING IN OCCUPATIONAL
HEALTH AND SAFETY



OCCUPATIONAL HEALTH AND SAFETY



‘PEOPLE HAVE BEGUN TO TREAT OCCUPATIONAL SAFETY NOT AS A SECONDARY ISSUE, BUT AS ONE OF THE MOST IMPORTANT TASKS. THESE CHANGES WERE NOT INSTANTANEOUS. THEY HAVE REQUIRED CERTAIN EFFORTS, MEASURES, INVESTMENTS, INVOLVEMENT OF TOP MANAGEMENT. ALL THIS HAS RESULTED IN A SIGNIFICANT DECREASE OF THE NUMBER OF INJURIES AND ACCIDENTS IN THE GROUP. THIS IS THE MOST IMPORTANT ACHIEVEMENT.’

Alexander Korsik,
President of JSOC Bashneft, Chairman of the Management Board

Bashneft is one of Russia’s largest oil companies and one of the largest employers in the Republic of Bashkortostan. We are aware of a high responsibility related to conducting technologically sophisticated business that is potentially dangerous to our employees and the population of the regions where we operate. At the same time, we are a reliable partner for our suppliers and customers, and we maintain an uninterrupted production process. We strive to eliminate risks of technological accidents and failures in our operations, minimize the harmful impacts of production on the employees and the population, to reduce the number of workplace injuries to zero. Given the scope of our operations, we aim to ensure a high level of culture and to maximize the efficiency of our operations.

The Group has always given priority to those aspects of its operations that are related to health and safety. Throughout the history of its operation, the Group has accumulated a wealth of experience in responsible conduct of business, and it has implemented appropriate procedures and practices. Nevertheless, we constantly analyse the best practices in this area and incorporate them in our daily operations.

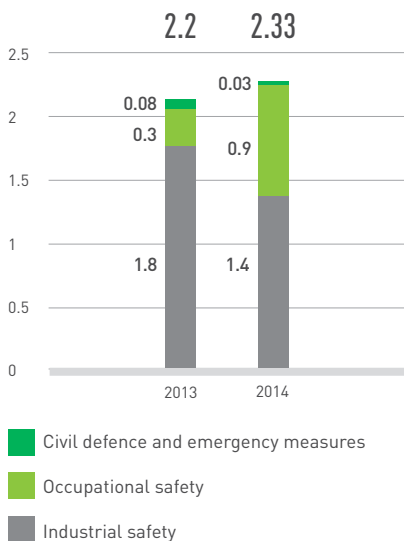
We strive to become a leader in this field among Russian oil companies and adhere to the best internationally accepted rules and standards. This focus is embodied in the following values of the Group:

- ✓ safety and reliability,
- ✓ protecting the people,
- ✓ professionalism and innovations.

OUR RESPONSIBILITY

Our efforts in the field of occupational health and safety are aimed at fulfilling the most important tasks: to reduce the number of injuries and minimize the negative impact on the health of employees.

Financing of HSE measures and programmes, billion roubles



Our activities in the sphere of occupational health and safety are based on the following principles:

- ✓ recognizing constitutional human rights for safe working conditions;
- ✓ complying with the main requirements and areas of state policy in the sphere of occupational health and safety;
- ✓ adhering to international standards in this area;
- ✓ ensuring industrial and environmental control over all kinds of operations;
- ✓ giving priority to preventive measures aimed at reducing the number of injuries and the industrial accident rate;
- ✓ continuous improvement of the integrated HSE management system;
- ✓ improving the safety culture;
- ✓ transparency and availability of information.

In the course of day-to-day operations, we regularly conduct risk assessment and audits and take measures to improve the HSE (Health, Safety and Environment) management system. An important task forming part of our

activities is to involve our employees and contractors and incentivize them to comply with safety requirements, as well as to train and inform the employees about safe working methods. We make great efforts to promote a culture based on responsible behaviour in the field of occupational, industrial, fire and traffic safety among our employees, suppliers and contractors. To maximize the positive impact, we engage stakeholders in an open dialogue.

Bashneft has developed and adopted a set of internal documents regulating its activities in the field of HSE.

We consider funding of programmes in the field of occupational health and safety as an investments in the health and well-being of our employees rather than as expenditure. In 2014 expenditure in these areas, including civil defence and emergency measures, totalled 2.3 billion roubles compared to 2.2 billion roubles a year earlier.

Documents regulating various aspects of occupational and industrial safety:

- ✓ The Functional Strategy of JSOC Bashneft on Health, Safety and Environment. It is aimed at maintaining the Group's leadership among oil and gas companies and meeting international standards in these areas. In addition, the Functional Strategy stipulates that the Group must comply at all times with key regulatory requirements of the government's HSE policy and minimize the number of incidents, emergencies and accidents;
- ✓ The Policy of JSOC Bashneft on Health, Safety and Environment, which is aimed at minimizing the number of occupational injuries, providing employees involved in the production process with additional protection and reducing the risk of emergencies and incidents in the course of operation of production facilities;
- ✓ The Regulations on the HSE Management System, which define the main areas of work on occupational safety: the organizational structure, planning of measures, responsibility, resources for achieving the goals and procedures for evaluating and improving the performance of the management system;
- ✓ Standards and regulations reflecting requirements of the international OHSAS 18001 and ISO 14001 standards. They are aimed at forming an effective system for managing HSE processes at Bashneft.

OCCUPATIONAL SAFETY

We are keenly aware of our responsibility towards our employees for creating a safe and favourable working environment. Protection of life and health of our employees is one of our corporate values.

We constantly develop an OHS management system in order to comply with international standards and achieve our strategic goal of reducing the number of workplace injuries to zero. Measures to ensure safety in the workplace form part of the single Functional HSE Strategy.

For this purpose we supervise working conditions in the workplace. We conduct regular audits, analyse and eliminate system-related causes of industrial accidents. In order to develop employees' competences, we provide them with training in occupational safety and introduce methods of assessing the employees' knowledge and skills. The Group has developed and implemented a procedure for incident investigation, which involves investigating each incident and devising a plan of further actions aimed at eliminating the causes and preventing further incidents.

In 2014 Bashneft implemented programmes aimed at incentivizing HSE performance, leadership training in the sphere of occupational and process safety and uniform corporate requirements matching the highest international standards. These measures not only have a direct positive impact on occupational safety performance but also help to form a corporate culture which prioritizes safety.

In addition, to mitigate employee risks, Bashneft has concluded accident insurance contracts for its employees with SOGAZ Insurance Group, one of the largest universal insurers in Russia. Under the contracts, insurance covers almost 15 thousand employees of the Company.

The contracts provide for standard insurance cover against a variety of risks, including risks of death, disability, temporary disability caused by an accident and disability resulting from occupational disease; the insurance applies 24 hours a day worldwide.

EXPENDITURE ON OCCUPATIONAL HEALTH AND SAFETY

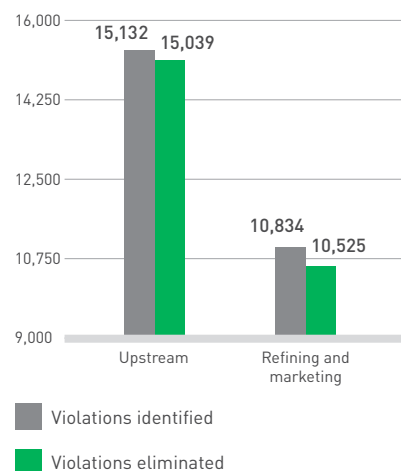
In 2014 we gave high priority to further improving safety and health of employees. Actual HSE costs amounted to 808 million roubles, compared to 226 million roubles a year earlier.

The costs increased due to expansion of incentive programmes, purchase of personal protective equipment and technical measures based on the results of the analysis of past incidents (these were mainly measures aimed at ensuring that workplaces and facilities meet safety requirements).

We are planning to significantly increase our expenditure on HSE in 2015. The amount of funding for HSE will reach 1.5 billion roubles. In 2015 priorities will include implementation of pilot initiatives, including the following measures:

- ✓ development and implementation of a standard in handling of chemicals;
- ✓ implementation of a system for three-dimensional simulation of manufacturing process management;
- ✓ expansion and re-equipment of the Saklovo chemical storage facility and the Tuimazinskiy area;
- ✓ implementation of a multi-purpose programmes to reduce HSE risks

Occupational safety inspections in 2014



Areas for implementation of the Functional HSE Strategy:

- ✓ reducing the number of occupational injuries;
- ✓ ensuring the right to safe and healthy working conditions;
- ✓ protecting employees' health;
- ✓ creating an atmosphere of zero tolerance for violations in the area of occupational safety and health;
- ✓ training and certification of employees in occupational safety.

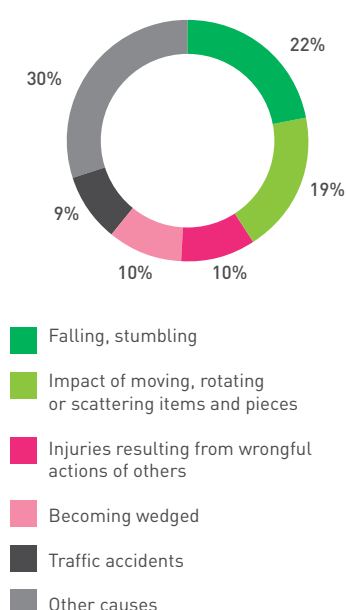
OUR RESPONSIBILITY

In 2014 expenditure on occupational safety and health of Bashneft's personnel amounted to 35.1 thousand roubles per employee.

‘WHEN WE ARE TALKING ABOUT OCCUPATIONAL SAFETY AND REDUCTION OF THE NUMBER OF INDUSTRIAL INJURIES, WE MEAN HUMAN HEALTH AND LIVES. WE ARE CREATING A COMPANY WHERE WORKPLACES ARE FIRST AND FOREMOST SAFE. THAT IS THE REASON WHY WE CONSIDER OUR EFFORTS TO IMPROVE SAFETY AND PROVIDE GREATER PROTECTION TO EMPLOYEES AS A DEFAULT PRIORITY.’

Alexander Korsik,
President of JSOC Bashneft, Chairman of the Management Board

Causes of injuries



during the implementation of major construction investment projects;

- ✓ implementation of the project ‘Elimination of the Risk of Injury to Operators of Filling Stations from a Fall from a Height When Accepting Petroleum Products at Filling Stations’;
- ✓ implementation of the comprehensive programme ‘Monitoring of Operations’;
- ✓ implementation of the standard ‘Safety in the Office’.

REDUCTION IN THE NUMBER OF OCCUPATIONAL INJURIES G4-LA6

Bashneft continues to make focused efforts to reduce the lost time injury frequency rate (LTIFR), one of key performance indicators in the field of occupational safety.

Bashneft has adopted and is implementing a long-term plan aimed at reducing the number of occupational injuries; the plan covers all of the Group’s business units. Measures taken during the reporting year enabled us to reduce the number of workplace accidents by 34%.

The Group has been continuously analysing the main causes of industrial injuries. After the causes are identified, response measures are implemented to address them. Thus, in 2014 the main causes of accidents included falling and stumbling, as well as the impact of moving, rotating or scattering items and pieces.

In accordance with an action plan to ensure occupational safety and reduce the number of occupational injuries, in 2014 we continued implementing administrative and engineering measures aimed at improving safety in the workplaces.

Targeted funding for HSE, million roubles

| | 2013 | 2014 | Achievement of targets for 2014 | Targets for 2015 |
|---|--------------|--------------|---------------------------------|------------------|
| HSE training programme | 37.0 | 20.5 | 100% | 18.3 |
| Programme to incentivize HSE performance | 5.4 | 9.9 | 24% | 211.6 |
| Development and implementation of a plan to raise awareness in the field of HSE | 9.5 | 22.1 | 100% | 31.2 |
| Pilot initiatives | 46.5 | 10.3 | 100% | 262.3 |
| Implementation of measures based on the results of the analysis of past incidents | 66.1 | 201.6 | 104% | 307.2 |
| Health protection | 1.3 | 50.1 | 100% | 81.9 |
| Personal protective equipment | 60.5 | 493.4 | 100% | 634.9 |
| Target programmes in the sphere of occupational safety and health | 226.3 | 807.9 | | 1,547.4 |

For instance, we continued a programme to inform employees of potential hazards in their workplaces by installing regulatory signs, issuing newsletters, setting up posters and distributing leaflets. We have made sure hazardous areas are visualized, interactive briefings are held and corrective measures are implemented following industrial accident investigations.

Engineering measures are implemented to make sure the workplaces at a height, as well as loading and unloading areas and gas hazardous areas comply with safety requirements, and that filling stations are properly secured.

Employee incentive programmes entitled the Programme to Incentivize HSE Performance of Operating Personnel and the Incentive to Safety Programme are implemented in the Group's branches, subsidiaries and affiliates.

In 2014 the Group paid special attention to traffic safety and fostering a culture of safe driving. To coordinate efforts in this area, the Group implements a comprehensive programme to improve traffic safety. Bashneft has adopted a uniform corporate standard entitled 'Safety in Motor Vehicles' and a Traffic Safety Policy and has provided training to more than one thousand employees as part of the 'Defensive Driving' programme; in addition, the Group has developed an interactive training course, 'Passenger Safety in Vehicles'.

Bashneft has developed a plan for the period up to 2016 aimed at further reduction of the number of traffic accidents. The plan includes a wide range of measures that will help

minimize the number of employees' injuries caused by traffic accidents and reduce the total number of traffic accidents in the Group and among contractors.

REDUCING THE NUMBER OF WORKPLACES CHARACTERIZED BY HARMFUL WORKING CONDITIONS G4-LA7

The Group is working to reduce the number of workplaces characterized by harmful working conditions. To assess the impact of hazardous and harmful factors at specific production facilities, we conduct a special assessment of workplaces. Based on the results of such assessment, the Group develops and implements Action Plans to Improve Working Conditions. We conduct a systematic analysis of the causes of occupational injuries and implement measures to eliminate them or reduce the probability of such risks.

All of the Group's employees are provided with up-to-date personal protective equipment based on specific working conditions in each workplace.

In 2014 the percentage of workplaces characterized by harmful working conditions across the Group totalled 16.3%. The increase was related to acquisition of new assets by the Group.

In 2014, to estimate the actual values of hazardous and harmful industrial factors and the extent of their negative impact on employees, we conducted the relevant measurements as part of a special assessment of working conditions and a programme of industrial monitoring of compliance with sanitary, hygienic and disease prevention standards. Their results form the

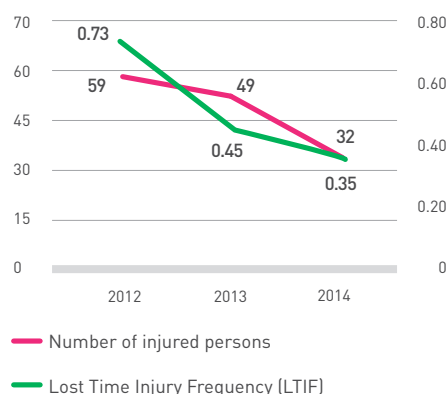
OUR ACHIEVEMENTS

In 2014 LTIFR declined by 22% to 0.35.

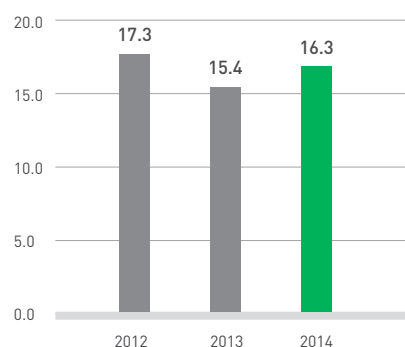
OUR RESPONSIBILITY

In 2014 traffic accidents accounted for only 9% of the total number of injuries; this reduction was due largely to implementation of an ambitious programme to reduce the number of traffic accidents.

Industrial accidents



Share of workplaces characterized by harmful working conditions, %



'WE SHALL MAKE CONTINUOUS EFFORTS TO IMPROVE WORKING CONDITIONS.'

Alexander Korsik, President of JSOC Bashneft, Chairman of the Management Board

OUR RESPONSIBILITY

First aid stations have been created at remote production facilities with a total headcount of 150 employees or more and at refineries and the R. Trebs and A. Titov oilfields.

The Group uses the 'Stop Work' procedure, under which any employee may stop working if there is a danger to the life and health of employees.

OUR ACHIEVEMENTS

Overall, in 2014 the number of employees attending health protection courses and lectures increased fivefold. The number of employees vaccinated against influenza tripled, and the number of those vaccinated against pneumonia increased fourfold.

Frequency of fatalities caused by diseases

| | 2014 |
|---|--------------|
| Number of fatalities caused by diseases at the Company's facilities | 6 |
| Total man-hours | 91.7 million |
| Frequency of fatalities caused by diseases * | 0.06 |

* Work-related fatalities caused by diseases × 1,000,000 hours / number of man-hours per year

basis of the occupational risk management system.

After the measurements had been completed, we developed lists of measures to improve the working conditions. The main objective is to ensure compliance of working conditions with the statutory occupational safety rules applicable to specific workplaces at each of Bashneft's organizations.

PROTECTION OF EMPLOYEES' HEALTH

Protection of health of our employees is one of Bashneft's top priorities.

Our efforts in the sphere of health protection are focused on high-priority areas that are identified through a detailed analysis of causes of diseases.

Thus, in 2014 monitoring revealed that cardiovascular diseases were the cause of most instances of disease and death, which is generally consistent with the overall situation in the country. To respond to this problem, Bashneft has developed a set of measures specifically aimed at prevention and treatment of cardiovascular diseases. In addition, under voluntary health insurance contracts, some companies forming part of Bashneft Group implemented a programme aimed at preventing cardiovascular diseases and engaged primary care physicians to provide medical care on the shop floor.

The health protection action plan was included into the Functional HSE Strategy for 2013–2019.

Health protection action plan:

- ✓ Implementation of the cardiovascular disease prevention programme;
- ✓ Promotion of healthy lifestyle;
- ✓ Provision of emergency and scheduled medical care to employees;
- ✓ Improvement of first aid skills for accidents on the basis of international standards;
- ✓ Arranging and conducting preliminary and regular medical examinations;
- ✓ Corporate programme of vaccination against influenza, tick-borne encephalitis, pneumonia and hepatitis;
- ✓ Health education (brochures, lectures, workshops, training schools).

In 2014 we audited eight first aid stations and developed corrective measures. An emergency physician was employed to work at the first aid station at the R. Trebs field and provided with up-to-date medical equipment.

The Group has developed and put into practice standards such as Prevention of Cardiovascular Diseases, Organization of Emergency and Scheduled Medical Care for Employees and the HSE Policy Aimed at Protection of Employees' Health and Prevention of Work-Related Fatalities. The Group has also developed and implemented Emergency Medical Response Plans at all of its production facilities; in 2014 over 100 trainings involving all

Health protection initiatives for 2015:

- ✓ Maximum engagement and participation of employees in the corporate programme for preventing cardiovascular diseases;
- ✓ Working with people facing the risk of cardiovascular diseases;
- ✓ Developing collective immunity against influenza, pneumonia and tick-borne encephalitis;
- ✓ Organizing and holding Health Days focused on prevention of tuberculosis, giving up smoking, etc.;
- ✓ Identifying risks of diseases when holding sporting and public events;
- ✓ Organizing the work of new primary care physicians on the shop floor.

‘WE ARE WELL AWARE OF THE IMPORTANCE OF THE COMPANY’S MANAGERS’ INVOLVEMENT AND THE EXAMPLE THAT THEY SET TO THEIR SUBORDINATES FOR THE DEVELOPMENT OF THE CORPORATE CULTURE. WE SEEK TO INVOLVE ABSOLUTELY ALL EMPLOYEES IN THE CREATION OF THE SYSTEM.’

Alexander Korsik,
President of JSOC Bashneft, Chairman of the Management Board

relevant departments were conducted to exercise practical skills. Employees are provided with first-aid training in accordance with international practices.

To maintain and improve the employees’ health, Health Days have been introduced, including the Donor’s Day, the Good Eyesight Day, the Acute Respiratory Disease and Influenza Prevention Day, the No Smoking Day and the Work-Related Stress Prevention Day.

All employees undergo annual training in first aid in case of an accident in the workplace under a revised training programme based on international practices. Videos showing how to give first aid have been made and will be used for video briefings for the Company’s employees and contractors.

In 2015 the Group will take preventive measures and measures aimed at promoting healthy lifestyle among all employees.

DEVELOPING THE CORPORATE CULTURE IN THE AREA OF OCCUPATIONAL SAFETY

Experience suggests that incidents often happen because of human error. Therefore, the Group attaches great importance to the development of a safety culture. We are creating conditions for building a culture of zero tolerance towards violations in the area of occupational and industrial safety at all levels within the Group.

A key prerequisite for forming a good corporate culture is the commitment

of senior management to the principles of occupational safety and their implementation in practice. Guided by this understanding, the management of Bashneft is fully involved in the process of promoting occupational safety practices: senior managers undergo training, conduct behavioural safety audit at production facilities and hold meetings with employees over occupational safety. Measures taken by the management in this area are controlled and monitored on the basis of individual development plans for senior management in the sphere of HSE.

Since 2013 the Group has in place a standard entitled ‘HSE Leadership’ and implements a comprehensive plan to develop the safety culture.

The Group uses the ‘Stop Work’ procedure, under which any employee may stop working if there is a danger to the life and health of employees.

Great importance is attached to explaining and promoting the values of commitment to occupational safety: we create training materials and provide training. The Group has implemented employee incentive programmes aimed at promoting the value of safe behaviour in the workplace.

Our approaches in the field of occupational safety have been formed on the basis of an understanding that it is necessary to involve employees in the process of creating a safe working environment and to move away from purely supervisory functions.

The main elements of the programme to enhance the safety culture are as follows:

- ✓ leadership development: senior management’s commitment to the principles of occupational safety and their implementation in practice;
- ✓ more active involvement of employees: changing their mentality and overcoming their inertial reluctance to change;
- ✓ motivation: development of employee incentive programmes, including those based on non-financial incentives.



TRAINING IN OCCUPATIONAL AND INDUSTRIAL SAFETY

In order to develop employees' competencies in occupational health and safety, we organize the relevant training and assessment.

In 2013, under a resolution of the HSE Committee of the Board of Directors, a training programme was adopted; it is based on special corporate courses supplementing the mandatory HSE

training required by law. The programme was designed for mass training for employees in 2013 and 2014 and was aimed at developing the competencies of employees in accordance with international standards and best practices in HSE management system development.

In 2014 the total number of people who completed major courses (measured as the number of courses multiplied by the number of recipients)

exceeded 28 thousand person-courses. The total number of people who completed one of the most important courses on occupational safety, 'Use of PPE', totalled 19.5 thousand person-courses, including 17.5 thousand person-courses delivered by the Group's experts acting as in-house trainers.

Corporate training programme in occupational and industrial safety, person-courses

| | 2013 | 2014 |
|--|---------------|---------------|
| Rules of Keeping Alive | 25,092 | 4,144 |
| Accident Investigation | 2,172 | 346 |
| Managers' Leadership and Behavioural Audit | 1,340 | 1,508 |
| Defensive Driving | 812 | 1,038 |
| Risk Assessment | 1,801 | 1,119 |
| Use of Personal Protective Equipment | 1,168 | 19,582 |
| OGP Reporting | 37 | 26 |
| Integrated Management Systems | 0 | 172 |
| Training of Trainers for HSE Divisions | 0 | 59 |
| Process Safety (HAZOP) | 0 | 11 |
| Total | 32,422 | 28,005 |

PROTECTING EMPLOYEES IN EMERGENCY SITUATIONS

Measures aimed at protecting employees in emergency situations form an integral part of our comprehensive approach to ensuring occupational safety and protecting the health of our employees.

Bashneft has in place an emergency prevention and response system. In 2014, in order to maintain this system in constant readiness, we conducted 216 exercises and trainings in oil spill response, firefighting operations and accident containment. The exercises and trainings were attended by 7,725 employees, which is 6% more than in 2013.

The Central Administration of EMER-COM of Russia in the Republic of Bashkortostan constantly monitors the state of fire safety systems and the readiness of the Group's employees to respond to emergencies. Inspections are carried out, and the Group's employees and equipment are involved in republic-wide command and staff training. The teams of the Group's companies participate in republic-wide competitions and win prizes.

In 2012 and 2013 we made considerable efforts to provide emergency response teams with the necessary equipment and install emergency prevention systems as part of our target programmes. In 2014 the Group spent 27 million roubles on emergency prevention measures; the bulk of this amount was allocated for keeping civil defence and emergency teams and resources prepared.

In addition, as part of our efforts to provide a higher degree of protection, we implement two programmes:

- ✓ maintaining shelters in constant readiness;
- ✓ integrating 3D modelling of potentially hazardous facilities into management procedures.

Bashneft maintains 100% of civil defence shelters in constant readiness.

In 2014 the Group spent 3.8 million roubles on maintaining its shelters compared to 9.3 million roubles in the previous year. Major repairs

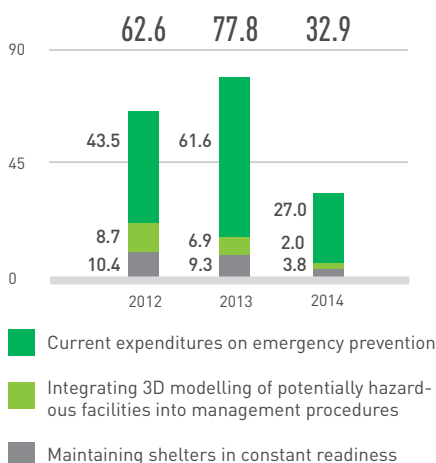
OUR RESPONSIBILITY

To conduct rescue operations and other emergency response activities, the Group has formed three emergency response teams comprising a total of 150 employees. These teams are in constant readiness. There are also volunteer emergency response teams totalling 2.4 thousand persons, who are provided with special equipment and vehicles.

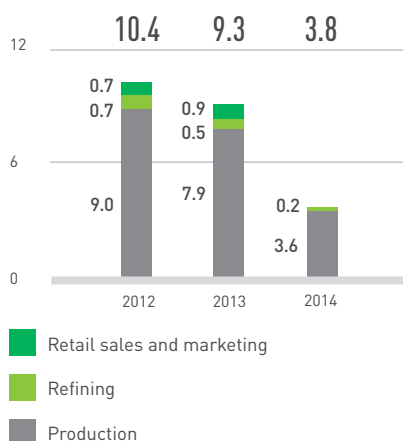
of shelters were carried out chiefly in 2012 and 2013. In 2014 the Group took measures to maintain the shelters in constant readiness.

3D models of potentially hazardous facilities are developed primarily in order to make real-time management decisions on the safe operation of facilities and accident containment. The project was to be implemented within several years. In 2014 the Group completed the development of 3D models of potentially hazardous facilities located in the Republic of Bashkortostan.

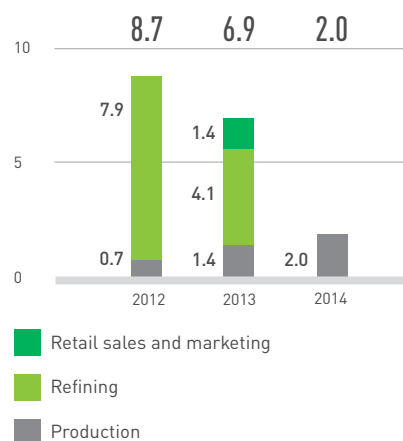
Expenditures on civil defence and emergency measures, million roubles



Expenditures on maintaining civil defence shelters, million roubles



Expenditures on developing 3D models of potentially hazardous facilities, million roubles



INDUSTRIAL SAFETY

‘WE SEEK TO ENSURE THAT OUR OPERATIONS MEET THE STRICTEST INDUSTRIAL SAFETY STANDARDS, AND OUR TOP PRIORITY IS TO SAFEGUARD OUR EMPLOYEES’ RIGHT TO SAFE WORKING CONDITIONS. WE AIM TO BECOME A LEADER AMONG RUSSIAN OIL COMPANIES IN TERMS OF HSE PERFORMANCE.’

Alexander Korsik, President of JSOC Bashneft, Chairman of the Management Board

Bashneft pays special attention to industrial safety. Operations in the sphere of oil production and refining involve the management of technically complex processes that require professionalism and responsibility. In the course of more than 70 years of its operations, Bashneft has gained the necessary competence and extensive experience in ensuring process safety at its oil-producing and refining facilities.

The following actions are carried out at all hazardous production facilities:

- ✓ systematic supervision to ensure that necessary tests and examinations of equipment are conducted on time;
- ✓ timely repairs and tests of control measuring devices;
- ✓ strict observance of technological discipline;

- ✓ full compliance with industrial safety requirements imposed by federal laws and regulations.

To ensure process safety at hazardous production facilities, the Company and its subsidiaries and affiliates take measures in several areas. In 2014 the Group spent 1.4 billion roubles on the full range of measures to ensure process safety (excluding expenditure on measures for improving the reliability of pipelines).

As part of the measures in the field of process safety, we give priority to the implementation of programmes to ensure compliance of hazardous production facilities with process safety rules. In 2014 funding for these programmes totalled 1.1 billion roubles, compared with 1.2 billion roubles a year earlier.

Bashneft has developed and uses a multi-level system of industrial

control at hazardous production facilities as one of the key mechanisms to ensure process safety. The main objectives of the system include risk management, accident prevention and compliance with all process safety rules.

In 2014 industrial control departments of the Company’s branches, subsidiaries and affiliates carried out 6.7 thousand inspections, including 2.7 thousand inspections of contractors. The inspections revealed 39.2 thousand violations, 99.3% of which have been remedied, while the rest are being remedied.

Expenditure on process safety by area, million roubles

| | 2012 | 2013 | 2014 |
|--|----------------|----------------|----------------|
| Implementation of measures to ensure compliance of hazardous production facilities with process safety rules | 963.0 | 1,214.9 | 1,142.4 |
| Compulsory public liability insurance for owners of hazardous production facilities | 34.0 | 32.1 | 26.2 |
| Developing declarations of industrial safety for hazardous production facilities (including process safety inspection) | 7.7 | 15.7 | 4.4 |
| Process safety inspection aimed at extending the duration of safe operation of equipment | 94.4 | 135.3 | 115.2 |
| Expenditures on inspection, testing and maintenance of equipment and technical devices by third-party organizations | 645.4 | 329.9 | |
| Developing an emergency response plan (including a process safety inspection) | 14.1 | 7.6 | 0.3 |
| Expenditures under contracts with professional emergency response teams | 25.5 | 71.4 | 70.3 |
| Total | 1,313.0 | 1,806.9 | 1,341.1 |



HIGH ASPIRATIONS

1.4 BILLION
ROUBLES

EXPENDITURE ON CHARITY
WORK AND DEVELOPMENT
OF SOCIAL INFRASTRUCTURE
IN THE GROUP'S OPERATING
REGIONS

297 BILLION
ROUBLES

TAX PAYMENTS TO BUDGETS
OF VARIOUS LEVELS IN 2014

86 SOCIAL AND
INFRASTRUCTURE
PROJECTS

FUNDED IN THE REPUBLIC
OF BASHKORTOSTAN



CHARITABLE PROGRAMMES AND PARTICIPATION IN THE DEVELOPMENT OF OPERATING REGIONS



‘BASHNEFT IS THE FACE OF THE REPUBLIC. THIS IS A COMPANY THAT OPERATES BOTH IN THE RUSSIAN FEDERATION AND ABROAD. ULTIMATELY, WE SHOULD MAINTAIN A HIGH REPUTATION OF BASHNEFT AS A CORE COMPANY, AS THE LARGEST INDUSTRIAL ENTERPRISE OF OUR REPUBLIC. BASHNEFT RENDERS GREAT ASSISTANCE IN A LARGE NUMBER OF AREAS. IT TOTALS ABOUT A BILLION ROUBLES PER YEAR. THIS WONDERFUL COOPERATION HAS BEEN GOING ON FOR SEVERAL YEARS. I BELIEVE THAT THE FIGURES WILL NOT DECREASE BUT WILL GROW...’

Rustem Khamitov,
President of the Republic of Bashkortostan

We see active involvement in charitable programmes in our operating regions as an important element of the Group's sustainable development. Regional and local infrastructure development, voluntary assistance to regions in emergency situations, implementation of long-term programmes to support education and sports, participation in community life: all these areas of our activity reflect the Group's social responsibility towards the population of our operating regions.

We strictly adhere to internationally recognized norms and standards according to which charity and social responsibility are just as important for the Group as its economic

performance. We see the implementation of long-term programmes as an integral component of our efforts to establish our business reputation, while social significance of our efforts is an important driver of the Company's shareholder value.

When implementing charitable projects, we focus on the following:

- ✓ Identifying the needs and respecting the interests of all stakeholders, promoting open cooperation with them;
- ✓ Targeted investments in the social sphere and infrastructure development, as approved by local authorities;

- ✓ Charitable support of population and local communities;
- ✓ Developing educational potential of the regions, promoting sports and a healthy lifestyle.

OUR RESPONSIBILITY

The Group's commitment to operating smoothly and sustainably and creating a suitable environment for new markets and for the life of future generations is the basis of our efforts in the sphere of development of operating regions and charity work.

PRINCIPLES OF SUSTAINABLE DEVELOPMENT OF OPERATING REGIONS AND CHARITY WORK

SUSTAINABLE DEVELOPMENT OF OPERATING REGIONS AND CHARITY WORK

PRINCIPLES

- The Group's activities shall build a foundation for future well-being of society;
- The Company shall focus on the long-term prospect and invest in socially significant projects;
- Introduction of effective mechanisms for allocation of funds for charitable projects is the basis for promoting best practices;
- Charity work shall be transparent and public as a prerequisite for promoting the most advanced and effective forms of philanthropic work;
- Social charitable projects involving the Company's employees are an additional instrument of our HR policy.

TASKS

- To improve the quality of life in the operating regions;
- To create a favourable social environment for the achievement of strategic business objectives and an increase in the Group's capitalization;
- To identify social priorities to be addressed through close cooperation with administrations of the operating regions;
- To enhance public confidence in the Group and strengthen its public reputation;
- To develop a harmonious dialogue and cooperation between the Group and the main stakeholders representing local communities;
- To implement environmental projects aimed at improving the environment.

We divide our projects in the sphere of charity work and sustainable development of operating regions into two notional groups:

- ✓ Participation in charitable projects and programmes which make a tangible impact on achievement of socially significant goals and positively influence the Company's business reputation as a socially responsible corporate citizen;
- ✓ Participation in educational, research, innovative projects and programmes aimed at replenishing the talent pool and strengthening the Company's reputation of the most attractive employer.

We do not participate in the projects which may impact decision-making by public authorities and local governments with regard to the Group's operations, or make political donations. We exercise mandatory control over the use of funds allocated for implementation of charitable projects in order to ensure that they are used appropriately. **64 506**

The Group's charity work is regulated by a number of internal documents complying with the requirements of Russian and applicable international legislation:

- ✓ Charter of JSOC Bashneft;

- ✓ Code of Ethics of JSOC Bashneft;
- ✓ Policy on Corporate Social Responsibility of JSOC Bashneft;
- ✓ Anti-Corruption policy of JSOC Bashneft;
- ✓ Procedure for Organizing Charity Work of JSOC Bashneft;
- ✓ Regulations on the Charity Commission of JSOC Bashneft;
- ✓ Agreements with regional and local administrations on Group's participation in social and economic development of the regions.



ECONOMIC IMPACTS ON OPERATING REGIONS G4-EC7

We aim to use a systematic approach to cooperation with regions taking into account long-term priorities of the Group and strategies for regional development. The Group plays a considerable part in the development of its operating regions as it is a major employer and taxpayer and invests heavily in infrastructure development, maintenance and repairs, modernization of its facilities and professional development of its employees.

The Group's main operating region is the Republic of Bashkortostan. JSOC Bashneft is the largest taxpayer in the Republic of Bashkortostan: tax payments of the oil business account for over a half of the budget of Ufa and constitute a considerable part of the Republic's budget. Although the Group is expanding its business into new regions, Bashneft's management intends to continue following a focused policy aimed at maintaining the current level of tax payments to the region.

PARTICIPATION IN THE LIFE OF LOCAL COMMUNITIES

Bashneft addresses the needs of local communities by actively participating in the economic and cultural development of its operating regions and protecting the environment for the benefit of future generations. The Group puts this concept into practice by achieving its strategic objectives with due regard for the interests of local communities and a commitment to meet their reasonable expectations.

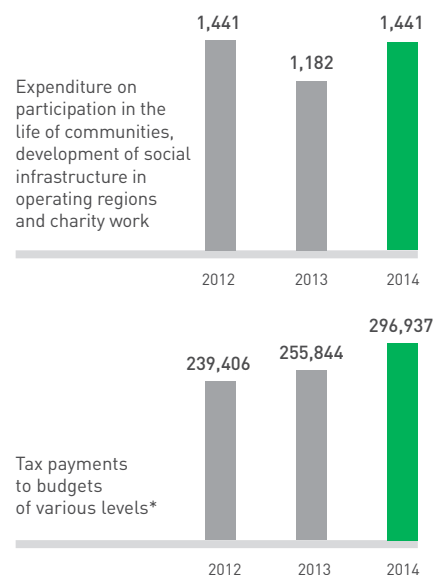
Basic principles, areas and priorities of management of the Group's cooperation with stakeholders whose level and quality of life are influenced by its operations are defined in the Policy on Corporate Social Responsibility of JSOC Bashneft.

As a responsible subsoil user, employer and corporate citizen, the Group closely cooperates with representatives of local communities. We render immediate assistance to them, including financial support. The Group protects and preserves indigenous peoples living in the areas of its operations. In 2014 no violations of the rights of indigenous minorities were reported. Similarly, there were no significant conflicts with local communities or indigenous minorities in the reporting year.

We define an indigenous people as a people whose ethnic identity has developed historically in a given territory. The Group receives the relevant information from regional authorities and local administrations. We practise a specially designed format of mutually beneficial relations with representatives of indigenous minorities in the Nenets Autonomous District (the operating region of LLC Bashneft-Polyus) and the Khanty-Mansi Autonomous District (the operating region of LLC Bashneft-Dobycha). In the Nenets Autonomous District, the Group holds regular public consultations with representatives of indigenous peoples on the development of the R. Trebs and A. Titov fields. All issues related to the Group's operations are regularly discussed at working meetings and conferences with representatives of local administrations. G4-HR8, G4-OG10

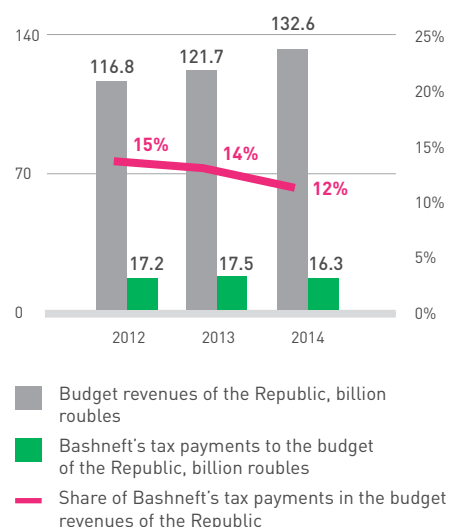
Frequently used forms of partnership between the Group and local communities include leasing land plots in the areas where Bashneft carries out construction and operations. When doing so, Bashneft compensates for losses from the use of natural resources and environmental damage. Contracts for reimbursement (compensation) of losses have been signed with local national communities when allocating

Forms of economic impact, million roubles



* Including all tax payments stipulated by tax legislation, as well as export customs duties and regular charges for subsoil use. The amounts represent taxes paid by all companies forming part of Bashneft Group in the relevant reporting periods.

Budget revenues of the Republic of Bashkortostan and tax payments made by JSOC Bashneft to the budget of the Republic



land for the Group's operations. Overall, in 2014 the Group allocated about 24 million roubles for these purposes in the Nenets Autonomous District. At the same time, we did not perform any operations leading to resettlement of private households. **G4-069**

We regularly and actively participate in national celebrations and cultural events in the Group's operating regions on an annual basis (these include the Plough Day – Sabantuy in the Republic of Bashkortostan and in the Khanty-Mansi Autonomous District, Buran-Dey and the Day of Deer in the Nenets Autonomous District, an annual ballroom dancing competition

'Rhythms of the Arctic' for the Cup of the Governor of the Nenets Autonomous District, etc.). **G4-0612**

The Group sponsors the preservation of traditional crafts, education and social support of population and indigenous Arctic minorities, as well as major repairs of housing and social facilities.

OUR RESPONSIBILITY

Bashneft's operations have a very strong impact on regional economy, accounting for more than 60% of gross regional product.

Agreements with indigenous minorities in the Nizhnevartovsky District of the Khanty-Mansi Autonomous District

We have concluded six agreements on the use of land for mining purposes in the traditional hunting grounds of indigenous Arctic minorities with holders of the right to traditional land use in the Khanty-Mansi Autonomous District. The territory covered by the Group's operations in the Nizhnevartovsk municipality includes six communal family areas. The Group has entered into separate agreements with each family, drafted to reflect their specific needs. These economic agreements cover a total of 23 persons (family members). In 2014 the Group paid 958 thousand roubles to the owners of communal family lands.

TARGET PROGRAMMES AND CHARITY WORK

'MONEY IS ALLOCATED FOR SPECIFIC PROJECTS FROM AN APPROVED LIST. CERTAINLY, THERE ARE TANGIBLE RESULTS: COMPLETED SCHOOLS, HOSPITALS, SPORTS FACILITIES AND SO ON.'

Alexander Korsik,
President of JSOC Bashneft, Chairman of the Management Board

As part of its policy on corporate social responsibility, Bashneft implements a wide range of social programmes in the field of education, supports regional infrastructure and social projects, and provides assistance in the form of private donations.

In the course of its work in these areas, Bashneft cooperates with recipients of charitable support in a number of ways that differ in

terms of the financial and legal form of partnership:

- ✓ Implementation of agreements on social and economic cooperation with administrations of the Group's operating regions;
- ✓ Provision of targeted social assistance by the Group and its subsidiaries and affiliates. The decision on participation in the projects is made

by the Charity Commission of JSOC Bashneft;

- ✓ Programmes in the field of development of education, arts and sports implemented by the Corporate Centre of the Group. This group of programmes is aimed at supporting talented children and young people and improving the Group's social image.

Besides, the Group supports and promotes charity work as part of the 'Kind Hearts' volunteer movement.

GEOGRAPHICAL FOOTPRINT OF THE GROUP'S CHARITY WORK

REPUBLIC OF BASHKORTOSTAN

Bashneft provides charitable funding for construction, renovation and repairs of social facilities in Bashkortostan on an annual basis. The lists of such facilities are compiled by the Company in cooperation with its operational units and local authorities and are approved by the Government of Bashkortostan.

Charitable funding for projects in Bashkortostan is provided under a donation agreement between the Group and the Fund of Targeted Social Programmes of the Republic of Bashkortostan.

In 2014 the Group allocated 1.1 million roubles to support social development in the Republic of Bashkortostan. In the reporting year, we made a major effort to compile a list of facilities that require funding with assistance from senior management of the Group's subsidiaries in our operating areas and heads of local administrations. The resulting List included 86 facilities. In 2014 the scope of charitable funding covered 29 districts and 13 cities in the Republic of Bashkortostan.

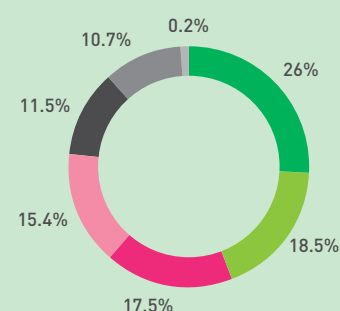
OUR RESPONSIBILITY

Overall, between 2009 and 2014 charitable funding for social facilities in the Republic of Bashkortostan exceeded 7.5 billion roubles. During those years, Bashneft's charitable programmes covered 13 towns and 47 districts representing 83% of Bashkortostan's population.

For details on volunteering, see the section 'Personnel Development and the Group's Social Policy'

Charitable funding for social development of the Republic of Bashkortostan by functional area, million roubles

| Area of funding | 2012 | 2013 | 2014 | Share in 2014 |
|---|--------------|--------------|--------------|---------------|
| Health care | 65 | 25 | 208 | 15.4% |
| Sports | 510 | 611 | 145 | 10.7% |
| Education | 325 | 221 | 237 | 17.5% |
| Infrastructure | 158 | 154 | 352 | 26.0% |
| Religion | 74 | – | – | 0.0% |
| Culture | 49 | 84 | 155 | 11.5% |
| Other | 22 | 5.0 | 3 | 0.2% |
| Assistance in responding to natural disasters | – | – | 250 | 18.5% |
| Total | 1,203 | 1,100 | 1,350 | 100% |



Charitable funding for major projects in the Republic of Bashkortostan in 2014, million roubles

| Project | Expenditure |
|---|-------------|
| Major repairs of the main building of the Central District Hospital in the village of Bakaly | 50 |
| Design and construction of a multifunctional cultural centre in Birsik | 50 |
| Design and construction of the 2nd stage of Tuimazy Arena, a Multifunctional Ice Sports Complex in Tuimazy | 25 |
| Major repairs of a primary school building for the secondary general school in the village of Yazykovo, including preparation of design specifications and cost estimates | 25 |
| Design and construction of an indoor skating rink in Kumertau | 40 |
| Construction of cultural, sports and recreational facilities in Ufa | 36 |
| Construction of a gym extension to the main building of High School No. 39 in Ufa | 21.2 |
| Major repairs of Secondary General School No. 5 in Dyurtyuli | 40 |
| Design and construction of a sports and recreation complex with a swimming pool in the village of Yermekeyevo | 50 |
| Renovation of the heat supply system and major repairs of the heat supply network in the village of Verkhneyarkeyevo | 65 |
| Renovation of water intake facilities and the Sosnovka-Krasnokholmsky water pipeline | 40 |
| Major repairs of a community centre in the village of Isimovo | 37.4 |
| Major repairs of a secondary general school building in Novokhvalynsky | 30.3 |
| Construction of a landfill site for solid household waste in Tuimazy (2nd stage) | 38.5 |
| Completion of a water pipeline between Teperishevo, Albeyevo and Chukrakly | 21.5 |
| Major repairs of a school building (Secondary General School named after Gareev) and the expansion of the school gym in Yanaul | 44.8 |

OUR RESPONSIBILITY

Supply of high-quality water to people is the foundation of public health. We upgrade water treatment facilities, water intake facilities and pump stations, restore springs, build and repair water supply systems.

OUR ACHIEVEMENTS

As part of the programme, from 2011 through 2014 Bashneft provided financial assistance for the restoration of dozens of springs in areas of Bashkortostan facing problems with water supply, as well as for construction of many kilometres of water pipelines, repairs of water supply networks and other projects.

In 2014 the Group provided the full amount of charitable funding in accordance with the above List. Overall, in the reporting year it allocated 1.35 billion roubles, including 1.1 billion roubles in accordance with the List of Social Facilities in the Republic of Bashkortostan, and 250 million roubles in financial aid for the recovery after a natural disaster which struck the north-west of Bashkortostan on August 29, 2014.

Parameters of the charitable programme for 2015 are being discussed. We plan to maintain the level of funding for high-priority programmes (education, health care, and environment) comparable with 2014.

Environmental projects

Oil has been produced in the Republic of Bashkortostan for many years, which creates a high environmental impact. To minimize the negative impact of its operations, the Group pays special attention to implementation of environmental projects in Bashkortostan.

In 2014 JSOC Bashneft continued implementing the programme aimed at providing the districts of the

Republic of Bashkortostan with high-quality drinking water.

The programme involves financing of the following projects:

- ✓ development of design specifications and cost estimates;
- ✓ complete reconstruction and major repairs of the existing water intake facilities;
- ✓ construction of new water intake facilities, pipelines and water supply networks;
- ✓ drilling and construction of water wells;
- ✓ construction of water towers.

In 2014 the Company allocated over 147 million roubles to finance projects forming part of the programme. The largest projects forming part of the water programme financed by Bashneft in 2014 as part of its charity work were implemented in the Krasnokamsky District (major repairs of the Urazayevo pump station and the Sabanchi-Redkino water main), the Kaltasinsky District (renovation of water intake facilities and the Sosnovka-Krasnokholmsky water pipeline), and the Chishminsky District (completion of a water pipeline between Teperishevo, Albeyevo and Chukrakly) of the Republic of Bashkortostan.

Between 2011 and 2014 the Group allocated over 527 million roubles for the financing of the environmental water programme.

The Group plans to continue the implementation of projects to restore and improve the water supply system across the Republic of Bashkortostan.

Apart from the water programme, we allocated nearly 50 million roubles for the construction of a landfill site for solid household waste in Tuimazy. The new landfill will be a timely extension

of the existing site, and it will be built in accordance with advanced standards to reduce environmental risks.

NENETS AUTONOMOUS DISTRICT

In 2012 a Cooperation Agreement was signed between the Administration of the Nenets Autonomous District and LLC Bashneft-Polyus, JSOC Bashneft's subsidiary.

The agreement reflects mutual commitment of the Group and the Administration of the Nenets Autonomous District to maintaining a stable social and economic situation in the District, creating a favourable investment climate and promoting the welfare of all its residents.

The agreement is valid until the end of 2016 and stipulates that the Group should invest in the following areas:

- ✓ Development of social and economic infrastructure of the Nenets Autonomous District;
- ✓ Creation of new jobs in the District;
- ✓ Implementation of charitable projects.

Charitable projects are financed through direct targeted charitable contributions. In the reporting year the volume of the Group's charitable programmes in the Nenets Autonomous District totalled 43 million roubles as compared to 30.3 million roubles in the previous year.

In 2014 the Group provided charitable funding in the Nenets Autonomous District for the following areas:

- ✓ Education (buying equipment for educational institutions of the District);
- ✓ Environment (beautification of the village of Iskateley);
- ✓ Projects in the field of sports, culture, education, social assistance.

'BASHNEFT-POLYUS WILL CONTINUE TO IMPLEMENT TARGETED SOCIAL PROJECTS IN COOPERATION WITH THE GOVERNMENT OF THE NENETS AUTONOMOUS DISTRICT FOR THE BENEFIT OF ALL RESIDENTS OF THE REGION.'

Alexander Korsik,
President of JSOC Bashneft, Chairman of the Management Board

ORENBURG REGION

In March 2013 the Administration of the Orenburg Region signed the Agreement on Participation of JSOC Bashneft in Social and Economic Development of the Orenburg Region; the Agreement is valid until 2016. Its aim is to create favourable conditions for economic and social development of the region. Bashneft plans to increase the scope of its core operations in the region and to continue participating in projects focused on sustainable social development of the Orenburg Region.

The scope of financing and its intended use are specified annually in protocols to the Agreement. In 2014, 20 million roubles were spent to support social development of the region as planned, including 3 million roubles to each of the following districts: Alexandrovsky, Oktyabrsky, Perevolotsky and Orenburgsky, where the Group produces oil. In addition, we allocated 8 million roubles for the financing of regional programmes.

Charitable projects implemented in the Orenburg Region in 2014 include renovation of a secondary school building

in the town of Marksovsky and the Leisure Centre in the village of Dmitrievka in the Alexandrovsky District; renovation of the Skazka nursery school, the Repinskaya and Arkhangelskaya schools in the Orenburgsky District; construction of the Walk of Fame in the Oktyabrsky District and hockey pitches in the Perevolotsky District, and the purchase of equipment for regional health care institutions.

In addition, in 2014 we provided financial assistance amounting to 1 million roubles at the Governor's request to repair the damage from a fire.





Emotional, proactive and enthusiastic: these are the qualities which characterize the participants of the 'Lift to the Future' project. The 2014 programme involved numerous employees of the BashNIPneft Institute, who conducted guided tours, gave lectures, presented business cases to solve and answered questions. The Summer School in Bashkortostan was definitely a great success: its participants tested their skills by participating in challenging projects, visited Bashneft's production facilities and worked alongside the Company's professionals to accomplish their tasks. While in the past the programme had focused on individual creativity, this year we have shifted our focus to team research and exploration and have obtained outstanding results.

OUR RESPONSIBILITY

We provided financial assistance to district administrations of the Yutazinsky and Bavlinsky Districts of the Republic of Tatarstan (8.2 million roubles), the Oktyabrsky DOSAAF Sports Club (0.3 million roubles) and the Association of Geological Organizations (0.3 million roubles), as well as to individuals (a total of more than 1 million roubles).

KHANTY-MANSI AUTONOMOUS DISTRICT

In July 2013 the Administration of the Nizhnevartovsky District of the Khanty-Mansi Autonomous District and JSOC Bashneft signed an Economic Agreement; it provides for social and economic cooperation of the parties. Under a Supplementary Agreement signed in 2014, the Economic Agreement was renewed till July 2015.

Under the agreement, the amount of charitable funding to be provided by the Group will total 2 million roubles, which will be allocated for tackling the following primary tasks:

- ✓ Development of social infrastructure in the Nizhnevartovsky District;
- ✓ Preservation of traditional crafts of indigenous peoples of the Arctic, including fur farming;
- ✓ Construction and major repairs of housing and social facilities;
- ✓ Social support of population.

TARGETED CHARITABLE PROJECTS OF THE GROUP, ITS SUBSIDIARIES AND AFFILIATES

The Company actively implements an independent programme aimed at providing targeted charitable support. As a rule, these are small direct one-time donations to individuals and non-profit organizations. A thorough comprehensive analysis of their applications is carried out; following the analysis, a special collective body of the Group, the Charity Commission, makes a decision on providing charitable support on a case-by-case basis.

Work of the Charity Commission is based on the following principles:

- ✓ Analysis of absolutely all applications of individuals and organizations;

- ✓ Uniform criteria for analysing applications and making decisions;
- ✓ Subsidiaries obtain preliminary approval for charity work from the Charity Commission;
- ✓ Development of effective GR communications as part of implementation of independent charitable projects.

In 2014 the Group's expenditure on this area of charity work totalled 18.5 million roubles.

Although the scale of charitable support is rather small, measures of this kind remain an important channel for providing social support to individual representatives of local communities.

DEVELOPMENT OF EDUCATION, ARTS AND SPORTS AND OTHER SOCIAL PROGRAMMES IMPLEMENTED BY THE GROUP'S CORPORATE CENTRE

We sponsor a number of charitable projects aimed at promoting education, arts and sports targeted at children and young people as part of the external social policy of the Group focused on stimulating the interest of children and young people in self-development. We support young talents and see such projects as an efficient and effective instrument for investing in the future of the younger generation. In addition to the above objectives, these projects enhance the social image of the Group.

Measures forming part of this group of charitable projects are planned, budgeted and implemented by the HR Unit, the Corporate Communications Department and the Government Relations Department. They are financed from the budget of the departments and under agreements on participation of JSOC Bashneft in social and economic development of its operating regions.

In 2014 Bashneft held a number of events and continued to implement programmes aimed at promoting arts, sports and education. We held the annual tournament among children's teams of the Republic of Bashkortostan for JSOC Bashneft's Cup, which has already become a tradition, and the 'I Choose Sports!' Arts Contest for children of the Group's employees, which attracted over 500 participants.

We continued our innovative educational project launched in 2010, 'I Want to Become an Oilman!' The programme includes annual multi-discipline academic competitions for schoolchildren of all ages. This year, our programme was highlighted by the steering committee of the XXI World Oil Congress as a noteworthy CSR project.

We also continued to sponsor JSOC Bashneft's scholarship programme for students of Ufa State Petroleum Technological University (USPTU). In 2014 expenditure on the programme

totalled 2.3 million roubles, and the size of scholarships was increased by 60% as compared to the previous academic year. In the reporting year, the scholarship programme was incorporated into the Group's Programme to Attract Young Professionals.

We never forget World War II veterans who used to work in our production units. Each year, volunteers help to organize the Victory Day celebrations. We hold celebrations to mark the Defender of the Motherland Day and local concerts for veterans. Apart from congratulatory events, we sponsor treatment in corporate health resorts for veterans who need expert medical care.

In 2014 the Group allocated a total of 8.7 million roubles for projects in this area of charity work.



OUR RESPONSIBILITY

The scholarship programme is aimed at developing higher education, stimulating the interest of students in scientific research, enhancing the prestige of professions in the fuel and energy industry and attracting talented young people to Bashneft.



For more details, see 'Personnel – Social Policy – Recruitment of young professionals'

IMPROVEMENT OF THE GROUP'S SYSTEM FOR CHARITABLE FUNDING

The Group continues to improve the system for managing and providing charitable funding in order to allocate funds more efficiently.

In the reporting year, the Company analysed the outcome of its charity projects in 2013 and made a number of improvements to enhance the efficiency of its system of charity work on the basis of the findings. The resulting changes included the following:

- ✓ The Procedure for Organizing Charity Work of JSOC Bashneft was introduced; it defines the key areas and principles of charity work of the Company, the procedure for consideration of requests for charitable support submitted to Bashneft and criteria for making decisions on them, the procedure for implementing decisions on providing charitable support (sponsorship);
- ✓ The Company introduced anti-corruption standards applicable to the process of making decisions to provide charitable support, selecting recipients, areas and formats of charitable support, and receiving reports from the recipients on the intended use of donations;
- ✓ It was decided to focus on charitable projects fully financed by the Company.



APPENDICES

APPENDIX 1. GRI CONTENT INDEX

GENERAL STANDARD DISCLOSURES



| Indicator | Section (or disclosure made in the table) | Page | External assurance |
|--|--|-------------------------|--------------------|
| STRATEGY AND ANALYSIS | | | |
| G4-1 A statement from the most senior decision-maker of the organization | Yes Address by the Chairman of the Board of Directors and the President of JSOC Bashneft | 8-9 | No |
| G4-2 Description of key impacts, risks, and opportunities | Yes Corporate governance – Risk management system and internal control Sustainable Development – Achievements in the sphere of sustainable development About the Group – Business model and geographical footprint About the Group – Position in the industry | 44 20-21 27 31 | No |
| ORGANIZATIONAL PROFILE | | | |
| G4-3 The name of the organization | Yes Contact details | 130 | No |
| G4-4 The primary brands, products, and services | Yes About the Group – Strategy and operating results Main types of liquid petroleum products sold via Bashneft's network of filling stations are listed at http://www.bashneft-azs.ru/production/quality/ Main types of engine lubricants produced by Bashneft are listed at http://www.bashneft-azs.ru/production/oil/ Main types of petrochemical products are listed in the Annual Report of JSOC Bashneft for 2014 | 32-37 | No |
| G4-5 The location of the organization's headquarters | Yes Contact details | 130 | No |
| G4-6 The number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report | Yes About the Group – Business model and geographical footprint | 28-29 | No |
| G4-7 The nature of ownership and legal form | Yes The nature of ownership: shared ownership. Legal form: open joint-stock company | - | No |
| G4-8 The markets served | Yes About the Group – Business model and geographical footprint | 28-29 | No |
| G4-9 The scale of the organization | Yes About the Group – Position in the industry Strategy and operating results | 31 37 | No |
| G4-10 Total number of employees (broken down by various aspects) | Yes Personnel and Social Policy – Our employees | 64 | No |
| G4-11 The percentage of total employees covered by collective bargaining agreements | Yes All of the Group's employees are covered by a collective agreement | - | No |

| Indicator | Section (or disclosure made in the table) | Page | External assurance |
|---|---|-------------------|--------------------|
| G4-12 Supply chain of the organization | Yes About the Group – Business model and geographical footprint | 30 | No |
| G4-13 Significant changes during the reporting period | Yes Sustainable Development – Key events About the Group – Structure of the Group About the Group – Strategy and operating results | 18-19 25 33 | No |
| G4-14 Report whether and how the precautionary approach or principle is addressed by the organization (Principle 15 of the Rio Declaration on Environment and Development of the UN, 1992) | Yes Sustainable Development – Charters and membership of associations | 17 | No |
| G4-15 Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses | Yes Sustainable Development – Charters and membership of associations | 17 | No |
| G4-16 Memberships of associations | Yes Sustainable Development – Charters and membership of associations | 17 | No |
| IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES | | | |
| G4-17 List all entities included in the organization's consolidated financial statements or equivalent documents. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report | Yes About the Report – General provisions | 10 | No |
| G4-18 Process for defining the report content | Yes About the Report – Definition of material aspects and their boundaries | 11 | No |
| G4-19 List of all the material Aspects identified in the process for defining report content | Yes About the Report – Definition of material aspects and their boundaries Appendix 2 'Material aspects of Bashneft's business' | 11 | No |
| G4-20 Aspect Boundary within the organization for each material Aspect | Yes About the Report – Definition of material aspects and their boundaries | 11 | No |
| G4-21 Aspect Boundary outside the organization for each material Aspect | Yes About the Report – Definition of material aspects and their boundaries | 11 | No |
| G4-22 The effect of any restatements of information provided in previous reports, and the reasons for such restatements | Yes About the Report – Differences from the Sustainability Report for 2013 | 11 | No |
| G4-23 Significant changes from previous reporting periods in the Scope and Aspect Boundaries | Yes About the Report – Differences from the Sustainability Report for 2013 | 11 | No |
| STAKEHOLDER ENGAGEMENT | | | |
| G4-24 A list of stakeholder groups engaged by the organization | Yes Stakeholders | 50 | No |
| G4-25 The basis for identification and selection of stakeholders with whom to engage | Yes Stakeholders | 49 | No |
| G4-26 The organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process | Yes Stakeholders | 50 | No |
| G4-27 Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns | Yes Stakeholders – Key areas of stakeholder engagement | 59 | No |
| REPORT PROFILE | | | |
| G4-28 Reporting period for information provided | Yes About the Report – General provisions | 10 | No |
| G4-29 Date of most recent previous sustainability report (if any) | Yes About the Report – General provisions | 10 | No |
| G4-30 Reporting cycle | Yes About the Report – General provisions | 10 | No |

| Indicator | Section (or disclosure made in the table) | Page | External assurance |
|--|--|-------|--------------------|
| G4-31 The contact point for questions regarding the report or its contents | Yes Contact details | 130 | No |
| G4-32 The 'in accordance' option the organization has chosen. The GRI Content Index for the chosen option. The reference to the External Assurance Report, if the report has been externally assured | Yes About the Report – General provisions | 10 | No |
| G4-33 The organization's policy and current practice with regard to seeking external assurance for the report | Yes About the Report – General provisions | 11 | No |
| GOVERNANCE | | | |
| G4-34 The governance structure of the organization, including committees of the highest governance body and committees responsible for decision-making on economic, environmental and social impacts of the organization | Yes Corporate governance – Corporate governance structure | 39 | No |
| G4-35 The process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees | No | | No |
| G4-36 Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body | Yes The Group has not appointed a position of this kind combining the powers and bearing responsibility for all these matters | - | No |
| G4-37 Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics | Yes Stakeholders – Regulatory bodies LLC Bashneft-Polyus, a subsidiary of JSOC Bashneft, holds regular public consultations on the implementation of the project to develop the R. Trebs and A. Titov fields. Participants of the consultations include representatives of the Group's management. In addition, the Group's management regularly cooperates with government representatives at all levels. | 57 | No |
| G4-38 The composition of the highest governance body and its committees | Yes Corporate governance – Structure and powers of the Group's governance bodies Details on the composition of the Board of Directors and the Board committees are provided in the Annual Report of JSOC Bashneft for 2014 | 40 | No |
| G4-39 Report whether the Chair of the highest governance body is also an executive officer | Yes The Chairman of the Board of Directors of JSOC Bashneft is not an executive officer of the Company | - | No |
| G4-40 The nomination and selection processes for the highest governance body and its committees | Yes Corporate governance – Structure and powers of the Group's governance bodies | 39 | No |
| G4-41 Processes for the highest governance body to ensure conflicts of interest are avoided and managed | Yes Corporate governance – Prevention of conflicts of interest | 43 | No |
| G4-42 The highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts | Yes Corporate governance – Structure and powers of the Group's governance bodies | 39-40 | No |
| G4-43 The measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics | No | | No |
| G4-44 The processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics and actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics | Yes Corporate governance – Self-assessment of the Board of Directors and its Committees | 40-41 | No |

| Indicator | Section (or disclosure made in the table) | Page | External assurance |
|---|--|-------|--------------------|
| G4-45 The highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities | Yes Corporate governance – Structure and powers of the Group's governance bodies | 39-40 | No |
| G4-46 The highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics | Yes Corporate governance – Risk management system and internal control | 43-45 | No |
| G4-47 The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities | Yes Corporate governance – Structure and powers of the Group's governance bodies | 40 | No |
| G4-48 The highest committee or position that formally reviews and approves the organization's sustainability report | Yes The Sustainability Report is approved by the Board of Directors of JSOC Bashneft | - | No |
| G4-49 The process for communicating critical concerns to the highest governance body | Yes During weekly meetings, senior executives provide the Group's president with information, including information on all major concerns. In addition, the Group has in place a Hotline enabling anyone wishing to communicate critical concerns to the Group's management to do so via a phone call, by email, by filling in a feedback form on the Group's website or by sending a letter by mail | - | No |
| G4-50 The nature and total number of critical concerns that were communicated to the highest governance body and the mechanisms used to address and resolve them | No | | No |
| G4-51 The remuneration policies for the highest governance body and senior executives and performance criteria | Yes Corporate governance – Remuneration and compensations Annual Report of JSOC Bashneft for 2014 | 41-42 | No |
| G4-52 The process for determining remuneration | Yes Corporate governance – Remuneration and compensations | 41-42 | No |
| G4-53 Report how stakeholders' views are sought and taken into account regarding remuneration | No | | No |
| G4-54 The ratio of the annual total compensation for the organization's highest-paid individual to the median annual total compensation for all employees | No | | No |
| G4-55 The ratio of percentage increase in annual total compensation for the organization's highest-paid individual to the median percentage increase in annual total compensation for all employees | No | | No |
| ETHICS AND INTEGRITY | | | |
| G4-56 The organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics | Yes Sustainable Development – Aims and values in the sphere of sustainable development and the Group's mission | 14 | No |
| G4-57 The internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organizational integrity | Yes The Group has in place a compliance function, whose work is aimed at maintaining high standards in corporate governance and transparency of operations. Bashneft's employees can receive advice on issues of ethical and lawful behaviour and compliance of their actions with Bashneft's Code of Ethics from the Compliance Officer (the Chief Auditor) | - | No |
| G4-58 The internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity | Yes The Group runs a hotline, 'Employees Raise Concerns' | - | No |

SPECIFIC STANDARD DISCLOSURES

| Indicator | Section (or disclosure made in the table) | Page | External assurance |
|---|--|-------|--------------------|
| CATEGORY: ECONOMIC | | | |
| ASPECT: ECONOMIC PERFORMANCE | | | |
| G4-EC1 Direct economic value generated and distributed | Yes About the Group – Strategy and operating results | 37 | No |
| G4-EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change | No | | No |
| G4-EC3 Coverage of the organization's defined benefit plan obligations | Yes The Group's pension scheme forms part of the statutory pension insurance system | - | No |
| G4-EC4 Financial assistance received from government | Yes Stakeholders – Regulatory bodies | 58 | No |
| ASPECT: MARKET PRESENCE | | | |
| G4-EC5 Ratios of standard entry level wage compared to local minimum wage at significant locations of operation | Yes Personnel and Social Policy – Incentives and remuneration | 66 | No |
| G4-EC6 Proportion of senior management hired from the local community at significant locations of operation | No | | No |
| ASPECT: INDIRECT ECONOMIC IMPACTS | | | |
| G4-EC7 Development and impact of infrastructure investments and services supported | Yes Charitable Programmes and Participation in the Development of Operating Regions – Economic impacts on operating regions | 109 | No |
| G4-EC8 Significant indirect economic impacts, including the extent of impacts | No | | No |
| ASPECT: RESERVES | | | |
| G4-OG1 Volume and type of estimated proved reserves and production | Yes About the Group – Strategy and operating results | 33 | No |
| CATEGORY: ENVIRONMENTAL | | | |
| ASPECT: MATERIALS | | | |
| G4-EN1 Materials used by weight or volume | Yes About the Group – Business model and geographical footprint | 30 | No |
| G4-EN2 Percentage of materials used that are recycled input materials | No | | No |
| ASPECT: ENERGY | | | |
| G4-EN3 Energy consumption within the organization | Yes Environmental Protection – Energy efficiency | 91-93 | No |
| G4-EN4 Energy consumption outside of the organization | No | | No |
| G4-EN5 Energy intensity | Yes Environmental Protection – Energy efficiency | 93 | No |
| G4-EN6 Reduction of energy consumption | Yes Environmental Protection – Energy efficiency | 92 | No |
| G4-EN7 Reduction in energy requirements of products and services | Yes Environmental Protection – Energy efficiency | 93 | No |
| G4-OG2 Total amount invested in renewable energy | Yes The Group does not invest in renewable energy | - | No |
| G4-OG3 Total amount of renewable energy generated by source | Yes The Group does not generate renewable energy | - | No |

| Indicator | Section (or disclosure made in the table) | Page | External assurance |
|--|---|-------|--------------------|
| ASPECT: WATER | | | |
| G4-EN8 Total water withdrawal by source | Yes Environmental Protection – Protection of water resources | 84 | No |
| G4-EN9 Water sources significantly affected by withdrawal of water | Yes Environmental Protection – Protection of water resources | 86 | No |
| G4-EN10 Percentage and total volume of water recycled and reused | Yes Environmental Protection – Protection of water resources | 84 | No |
| ASPECT: ECOSYSTEM SERVICES INCLUDING BIODIVERSITY | | | |
| G4-EN11 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas | No | | No |
| G4-EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas | No | | No |
| G4-EN13 Habitats protected or restored | Yes Environmental Protection – Biodiversity | 90 | No |
| G4-EN14 Total number of IUCN Red List Species and national conservation list species with habitats in areas affected by operations, by level of extinction risk | Yes Environmental Protection – Biodiversity | 90 | No |
| G4-OG4 Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored | No | | No |
| ASPECT: EMISSIONS | | | |
| G4-EN15 Direct greenhouse gas emissions (Scope 1) | No | | No |
| G4-EN16 Energy indirect greenhouse gas emissions (Scope 2) | No | | No |
| G4-EN17 Other indirect greenhouse gas emissions (Scope 3) | No | | No |
| G4-EN18 Greenhouse gas emissions intensity | No | | No |
| G4-EN19 Reduction of greenhouse gas emissions | No | | No |
| G4-EN20 Emissions of ozone-depleting substances (ODS) | Yes Environmental Protection – Protection of the atmosphere Bashneft does not emit any ozone-depleting substances | 81 | No |
| G4-EN21 NOX, SOX, and other significant air emissions | No | | No |
| ASPECT: EFFLUENTS AND WASTE | | | |
| G4-EN22 Total water discharge by quality and destination | Yes Environmental Protection – Protection of water resources | 84-86 | No |
| G4-EN23 Total weight of waste by type and disposal method | Yes Environmental Protection – Land conservation | 87 | No |
| G4-EN24 Total number and volume of significant spills | No | | No |
| G4-EN25 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally | Yes Environmental Protection – Land conservation Bashneft does not transport, import or export waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII | 89 | No |
| G4-EN26 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff | No | | No |
| G4-OG5 Volume and disposal of formation or produced water | Yes Environmental Protection – Protection of water resources | 84 | No |
| G4-OG6 Volume of flared and vented hydrocarbon | No | | No |

| Indicator | Section (or disclosure made in the table) | Page | External assurance |
|---|--|--------|--------------------|
| G4-OG7 Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal | Yes Environmental Protection – Land conservation | 87 | No |
| ASPECT: PRODUCTS AND SERVICES | | | |
| G4-EN27 Extent of impact mitigation of environmental impacts of products and services | Yes Environmental Protection – Protection of the atmosphere | 82-83 | No |
| G4-EN28 Percentage of products sold and their packaging materials that are reclaimed by category | Yes Most products manufactured by the Group (crude oil, petroleum products) are sold without packaging by means of transportation via pipelines, by rail and other types of transport | - | No |
| G4-OG8 Benzene, lead and sulphur content in fuels | Yes Environmental Protection – Protection of the atmosphere | 82-83 | No |
| ASPECT: COMPLIANCE | | | |
| G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | Yes There were no significant fines or non-monetary sanctions for non-compliance with environmental laws and regulations during the reporting year | - | No |
| ASPECT: OVERALL | | | |
| G4-EN31 Total environmental protection expenditures and investments by type | Yes Environmental Protection | 80 | No |
| ASPECT: ENVIRONMENTAL GRIEVANCE MECHANISMS | | | |
| G4-EN34 Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms | Yes Environmental Protection | 80 | No |
| CATEGORY: SOCIAL | | | |
| SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK | | | |
| ASPECT: EMPLOYMENT | | | |
| G4-LA1 Total number and rates of new employee hires and employee turnover by age group, gender and region | Yes Personnel and Social Policy – Our employees | 64-65 | No |
| G4-LA2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation | Yes Personnel and Social Policy – Incentives and remuneration | 66 | No |
| G4-LA3 Return to work and retention rates after parental leave, by gender | No | | No |
| ASPECT: OCCUPATIONAL HEALTH AND SAFETY | | | |
| G4-LA5 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes | No | | No |
| G4-LA6 Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender | Yes Occupational Health and Safety – Occupational safety | 98-99 | No |
| G4-LA7 Workers with high incidence or high risk of diseases related to their occupation | Yes Occupational Health and Safety – Occupational safety | 99-100 | No |
| G4-LA8 Health and safety topics covered in formal agreements with trade unions | Yes Trade unions and employee councils took part in the drafting of the Collective Agreement. Health and safety topics were covered in the Collective Agreement | - | No |
| ASPECT: TRAINING AND EDUCATION | | | |
| G4-LA9 Average hours of training per year per employee by gender and by employee category | Yes Personnel and Social Policy – The Group's social policy | 70 | No |

| Indicator | Section (or disclosure made in the table) | Page | External assurance |
|--|--|------|--------------------|
| G4-LA10 Programmes for skills management and life-long learning that support the continued employability of employees and assist them in managing career endings | Yes Personnel and Social Policy – The Group's social policy | 70 | No |
| G4-LA11 Percentage of employees receiving regular performance and career development reviews, by gender and by employee category | No | | No |
| SUB-CATEGORY: HUMAN RIGHTS | | | |
| ASPECT: INDIGENOUS RIGHTS | | | |
| G4-HR8 Total number of incidents of violations involving rights of indigenous peoples, and actions taken | Yes Charitable Programmes and Participation in the Development of Operating Regions – Economic impacts on operating regions | 109 | No |
| G4-OG9 Operations where Indigenous communities are present or affected by activities and where specific engagement strategies are in place | Yes Charitable Programmes and Participation in the Development of Operating Regions – Economic impacts on operating regions Bashneft defines an indigenous people as a people whose ethnic identity has developed historically in a given territory. The Group receives the relevant information from regional authorities and local administrations | 110 | No |
| SUB-CATEGORY: SOCIETY | | | |
| ASPECT: LOCAL COMMUNITIES | | | |
| G4-S01 Percentage of operations with implemented local community engagement, impact assessments, and development programmes | No | | No |
| G4-S02 Operations with significant actual and potential negative impacts on local communities | No | | No |
| G4-OG10 Number and description of significant disputes with local communities and indigenous peoples | Yes No disputes with local communities or indigenous peoples were identified during the reporting period | 109 | No |
| G4-OG11 Number of sites that have been decommissioned and sites that are in the process of being decommissioned | No | | |
| ASPECT: ANTI-CORRUPTION | | | |
| G4-S03 Total number and percentage of operations assessed for risks related to corruption and the significant risks identified | No | | |
| G4-S04 Communication and training on anti-corruption policies and procedures | Yes 100% of employees underwent training in anti-corruption policies and procedures. About the Group – Corporate governance | - | No |
| G4-S05 Confirmed incidents of corruption and actions taken | Yes No incidents of corruption were identified during the reporting period | - | No |
| G4-S07 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes | Yes During the reporting period, there were five legal actions for anti-competitive behaviour, anti-trust, and monopoly practices. Out of them: – the hearing of two cases was postponed until 2015 – two cases were dropped as there were no violations of anti-trust legislation – in one case the complaint against the actions of JSOC Bashneft was declared to be substantiated | - | No |
| ASPECT: EMERGENCY PREPAREDNESS | | | |
| | Yes Occupational Health and Safety – Protecting employees in emergency situations | 103 | No |

| Indicator | Section (or disclosure made in the table) | Page | External assurance |
|--|--|------|--------------------|
| ASPECT: INVOLUNTARY RESETTLEMENT | | | |
| G4-OG12 Operations where involuntary resettlement took place, the number of households resettled in each case, and how their livelihoods were affected in the process | Yes Charitable Programmes and Participation in the Development of Operating Regions – Economic impacts on operating regions | 110 | No |
| ASPECT: COMPLIANCE | | | |
| G4-S08 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | Yes In 2014 significant fines imposed for non-compliance with laws and regulations totalled 13.7 million roubles In 2014 no instances of imposition of non-monetary sanctions for non-compliance with laws and regulations were identified | - | No |
| ASPECT: ASSET INTEGRITY AND PROCESS SAFETY | | | |
| G4-OG13 Number of process safety events, by business activity | Yes Environmental Protection – Land conservation | 89 | No |
| SUB-CATEGORY: PRODUCT RESPONSIBILITY | | | |
| ASPECT: CUSTOMER HEALTH AND SAFETY | | | |
| G4-PR1 Percentage of significant product and service categories for which health and safety impacts are assessed for improvement | No | | No |
| G4-PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes | Yes No incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services were recorded in the reporting period | - | No |

APPENDIX 2. MATERIAL ASPECTS OF BASHNEFT'S BUSINESS

CATEGORY: ECONOMIC

The Economic Category illustrates the flow of capital among different stakeholders, and the main economic impacts of the organization throughout society.

| Aspects | Materiality for stakeholders | | | | | | Assessed impact of the aspect on the Group's sustainable development |
|---------------------------|------------------------------|-------------------|-----------|---------------------------|-------------------|-----------|--|
| | Shareholders and investors | Regulatory bodies | Consumers | Suppliers and contractors | Local communities | Employees | |
| Economic Performance | ++ | ++ | – | + | + | ++ | High |
| Market Presence | ++ | + | ++ | + | + | – | High |
| Indirect Economic Impacts | ++ | ++ | + | + | ++ | + | Low |
| Reserves | ++ | + | + | ++ | + | – | Medium |

CATEGORY: ENVIRONMENTAL

The Environmental Category covers impacts related to inputs (such as energy and water) and outputs (such as emissions, effluents and waste). In addition, it covers biodiversity, and product and service-related impacts, as well as environmental compliance and expenditures.

| Aspects | Materiality for stakeholders | | | | | | Assessed impact of the aspect on the Group's sustainable development |
|---|------------------------------|-------------------|-----------|---------------------------|-------------------|-----------|--|
| | Shareholders and investors | Regulatory bodies | Consumers | Suppliers and contractors | Local communities | Employees | |
| Materials | – | + | – | ++ | + | – | High |
| Energy | – | + | + | ++ | + | – | Medium |
| Water | – | + | – | ++ | ++ | – | High |
| Ecosystem Services including Biodiversity | – | ++ | + | – | ++ | + | Low |
| Emissions | + | ++ | ++ | + | ++ | + | High |
| Effluents and Waste | + | ++ | ++ | + | ++ | + | High |
| Products and Services | + | + | ++ | + | + | + | High |
| Compliance | + | ++ | ++ | + | + | – | High |
| Overall | + | + | + | + | + | + | Medium |
| Environmental Grievance Mechanisms | – | ++ | ++ | + | ++ | + | Medium |

CATEGORY: SOCIAL

The social dimension of sustainability concerns the impacts the organization has on the social systems within which it operates. The Social Category includes the following sub-Categories:

- ✓ Labour Practices and Decent Work;
- ✓ Human Rights;
- ✓ Society;
- ✓ Product Responsibility.

SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK

| Aspects | Materiality for stakeholders | | | | | | Assessed impact of the aspect on the Group's sustainable development |
|--------------------------------|------------------------------|-------------------|-----------|---------------------------|-------------------|-----------|--|
| | Shareholders and investors | Regulatory bodies | Consumers | Suppliers and contractors | Local communities | Employees | |
| Employment | – | ++ | – | – | ++ | ++ | Medium |
| Occupational Health and Safety | + | ++ | – | + | + | ++ | High |
| Training and Education | + | + | – | + | + | ++ | Medium |

SUB-CATEGORY: HUMAN RIGHTS

| Aspects | Materiality for stakeholders | | | | | | Assessed impact of the aspect on the Group's sustainable development |
|-------------------|------------------------------|-------------------|-----------|---------------------------|-------------------|-----------|--|
| | Shareholders and investors | Regulatory bodies | Consumers | Suppliers and contractors | Local communities | Employees | |
| Indigenous Rights | + | ++ | – | – | ++ | – | Medium |

SUB-CATEGORY: SOCIETY

| Aspects | Materiality for stakeholders | | | | | | Assessed impact of the aspect on the Group's sustainable development |
|------------------------------------|------------------------------|-------------------|-----------|---------------------------|-------------------|-----------|--|
| | Shareholders and investors | Regulatory bodies | Consumers | Suppliers and contractors | Local communities | Employees | |
| Local Communities | + | ++ | – | – | ++ | + | High |
| Anti-corruption | ++ | ++ | ++ | ++ | + | + | High |
| Emergency Preparedness | + | ++ | + | + | ++ | ++ | High |
| Asset Integrity and Process Safety | ++ | ++ | + | + | ++ | ++ | High |

SUB-CATEGORY: PRODUCT RESPONSIBILITY

| Aspects | Materiality for stakeholders | | | | | | Assessed impact of the aspect on the Group's sustainable development |
|----------------------------|------------------------------|-------------------|-----------|---------------------------|-------------------|-----------|--|
| | Shareholders and investors | Regulatory bodies | Consumers | Suppliers and contractors | Local communities | Employees | |
| Customer Health and Safety | + | ++ | ++ | – | + | – | High |

APPENDIX 3. CERTIFICATE OF PUBLIC ENDORSEMENT



Russian Union of Industrialists and Entrepreneurs

CERTIFICATE

of Public Endorsement
of a Corporate Non-Financial Report

Sustainability Report of JSOC Bashneft

has received public endorsement
by the RSPP Council on Non-Financial Reporting

A detailed opinion of the RSPP Council regarding public endorsement of the Sustainability Report of JSOC Bashneft for 2014 has been sent to the Company, which may publish it without amendment and use it both for corporate purposes and for the purposes of stakeholder engagement.

Registration number 068.01.013.01.14

RSPP President



A. Shokhin

Moscow, 2015

APPENDIX 4. GLOSSARY

| | |
|---------------|--|
| BTF | Biological treatment facilities |
| CSR | Corporate social responsibility |
| DSC | Drilling Support Centre |
| EBITDA | Earnings before Interest, Taxes, Depreciation and Amortization (earnings before interest and income tax adjusted for non-operating income and expenses, depreciation and amortization) |
| FAS | Federal Antimonopoly Service of the Russian Federation |
| GPP | Gas processing plant |
| GR | Government Relations |
| HR | Human Resources |
| HSE | Health, Safety and Environment |
| IFRS | International Financial Reporting Standards |
| IT | Information technologies |
| KPI | Key performance indicator |
| Nelson Index | A measure of the complexity of technological processes at an oil refinery |
| OGPD | Oil and gas production department |
| Oil sludge | Complex physical and chemical mixtures that consist of petroleum products, mechanical admixtures (such as clay, metal oxides and sand) and water |
| PRMS | Petroleum Resources Management System |
| R&D | Research and development |
| RAS | Russian Accounting Standards |
| Rosstandart | Federal Agency for Technical Regulation and Metrology of the Russian Federation |
| Rostekhnadzor | Federal Service for Environmental, Technological and Nuclear Supervision of the Russian Federation |
| TGP | Target Gas Programme |
| USPTU | Ufa State Petroleum Technological University |
| VAT | Value added tax |
| VIC | Vertically integrated oil company |

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Joint-Stock Oil Company Bashneft

SHORT NAME

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MONTH AND YEAR OF PUBLICATION OF THE REPORT

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