



SUSTAINABLE DEVELOPMENT OAO BASHNEFT JSOC 2009

TRADITIONS & PRESENT TIMES ■ STRATEGY & INNOVATIONS ■ PEOPLE & COMMUNITY ■ ENVIRONMENT & SAFETY



# SUSTAINABILITY REPORT

OAO BASHNEFT JSOC  
SUSTAINABILITY REPORT

2009



TRADITIONS  
STRATEGY  
INNOVATIONS  
PEOPLE  
SAFETY

2009

## Address by Chairman of the OAO Bashneft JSOC Board of Directors



Alexandr Goncharuk

**Chairman,  
Board of Directors,  
OAO Bashneft JSOC**

Without exaggeration, the year 2009 marks a new stage in the OAO Bashneft JSOC development. Its key stockholders made a strategic decision to merge OAO Bashneft JSOC's assets and establish a vertically-integrated oil company.

This decision has defined a new direction for Bashkortostan Energy Group and launched large-scale changes. We were actively working on improving management structure and business processes, integrating modern management and monitoring technologies into existing workflow. The OAO Bashneft JSOC team was expanded to include professional managers with solid business reputation both in terms of production and in terms of corporate and financial management. That enabled us to identify new opportunities for improving efficiency and discover potential points of growth, which will determine key directions for our development in the following few years.

The Company's production potential is tremendous. Our recoverable reserves will suffice for over 20 years. Our refineries are among the most advanced in Russia in terms of processing depth and the line of end-use products. The OAO Bashneft JSOC team is highly motivated to achieve the most ambitious goals.

Stable financial situation, strict fiscal control, and support from the Sistema JSFC leave no doubt that we are capable of those achievements, and that all our adopted plans will be implemented in full. We are seeking to create a modern company, attractive for investors, and that values its shareholders' interests and rights above all. Along with that, we always correlate our business development interests with our impact on the economy, society, and environment.

The OAO Bashneft JSOC is the largest taxpayer in the Republic of Bashkortostan. Regional economy directly depends on Bashkortostan energy sector: oil industry taxes amount to 60 percent of Ufa city budget and to 40 percent of the Republic budget.

The Company is actively engaged in community development in the Republic where it operates, sponsoring construction of infrastructure facilities, hospitals, and schools, and supporting athletic teams. In 2009, the OAO Bashneft JSOC has invested over 1.2 billion rubles in social infrastructure in the Republic of Bashkortostan. We will continue social investment on the same scale, also taking care of making our aid targeted and efficient.

The Company is strictly complying with Russia's laws and regulations for health, safety, and environmental management. We are consistently working on improving labor conditions for our employees, on enhancing process safety and environmental security, and on implementing advanced environment-friendly technologies to minimize environmental impact.

We are fully aware of our social responsibility. Maintaining a balance of interests for all stakeholders; providing for social peace; enhancing production efficiency – these three components, we believe, are key to our Company's sustainable growth.



**Victor Khoroshavtsev**  
**President,**  
**OAO Bashneft JSOC**

## Address by President of the OAO Bashneft JSOC

I am pleased to present to the readers the first Sustainability Report of the OAO Bashneft JSOC. For over half a century now Bashkortostan is one of the key oil-producing regions in Russia. Oil sector is driving the regional economy. It is hard to overestimate its importance both for the sustainable development of the entire Republic, and for local tax revenues and jobs.

Early in 2009 the Bashkortostan Energy Group was acquired by the Sistema Joint Stock Financial Corporation; the latter has begun setting-up a vertically-integrated oil company, the OAO Bashneft JSOC, which encompasses the entire supply chain, from oil recovery to marketing and sales of petroleum products.

Despite the challenging reorganization and the economic recession, the Company succeeded in achieving robust growth of all its performance indicators and in satisfying industrial and retail demand for energy supply.

Oil output has increased for the first time in a long period. Moreover, the Bashneft leads the industry in terms of production rate growth in 2009. Average daily production grew 8.9 percent in comparison to 2008, due to increased drilling efficiency and well management programs. In 2009 the Company produced 12.2 million tons of oil, which is 4.7 percent more than in 2008. In 2010 the company remains a leader among vertically-integrated oil companies in terms of production growth rate.

After integration, oil refineries' efficiency and safety have improved considerably. Over 20.7 million tons of oil was processed in 2009 – 1.8 percent more than in 2008. The volume of processed oil grew again, up 6.8 percent in the first six months of 2010.

Refineries in Ufa are among the most advanced nationally in terms of their equipment capability. Their processing depth was 83.4 percent in 2009, and NCI was 7.26. However, every new day offers new challenges. Over 6.5 billion rubles were invested in development of Ufa refineries in 2009 alone. The key objective of this investment was to upgrade existing plants and build new ones to enable production of all motor fuels in compliance with new Euro 4 and Euro 5 emission standards.

During the reporting year we have terminated tolling arrangements in oil processing, created our own marketing service, and dramatically increased sales. In 2010 we aim at expanding our own sales network and further increase sales of petroleum products to end users.

One more step is made in 2009 towards increasing business transparency, initiating a procurement system by tender. This market tool stimulates healthy competition and generates substantial savings for the Company.

In saving resources, we focus on improved energy efficiency. As the result, in the upstream sector alone we have reduced power consumption for a total of 42.5 million rubles.

Striving for improved business performance, we also realize the impact our Company has on the economy, community, and environment in the Republic where it mainly operates. While acquiring Bashkortostan energy-producing assets in 2009, the Sistema JSFC has signed a five-year co-operation agreement with the local government, re-affirming the continuity

of previous social policies. The entire social infrastructure and all previous social programs will be supported by the Sistema JSFC on the same or expanded scale. A local subsidiary of the Sistema JSFC Philanthropy Foundation is opened in Bashkortostan for this purpose. Approximately 1.2 billion rubles were invested in social infrastructure development there in 2009; 15 educational and healthcare facilities were constructed or renovated.

Importantly, there were no large-scale personnel cuts following the change of ownership. Strict HSE regulatory compliance regarding all Bashneft employees is an integral part of our Company's social performance and a paramount component of its success.

Our plans include achievement of best international standards in the area of environmental safety. The OAO Bashneft JSOC should become a corporation with completely safe working conditions and minimal environmental impact. We should join the HSE leaders among Russian oil and gas corporations.

Our shareholders set for us an ambitious goal of building a fast-growing company with high market value, seeking to take place among the leaders of Russia's oil industry. At the same time, the new company will build on such core principles as transparency, corporate social responsibility, and modernization.

In 2009 we have laid ground for achieving these ambitious future goals. I am convinced that implementation of our Company strategy for up to 2013 will allow us to fully realize the OAO Bashneft JSOC's potential.

TABLE OF CONTENTS

9

Traditions and Present Times

- Our History
- Our Business
  - Upstream
  - Downstream
  - Sales
- Key Financial and Economic Performance Indicators in 2009
- Operational Structure
  - Upstream
  - Downstream
  - Sales
- Corporate Governance
- Awards for CSR and Sustainability Performance

23

Strategy and Innovations

- Development Strategy
  - Improving Corporate Governance
  - Upstream
  - Downstream
  - Sales
  - Reform of Oilfield Services
  - HSE Priorities
- Modernization
  - Innovation Management
  - Innovations in the Upstream Sector
  - Innovations in the Downstream Sector
  - IT Infrastructure Development
- Energy Efficiency
  - Energy Efficiency: Upstream
  - Energy Efficiency: Downstream
  - Energy Efficiency: Sales
- Sustainability Policy
  - Corporate Social Responsibility
  - Philanthropy
  - Employees
  - Occupational Safety and Environment
- Key Stakeholders and Stakeholder Engagement
  - Employees
  - Shareholders
  - Consumers
  - Supplier Engagement
  - Public Authorities
  - NGO Engagement

45

People and Community

- Labor and Social Policy
  - Recruiting
  - Motivation and Compensation
  - Trade Unions
- Employee Training and Development
- Employee Health and Recreation
  - Improving Health of Employees and Their Families
  - Sports
  - Corporate Events
- Co-operation with Locations of Operation
- Sponsorship Projects

59

Environment and Safety

- Environmental Policy and Environmental Impact Management
- Occupational Health and Safety
  - Industrial Safety
  - Occupational Health and Safety
- Environmental Performance
  - Environmental Impacts
  - Reducing Emissions
  - Water Management
  - Recycling and Oil Spills
  - Environmental Management and New Technologies
- Goals for the Next Reporting Period

TABLE OF CONTENTS

74

Report Profile

76

Standard Disclosures





## Traditions and Present Times



OUR HISTORY

OUR BUSINESS

FINANCIAL AND ECONOMIC PERFORMANCE IN 2009

CORPORATE GOVERNANCE

AWARDS FOR CSR AND SUSTAINABILITY PERFORMANCE





## OUR HISTORY

- 1932** First oil acquired from the Well # 702 near Ishimbayevo village. Initial daily well flowrate was approximately 11.5 tons. This marked the beginning of industrial oil production in the Republic of Bashkortostan.
- 1938** Ufa Refinery begins operation.
- 1939** Bashkortostan accounts for 90 percent of oil production in the Volga-Urals Region.
- 1944** Oil is acquired from the Tuymazy Devonian reservoirs. This event opens new prospects of oil production in the Volga-Urals Region.
- 1946** Bashneft production association is created.
- 1951** Novo-Ufa Refinery is launched (presently – OAO Novoil).
- 1954** Bashneft recovers over 13 million tons of oil, which makes it number one oil producer in the USSR.
- 1955** Arlan oil field is discovered, the largest in Bashkortostan.
- 1956** Ufa synthetic-alcohol plant is completed (currently – Ufaorgsintez).
- 1957** The third enterprise of Ufa Refineries' group is launched: Ufaneftekhim fuel and petrochemicals plant.
- 1967** Bashneft production peaks at 48 million tons.
- 1980** One billion tons of oil are recovered since the beginning of Bashkortostan oil fields development.
- 1985-87** Bashneft engineers manage to triple oil recovery in the Kogalym oil producing area of Tyumen Region.
- 1993-95** OAOs (open joint-stock companies) Bashneft Joint Stock Oil Company, Ufa Refinery, Novoil, Ufaneftekhim, Ufaorgsintez, and Bashkirnefteprodukt are created.
- 2005** OAOs (open joint-stock companies) Bashneft Joint Stock Oil Company, Ufa Refinery, Novoil, Ufaneftekhim, Ufaorgsintez, and Bashkirnefteprodukt are created.
- 2009** In March 2009, the Sistema JSFC acquires majority stakes in six Bashkortostan energy companies. The Republic of Bashkortostan signs a co-operation agreement with the Sistema JSFC which takes upon itself significant commitments to provide social support in the region.

## WHAT IS BASHNEFT?

ONE OF THE OLDEST OIL COMPANIES IN RUSSIA; OPERATES SINCE 1932

OUTPUT EXCEEDS 14 MILLION TONS OF OIL PER ANNUM

EXPLORATION AND DEVELOPMENT OF OVER 170 OIL RESERVOIRS IN RUSSIA

PRODUCTION RESERVES FOR OVER 20 MORE YEARS

OVER 50 INNOVATIVE TECHNOLOGIES TESTED AND IMPLEMENTED IN THE COMPANY'S OIL FIELDS

A GROUP OF FOUR MOST MODERN AND ROBUST OIL REFINERIES IN RUSSIA

PROCESSING OVER 20 MILLION TONS OF OIL PER ANNUM

DOMESTIC SALES OF UP TO 900,000 TONS OF PETROLEUM PRODUCTS MONTHLY

EXPORT OF UP TO 600,000 TONS OF PETROLEUM PRODUCTS MONTHLY

RETAIL CHAIN OF OVER 300 GAS STATIONS

ABOUT 1.2 BILLION RUBLES INVESTED IN SOCIAL PROGRAMS IN 2009

Production Growth Rate, 2009/2008\*, %

\*Source: producers' annual reports

## OUR BUSINESS

OA O Bashneft JSOC is the parent company of the Bashkortostan Energy Group; one of top ten oil majors in Russia and one of the top five largest oil processing companies in Russia. The company business includes upstream, downstream, and retail sectors.

As of September 1st, 2009, the Expert Rating Agency placed the OA O Bashneft JSOC at # 36 on its Expert-400 annual list of leading Russian corporations in terms of market value (capitalization) as compared to # 56 in 2008; while the Den'gi magazine rates it as # 40 among the top 100 largest Russian companies as compared to 57th in 2008.

The company employs about 22,000 people (not counting oilfield services).

## Upstream

Oil extraction is mainly located on the Republic of Bashkortostan territory, and also in Khanty-Mansi Autonomous Region, in the Republic of Tatarstan, and in Orenburg Region. The company and its subsidiaries (OOO Zirgan, OOO Bashmineral, and ZAO Geoneft) hold 177 oil and gas production licenses, of which 162 are for producing fields. The upstream includes six field offices of the OOO Bashneft-Dobycha operating company.

The recoverable reserves assessed according to domestic methodology and confirmed by the RF Ministry of Nature's State Commission for Reserves as of December 31st, 2009, constitute 379.9 million tons in the ABC1+C2 categories. Miller & Lents, Ltd. independent international audit estimates the OA O Bashneft JSOC proven reserves as almost 1.3 billion barrels.

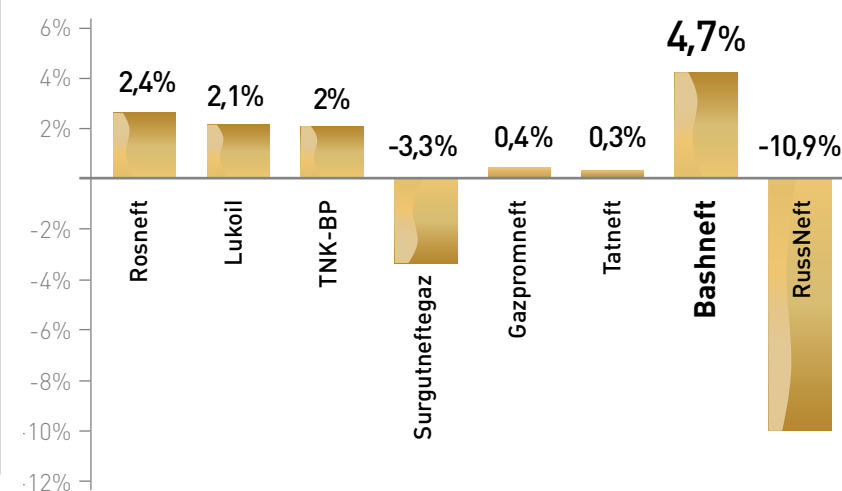
**Bashneft reserves by Miller & Lents, Ltd. estimate as of December 31, 2009, in mln brls.**

### Reserves by category (34 main fields)

Proven reserves (1P)	1269
Total (proven and probable) reserves (3P)	2132

Total Bashneft production, counting all its subsidiaries, during the reporting period amounts to 12,234 million tons, which is up 550,000 tons or 4.7 percent as compared to previous year. Daily oil production raised 8.9 percent during 2009.

**BY THE END OF 2009, BASHNEFT BECAME THE LEADER AMONG RUSSIAN OIL MAJORS IN TERMS OF PRODUCTION GROWTH RATE.**



**PROCESSING DEPTH WAS 83.4% IN 2009 COMPARED WITH RUSSIA'S NATIONAL AVERAGE OF 79.4%.**

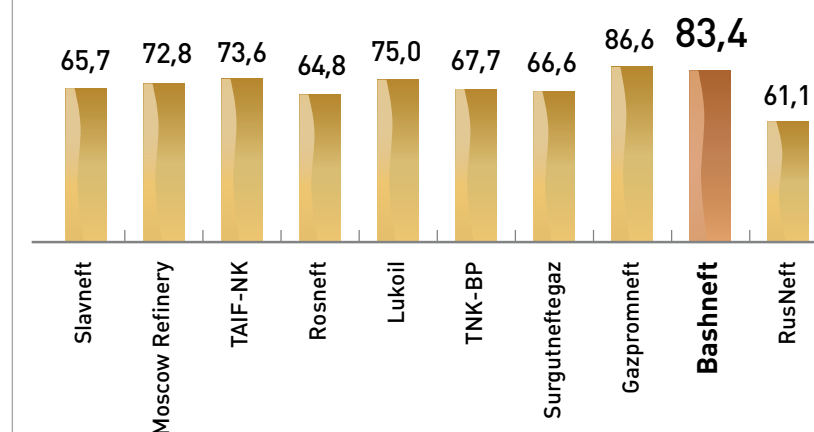
Processing Depth of Russian Refineries in 2009\* %

\*Source: TsDU TEK

## Downstream

The OA O Bashneft JSOC owns three refineries: OA O Ufaneftekhim, OA O Ufa Refinery, and OA O Novoil, as well as the OA O Ufaorgsintez petrochemical plant. Downstream production includes a wide range of petroleum products and petrochemicals, including motor gasoline, diesel fuels, fuel oil, engine oil, gear oil, machine lubricants, polypropylene, polyethylene, benzene, phenol, acetone, rubber, liquefied gases, etc.

The Company's facilities are among the most technologically advanced in Russia. High degree of plants' integration provides for the best key performance indicators in the oil processing sector in Russia.



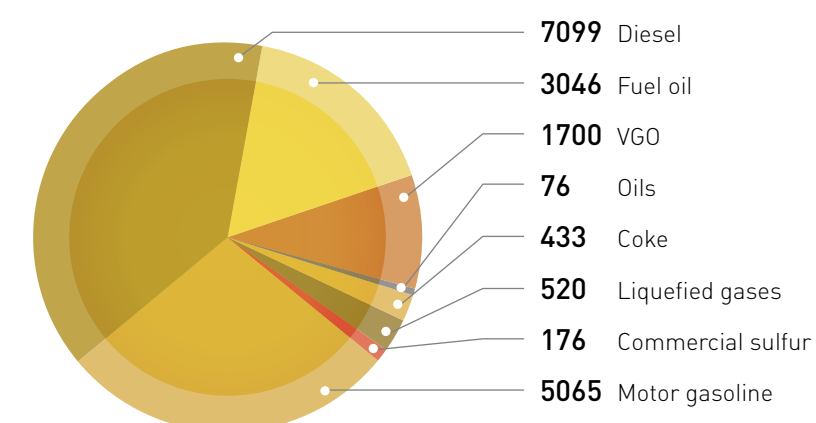
Due to higher equipment capability of the OA O Bashneft JSOC refineries, the light products amounted in 2009 to 60.41% of total output, which is one of the best performances in Russia. Processing depth has reached 83.4% during the reporting period, and the average Nelson complexity index, reflecting the refineries' quality, was 7.26.

In 2009 the OA O Bashneft JSOC refineries have performed about 9% of all primary oil processing in Russia and produced approximately 14% of the national output of motor gasoline.

**THE 2009 REFINING OUTPUT WAS 20,746 MILLION TONS (VS. 20,362 MLN TONS IN 2008), WITH 60.41% OF OUTPUT BEING LIGHT PETROLEUM PRODUCTS (VS. 60.58% IN 2008).**

Due to its diversified and balanced production structure, the OA O Bashneft JSOC is No. 4 in Russia in terms of petrochemical production output. The Company also owns several trademarks and service brands. The full list of manufactured petroleum products, petrochemicals, and LNGs is published on the corporate website at: [www.bashneft.ru](http://www.bashneft.ru).

Basket of Petroleum Products in 2009, thousands of tons



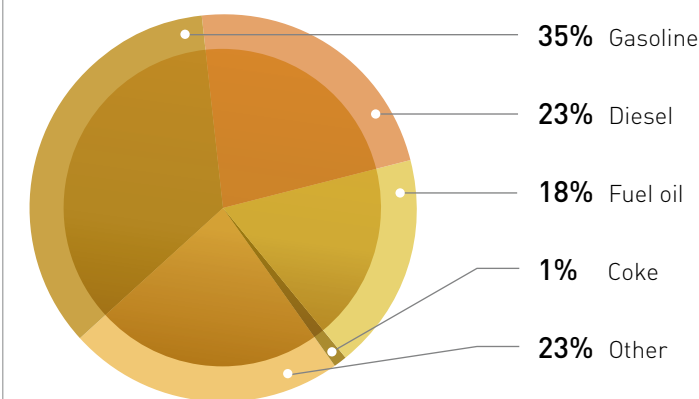


## Sales

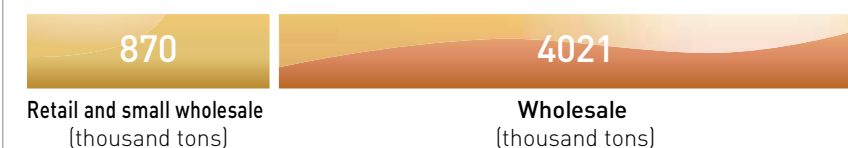
One key result of the Company activity in 2009 was abandoning the toll processing of petroleum by Ufa Refineries. In 2008 Bashneft was selling all its extracted raw materials, except those exported, to domestic manufacturers; however, less than 50% of output was sold via intermediaries in 2009 (5.8 million tons); 1.9 million tons were exported; and 4.2 million tons were processed at the Ufa Refineries without tolling arrangements, for further direct sales of manufactured petroleum products.

Starting with December 1st, 2009, Bashneft does not make tolling arrangements anymore and owns the entire chain of commercial operations, including supply of refineries with raw materials and sales of petroleum products. The Commercial Service created at the Company wholesales all the Ufa Refineries output domestically and for export; while small-scale wholesale and retail sales are performed via a chain of tank farms and OAO Bashkirnefteprodukt filling stations.

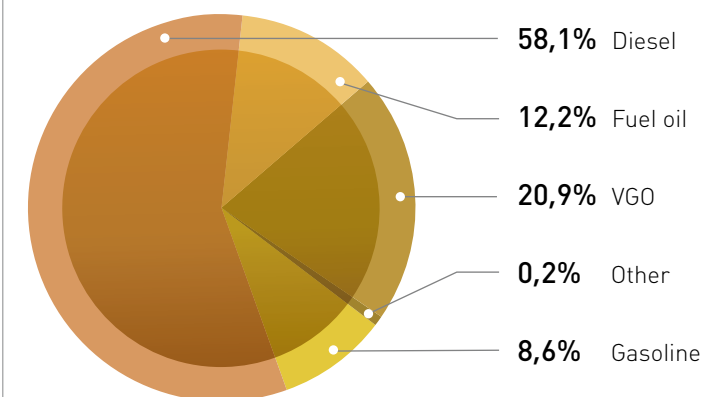
Petroleum products manufactured by OAO Bashneft JSOC refineries are sold in Russia and exported to Eastern and Western Europe, Kazakhstan, and Ukraine.



Domestic sales of Petroleum products in 2009, thousand tons



Bashneft has exported 2.6 million tons of petroleum products, while domestic sales in 2009 exceeded 4 million tons.



Export sales in 2009, thousand tons



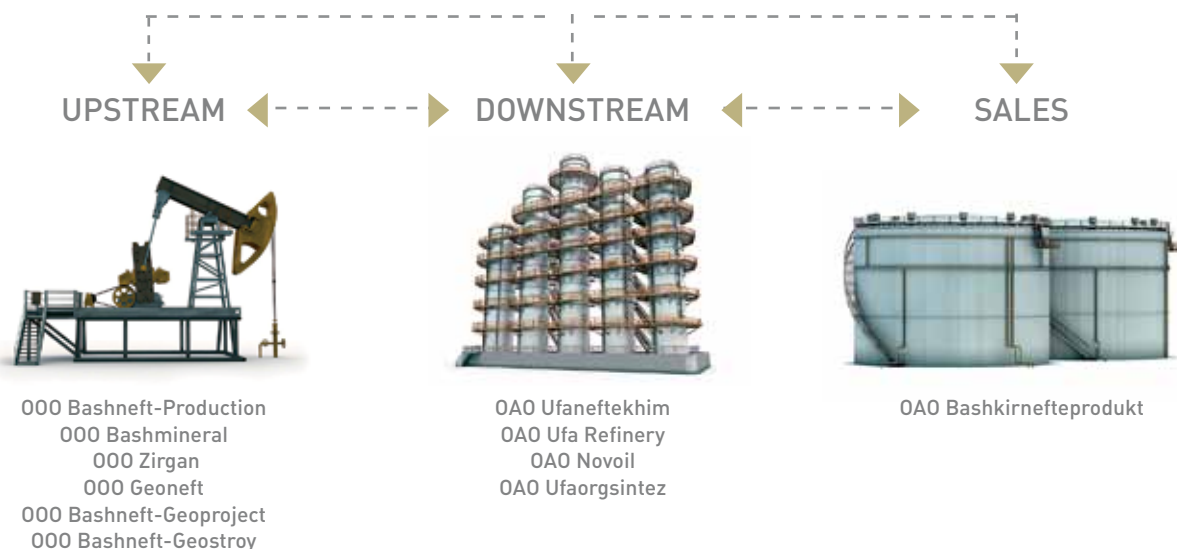
## KEY FINANCIAL AND ECONOMIC PERFORMANCE INDICATORS FOR 2009 (RAS)

12,234	Oil recovery, million tons
391,3	Associated petroleum gas recovery, million cubic meters
7,67	Crude sales, million tons
1,9	including exports, million tons
5,8	including domestic sales, million tons
20,746	Primary petroleum processing, million tons
483	Petrochemicals manufacturing, thousand tons
122,5	Saleable products, effective prices, billion rubles
20,3	Earnings before tax, billion rubles
28,25	Taxes and charges, billion rubles
16,2	Dividends, billion rubles
135,2	Market capitalization, billion rubles

## OPERATIONAL STRUCTURE

In 2005 the Sistema JSFC has acquired the first large shares in Bashneft, Ufa refineries and Bashkirnefteprodukt, and in 2009 it became the owner of the controlling interest in these companies. That signified a new stage in the development of Bashkortostan Energy park: a transformation of a conglomerate of independent companies into a single vertically managed structure.

At the end of December 2009, the process began of creating a vertically-integrated oil company on the basis of the OAO Bashneft JSOC. Its operational structure agrees with its core businesses and consists of three main sectors: upstream, downstream, and sales of petroleum products.



## Upstream

### 000 Bashneft-Production

In order to increase production management efficiency, the upstream companies were grouped under the management of the 000 Bashneft-Production operating company. Therefore, the 0AO Bashneft JSOC is the management headquarters of the entire Bashkortostan Energy Group, while the 000 Bashneft-Production, where the upstream staff was moved, is now responsible for raw materials extraction.

The 000 Bashneft-Production includes six Field Offices that are developing oil sites owned by the 0AO Bashneft JSOC or licensed from its subsidiaries: 000 Zirgan, 000 Bashmineral, and 000 Geoneft.

### 000 Bashneft-Geoproject

The upstream group includes 000 Bashneft-Geoproject (in 2010 renamed 000 BashNIPIneft Research Institute). This advanced R&D facility plays a key role in implementing the exploration and extraction strategies.

### 000 Bashneft-Geostroy

The 000 Bashneft-Geostroy oilfield services subsidiary specializes in production and exploratory well drilling, well maintenance, and workover.

## Downstream

### 0AO Ufaneftekhim

This plant processes crude hydrocarbons to produce petroleum products, mainly motor fuels (Regular-92 and Premium-95 gasoline), and over 30 other commercial products, including premium gasoline; low-sulfur diesel fuel compliant with the strictest international standards; boiler fuel; bitumen; coke; sulfur block and pellets; liquefied gases. The plant also produces some petrochemicals, such as aromatic hydrocarbons.

### 0AO Ufa Refinery

0AO Ufa Refinery is one of the largest petroleum processing plants in Russia. The Ufa Refinery processes crude hydrocarbons to produce petroleum products, mainly motor fuels. The plant is equipped for deep integrated conversion, widely using highly effective thermal, catalytic, and hydrogenation processes. Due to advanced equipment and technologies, the plant produces fuels fully compliant with international quality standards.

### 0AO Novoil

This plant processes crude hydrocarbons to produce petroleum products, mainly motor fuels. Currently it produces over 100 various petroleum products. Nationwide, the 0AO Novoil has one of the highest rates in production of premium gasoline (10% of overall output) and lubricants (7% of overall output).

### 0AO Ufaorgsintez

This plant produces over 30 various petrochemicals, including bulk polymers (polyethylene, polypropylene); liquids (phenol, acetone); rubber, and over 25 consumer products. 0AO Ufaorgsintez is the nation's leading acetone producer, and also accounts for about 40% of national production of phenol; 25% of polypropylene, and 16% of polyethylene.

## Sales

The 0AO Bashneft JSOC supplies in-house manufactured petroleum products both to the domestic market and for export. The company started its own sales in June 2009, after creating from scratch its own Commercial Service. Small-scale wholesale and retail sales of petroleum products are conducted via 20 field offices of the 0AO Bashkirnefteprodukt distribution network and via 319 gasoline filling stations across the Republic of Bashkortostan and Chelyabinsk Region.





## PRINCIPLES OF EFFICIENT CORPORATE GOVERNANCE

SAFEGUARDING LAWFUL INTERESTS OF SHAREHOLDERS; PROVIDING THEM WITH REAL OPPORTUNITIES TO EXERCISE THEIR RIGHTS RELATED TO THEIR SHAREHOLDING.

BOARD OF DIRECTORS' STRATEGIC GUIDANCE AND EFFICIENT OVERSIGHT OF THE COMPANY'S EXECUTIVE MANAGEMENT; ACCOUNTABILITY OF DIRECTORS TO THE SHAREHOLDERS.

PROMPT, FULL AND ACCURATE DISCLOSURE OF INFORMATION ABOUT THE COMPANY OPERATIONS, ENABLING SHAREHOLDERS AND INVESTORS TO MAKE INFORMED DECISIONS.

EFFICIENT OVERSIGHT OF BUSINESS FOR SAFEGUARDING RIGHTS AND LAWFUL INTERESTS OF THE SHAREHOLDERS.

CONSTANTLY IMPROVED ENGAGEMENT OF SHAREHOLDERS, INVESTORS, LENDERS, PARTNERS, EMPLOYEES, AND OTHER STAKEHOLDERS.

CORPORATE SOCIAL RESPONSIBILITY.

## CORPORATE GOVERNANCE

Modern corporate governance structure complying with international standards is one of the OAO Bashneft JSOC priorities. Changes in ownership and reorganization of the Company in 2009 were a starting point for creating a new governance structure. The General Meeting has approved a new version of the Corporate Charter and a number of other documents. The Board of Directors' committees became truly functional bodies.

The OAO Bashneft JSOC is governed by the following bodies:

- General meeting
- Board of Directors
- Executive Board (a collective executive) and President (a sole executive)

The highest governing body of the OAO Bashneft JSOC is the General Meeting of its shareholders. Overall guidance and direction are provided by the Board of Directors. This body is also responsible for the issues directly related to sustainability, such as:

- determining priorities for development;
- examining and approving development strategy;
- approving internal regulations and procedures, including in such areas as new areas of business corporate governance; HR management; procedures for personnel motivation and remuneration.



KEY DOCUMENTS DETERMINING THE COMPANY'S IMPACT ON ECONOMIC DEVELOPMENT, SOCIETY, AND ENVIRONMENT, ARE APPROVED BY THE EXECUTIVE BOARD AND CONFIRMED BY THE COMPANY PRESIDENT. THESE DOCUMENTS INCLUDE:

INFORMATION POLICY

CORPORATE SOCIAL RESPONSIBILITY POLICY

PHILANTHROPY POLICY

ENGAGEMENT WITH PUBLIC AUTHORITIES POLICY

HSE POLICY

THE PRESIDENT'S OFFICE INCLUDES THE PHILANTHROPY COMMITTEE – A COLLECTIVE ADVISORY BODY THAT IMPLEMENTS THE COMPANY'S PHILANTHROPY POLICY AND DETERMINES WHICH PHILANTHROPY PROJECTS RECEIVE CORPORATE SUPPORT. THE COMMITTEE POLICY AND PROCEDURES WERE APPROVED IN 2010.

DOCUMENTS APPROVED BY THE BOARD OF DIRECTORS:

CORPORATE CODE OF CONDUCT

HR MANAGEMENT STRATEGY

PROCEDURES FOR PERSONNEL MOTIVATION AND REMUNERATION

There are four committees at the Board of Directors, established in 2009, for improved decision-making efficiency and preliminary detailed examination of more important issues with subsequent recommendations to the Board. Their members include Directors and appropriate experts.

**Strategy Committee** examines the corporate long-term strategy and functional strategies of its subsidiaries. The Committee also addresses the engagement of investors and shareholders.

**Committee for Appointments and Remuneration** examines basic issues of employees' motivation and compensation; provides recommendations on methods of assessing management performance, including sustainability performance; recommends candidates for senior managerial positions.

**Budget and Audit Committee** assists in supervising accuracy of corporate financial reporting and efficiency of internal controls and risk management.

**Committee for Corporate Conduct** develops recommendations for efficient corporate governance system that safeguards rights and interests of shareholders and for improving efficiency of the Board of Directors' interaction with corporate executives.

The Board of Directors held 22 meetings in 2009. The Board of Directors worked hard on changes in ownership structure for the Company subsidiaries. A decision was made to create a separate organizational structure for the Company core business. The Board members have also initiated development of an integrated ERM system. In 2010 one independent Director was appointed to the Board.

**The Executive Board** – is a collective executive managing the OAO Bashneft JSOC core business. The Board is responsible for operational decision-making in such areas as co-ordination with subsidiaries; assessment of their performance; preliminary examination of major investment and innovation projects and programs. The Executive Board may include both the company employees and non-executive members.

The Executive Board is chaired by the Company President. President is also a sole executive body, administering day-to-day operations of the Company, in order, among other things, to safeguard rights of its shareholders and social safety net for its employees.

**Checkup Committee** is elected by the General Meeting of shareholders for the term of one year to oversee business transactions. Another integral element of the OAO Bashneft JSOC corporate governance is the system of internal control and audit for business transactions of the Company and its subsidiaries, including procurement, justification of expenditures, efficient administration of contracts and executive orders. Internal control and audit functions are performed by the In-House Audit Service and by the Internal Audit Department of the OAO Bashneft JSOC, and their performance is assessed by the Budget and Audit Committee of the Board of Directors.

Implementation of this new efficient system of corporate governance at all subsidiaries and affiliates of the OAO Bashneft JSOC, as well as co-operation with public authorities (Federal Anti-Trust Service, Federal Tax Service, Federal Financial Markets Service) and stock markets has contributed to the Company vigorous business development in 2009.

The Company's dividend policy is based on rational distribution of profits that takes into account both the shareholders' interests and business development needs. The decision on dividends distribution, amount and form of payments is made by the General Meeting upon recommendations from the Board of Directors. The Company performance in 2009 allowed a record payment of dividends in the amount of 109.65 rubles per share, which is twice as much as last year. The Company makes dividend payments in a manner that is the most convenient for its shareholders and fully compliant with the law.



## AWARDS FOR CSR AND SUSTAINABILITY PERFORMANCE

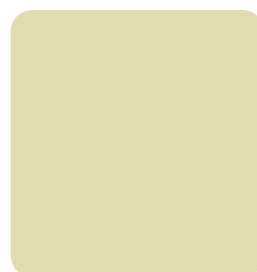
- The OAO Bashneft JSOC won the National Competition "Best Russian Enterprises: Dynamics, Efficiency, Responsibility – 2009" in the "Sustainable Development" category. The competition is organized annually since 1997 by the Russian Union of Industrialists and Entrepreneurs with the RF Government support to celebrate the most efficient national enterprises. Winners are determined on the basis of their official corporate reports.
- The OAO Bashneft JSOC project for slurry disposal won the Fourth National Environmental Awards in the "Science for Environment" category. This award for environmental achievements and contribution to sustainable development was established in 2004 by the Vernadsky Foundation and Russia's State Duma with the Federation Council support.
- OAO Ufaneftekhim received the President of the Bashkortostan Republic Award for product quality in 2009.
- The OAO Bashneft JSOC was rated 15th among 75 major Russian enterprises for its strong CSR performance by experts of the Trud daily and Agency for Political and Economic Communications. This rating is based on interviews with 31 experts including members of trade unions and trade associations, economists, social scientists, political scientists, and media analysts.
- The OAO Bashneft JSOC was rated 33rd among top 100 Russian enterprises for its environmental performance by the Independent Environmental Rating Agency. This rating takes into account the amount of waste, waste flow, emissions, water and energy requirements per unit of production and per one million rubles of revenue, and also the pollution to output ratio since 2000.







## Strategy and Innovation



- DEVELOPMENT STRATEGY
- MODERNIZATION
- ENERGY EFFICIENCY
- SUSTAINABILITY POLICY
- KEY STAKEHOLDERS AND STAKEHOLDER ENGAGEMENT





## DEVELOPMENT STRATEGY

### SUSTAINABILITY GOALS:

IMPLEMENTING BEST MANAGEMENT PRACTICES

INCREASING INFORMATION TRANSPARENCY, INCLUDING SOCIAL AND ENVIRONMENTAL PERFORMANCE

PROVIDING OPPORTUNITIES FOR MAXIMUM DEVELOPMENT OF HR POTENTIAL

IMPLEMENTING ADVANCED PERSONNEL MOTIVATION SYSTEM

ACHIEVING THE BEST HSE PERFORMANCE AMONG RUSSIAN OIL AND GAS COMPANIES

MAINTAINING HIGH SOCIAL PERFORMANCE IN THE REGION OF OPERATION

The OAO Bashneft JSOC is developing its business operations in Russian regions, the CIS and other countries. The Company is deeply integrated into national economy and actively contributes to its growth, developing and implementing best production and management practices. The Development Strategy is created and implemented by the parent company, and subsidiaries are responsible for ongoing production planning and management.

The OAO Bashneft JSOC strategy aims at strengthening the Company position among other Russian energy enterprises and establishing a large-scale vertically-integrated oil company with growing production, balanced processing, and efficient sales, that is a leader in the area of corporate governance and corporate social responsibility in Russia.

These strategic objectives for core business go hand in hand with a number of sustainability objectives.

## Improving Corporate Governance

THE OAO BASHNEFT JSOC WORKS ON IMPROVING LEGAL, OWNERSHIP, AND ORGANIZATIONAL STRUCTURE OF THE VERTICALLY-INTEGRATED OIL COMPANY.

The Company will continue the corporate restructuring process in order to reach the highest transparency of its ownership structure and management system. In the process of building the vertically-integrated oil company, the OAO Bashneft JSOC needs to accomplish a whole range of objectives in the area of corporate development, including development of key business processes, strengthening its management team, building integrated mechanisms for business planning, supervision and reporting, implementing HR training and development program and a system of long-term personnel motivation.

### Available Opportunities:

- Successful transformation of corporate structure. The first stage of building a vertically-integrated production enterprise is completed;

### SUSTAINABILITY GOALS:

ENHANCING OIL RECOVERY IN PRODUCING FIELDS; IMPROVING WELL STOCK MANAGEMENT.

REDUCING ENVIRONMENTAL IMPACT BY MEANS OF INTRODUCING NEW OIL RECOVERY TECHNOLOGIES.

EXPANDING BUSINESS – MOVING TO A HIGHER PRODUCTION LEVEL BY MEANS OF ORGANIC GROWTH BASED ON EXISTING FIELDS, AND BY MEANS OF ACQUIRING NEW PRODUCING ASSETS AND OIL PROSPECTING LICENSES.

### SUSTAINABILITY GOALS:

INSTALLING MODERN HIGH-EFFICIENCY AND ENVIRONMENT-FRIENDLY EQUIPMENT;

SUBSTANTIALLY ENHANCING EMISSION CHARACTERISTICS OF PRODUCED FUELS;

TRANSITION TO PRODUCTION OF HIGH-GRADE PETROLEUM PRODUCTS IN AGREEMENT WITH THE HIGHEST INTERNATIONAL STANDARDS;

IMPROVING RAW MATERIALS MANAGEMENT; REACHING THE BEST PROCESSING DEPTH AMONG RUSSIAN REFINERIES;

IMPROVING ENERGY EFFICIENCY AND REDUCING OIL PROCESSING COSTS.

- Implementation of governance principles that agree with modern industrial models for holding companies;
- A highly professional management team is set up;
- High professional potential of previous Company leaders is used in full, and new specialists are hired along with them;
- The modern system of personnel motivation is being implemented.

## Upstream

The OAO Bashneft JSOC owns strong refinery capacities that exceed its own production. Our key mid-term objective is to close this gap between own production and processing capacities by means of organic production growth in operating fields and acquisition of new assets. In the mid-term perspective, the OAO Bashneft JSOC plans to raise its organic production growth to 15.1 million tons or more. This growth will be based primarily on extension of existing fields; well recompletion; and well operations control. The Company is also considering acquisition of operationally ready fields and oil assets in Russia.

The Company also aims at improving efficiency of its upstream segment. We plan to reduce our unit costs by 10 percent in the next three years.

### Available Opportunities:

- significant oil reserves confirmed by an international audit; underdeveloped oil productive capacity in some fields;
- high growth potential by means of implementing new technologies;
- expanding resource base and license portfolio; acquiring new licenses in the regions, as well as producing assets.

## Downstream

The OAO Bashneft JSOC strategic objectives in the downstream sector include implementation of several investment projects for upgrading its existing refining units and installing new ones to enable the refineries to produce 100 percent of gasoline compliant with Euro-4 and Euro-5 standards.

This is the Company's response to possible radical shift in gasoline consumption structure after 2010 towards higher grade fuels, including retirement of older, higher-emissions vehicles running on Euro 1 and lower-grade fuels. Continuous modernization of the OAO Bashneft JSOC refineries makes their development outlook highly promising.

### Other Goals:

- Increase processing depth to 91 percent (it is 86.2% in the first half of 2010);
- introduce state-of-the-art technologies to increase production efficiency, optimize costs, increase energy efficiency and safety;
- reduce processing costs for no less than 6 percent in the next three years.



#### SUSTAINABILITY GOALS:

AVAILABILITY OF HIGH-QUALITY COMPANY PRODUCTS TO END USERS IN RUSSIA AND ABROAD BY MEANS OF CREATING A REGIONAL NETWORK OF SMALL-SCALE WHOLESALERS, EXPANDING RETAIL SALES, AND DEVELOPING EXPORTS.

PROMOTING EURO 4 AND EURO 5 FUELS TO RUSSIAN CONSUMERS TO PRESERVE ENVIRONMENTAL WELLBEING IN THE REGION OF OPERATION AND ACROSS THE COUNTRY.

IMPROVING CUSTOMER SERVICE AND DEVELOPING CONSUMER ENGAGEMENT.

#### SUSTAINABILITY GOALS:

SOCIALLY RESPONSIBLE REFORM OF OILFIELD SERVICES, TAKING INTO ACCOUNT SOCIAL IMPACT.

ENHANCING COMPETITIVENESS ON THE OILFIELD SERVICE MARKET.

#### Opportunities for reaching these goals

- Ufa Refineries, being the most advanced in the country in terms of technologies, processing depth, and product quality, remain the industry leaders;
- Availability of additional investments for upgrading refineries due to termination of tolling practices and direct contracts with oil suppliers.

## Sales

In this area our priority is to develop sales infrastructure, create our own distribution channels and a regional network of sales offices reaching the end users of petroleum products.

To complete the production chain, the OAO Bashneft JSOC aims at increasing its presence on export, small-scale wholesale, and retail markets. We plan to actively develop the retail network of gas stations outside the Republic of Bashkortostan through jobber and franchise agreements (233 gas stations were working under jobber agreements in 2010), and through acquisition of independent gas station chains (44 gas stations were acquired in the Republic of Udmurtia in 2010).

Adoption of environmental regulations for motor vehicle engines and technical regulations for motor fuels will limit demand for lower-quality fuels and make consumers move to higher-grade and more environmentally friendly products.

Continuous improvement of customer service quality is one the Company priorities. We are upgrading our gas stations on a regular basis in order to enhance safety and customer service quality.

## Reform of Oilfield Services

The Company made a conceptual decision to move to a procurement system by tender. This decision extends also to the oilfield services. This is why our strategic objectives include the reform of oilfield services by means of engaging independent providers by tender. This approach will enable us to improve service quality and reduce costs due to competitive bidding. The economy of this decision should amount to no less than one or two billion rubles.

However, this transition to oilfield service market and tender-based arrangements for oilfield service companies should be gradual and take into account the situation of each individual oilfield service company. This is necessary to maintain social peace in the region of operation and to ensure smooth transition to market relations for these companies and their employees.

## HSE Priorities

**The OAO Bashneft JSOC intends to become one of the leaders in the area of health, safety and environment management (HSE) among Russian oil and gas companies, owing to the following factors:**

- Organizing control over ensuring the right to safe and healthy labor conditions;
- Regularly analyzing causes of industrial injuries; developing and implementing remedial measures;



#### SUSTAINABILITY GOALS:

SAFEGUARDING EMPLOYEES' LIFE AND HEALTH.

ACHIEVING HSE PERFORMANCE LEVELS CONSISTENT WITH MODERN SCIENCE, TECHNOLOGY AND SOCIETY.

PROVIDING SUFFICIENT EMPLOYEE PROTECTION IN EMERGENCY SITUATIONS.

- Implementing medical control and prevention measures;
- Developing and implementing a Unified HSE Management System harmonized with the OHSAS 18001-2007 and ISO 14000 requirements;
- Modernizing production; retiring obsolete and worn-out equipment; implementing innovative R&Ds in the HSE area;
- Monitoring HSE conditions;
- Maintaining protective structures in serviceable condition;
- Introducing 3D modeling of potentially dangerous objects into management procedures;
- Developing corporate culture of safety and security; promoting safety culture;
- Training employees in emergency procedures; educating employees on HSE topics;
- Reducing oil sludge build-up;
- Designing a project for upgrading biological water treatment facilities to normalize treatment quality;
- Utilizing up to 95 percent of associated petroleum gas.





## MODERNIZATION

### Innovation Management

**EACH OAO BASHNEFT JSOC BUSINESS UNIT HAS A TECHNICAL DEVELOPMENT ACTION PLAN UNTIL 2015**

The OAO Bashneft JSOC technical and innovative development is aimed first of all at improving product quality, enhancing business efficiency, and ensuring occupational and environmental safety. The Company modernizes its facilities, optimizes processes, installs state-of-the-art technologies, implements best international practices, improves management and control of business processes, and brings its production units in line with modern safety standards, in order to achieve these goals.

This work is guided by the Company's Scientific and Technical Council. This Council develops recommendations on current and future issues related to research, development and production and provides consulting to the Company executives in developing engineering policy. Each OAO Bashneft JSOC business unit has a technical development action plan until 2015.

The Company owns a research institute, which recently was renamed back into BashNIPIneft, and plans to turn it into an advanced regional R&D facility. The institute runs the "Implementation of innovative technologies" project that analyzes the latest international achievements in the area of field development and operation; assesses the Company technologies in terms of their efficiency; and organizes trainings for employees using the most advanced methodologies. The ISO 9001 quality management system implemented at the BashNIPIneft is to be expanded to cover both design and survey projects and R&Ds.



## Innovations in the Upstream Sector

The reporting year made some major contributions to the OAO Bashneft JSOC technical and innovative development. The Company has continued implementing state-of-the-art technologies in its upstream operations, aimed at hydrocarbon reserves addition, increased output, and cost reduction.

The oil production growth in 2009 was due not so much to new investment, as to a comprehensive set of projects for enhancing oil recovery and better well stock management.

Substantial work was done to analyze the producing well stock and revise the drilling program. Many applied technologies were never used before at the Bashneft, at least not on a regular basis. In order to analyze in detail the producing well stock in 2009, the company continued to implement the Nasos hardware and software package that enables intelligent well completion, determines the schedule and methods for interventions, and assesses feasibility of well operation. Besides, pilot testing was done for oil production telemetry technologies that reduce LTAs and consequently reduce oil losses.

During the reporting period the Company continued to apply robust and efficient technologies of oil recovery, which substantially increased incremental oil production in 2009.

Coiled tubing technology for increased oil production enhances safety of tripping operations and shortens round-trip time. It improves working conditions for well repair crews, prevents pollution with drilling and formation fluids, and eliminates risk of sudden bursts and blowouts.

SIDETRACKING  
TECHNOLOGY

**+15 807**  
TONS

LATERAL DRILLING  
TECHNOLOGY

**+25 226**  
TONS

The Company has developed and installed equipment for dual completion that permits to segregate metering of dual-zone production, extraction of samples, and pressure control. Ten units for dual or triple fluid injection were also installed. Eight more dual completion units and 27 multiple injection units will be launched in 2010.

Aiming at further improvement of drilling processes, the OAO Bashneft-Geoproject (BashNIPIneft since August 2010) is developing a whole range of other new technologies. Thus, a project for designing a drilling unit for sidetracked ultra-slim holes with ultra-short curvature radius has begun in 2009. New and efficient drilling mud compositions were also developed.

## Innovations in the Downstream Sector

**THE BASHNEFT OIL REFINERIES ARE AMONG THE MOST TECHNOLOGICALLY ADVANCED IN RUSSIA. UFA REFINERIES' UPGRADES HAD CONTINUED UNINTERRUPTED EVEN IN THE 1990S. IN 2009 ALONE, 6.5 BILLION RUBLES WAS INVESTED IN MODERNIZING UFA REFINERIES.**

**The Company has a Technical Upgrading Action Plan till 2015, and each plant has a long-term technological development program that covers the following directions for upgrade:**



- enhanced processing depth;
- capital construction projects for overall production development;
- improved quality of motor fuels produced.

Following this Action Plan, the OAO Bashneft JSOC is actively implementing innovative technologies in the field of oil processing and petrochemical production and also installing state-of-the-art systems that increase production efficiency, reduce costs, save energy, assure occupational safety and production of clean products according to the strictest environmental standards.

In order to increase processing depth, the Company is actively building and upgrading delayed coker units, and overhauling tar deasphalter units, crude vacuum units, and catalytic cracking units.

#### Implemented Processing Depth Increasing Programs

Programs implemented	Outcomes
Introducing vacuum processing of visbreaking residue.	Processing depth increase of 1.5 to 3 percent. Additional material for catalytic cracking.
Overhauling tar deasphalter units.	Processing depth increase of 0.5 to 1 percent. Reduced energy consumption. Additional material for catalytic cracking.
Overhauling crude vacuum units.	VGO (catalytic cracking material) extraction increase of 4 to 5 percent. Processing depth increase of 0.5 to 2 percent. Diesel extraction increase of 0.5 percent.
Overhauling catalytic cracking units.	Possibility to process secondary gasoil. Increased output of high-grade gasoline. Increased production rate.
Building (upgrading) delayed coker units.	Processing depth increase of 6 percent at the Novoil Refinery and of 12 to 16 percent at the Ufaneftkhim Plant.

UNDER THE 2006-2009 MODERNIZATION PROGRAM FOR THE UFANEFTEKHIM, A UNIQUE DELAYED COKER UNIT (DCU) WAS INSTALLED AT THE PLANT, WITH 1.2 MILLION TONS PRODUCTION CAPACITY. THE DCU PROCESSES BLACK OIL TO PRODUCE COMPONENTS OF LIGHT PETROLEUM PRODUCTS. THE DCU WAS DESIGNED BY THE STATE ENTERPRISE BASHGIPRONEFTEKHIM JOINTLY WITH RESEARCHERS FROM THE UFA PETROLEUM TECHNICAL UNIVERSITY. SUCH UNITS WERE NOT BUILT IN THE COUNTRY FOR MORE THAN 25 YEARS. ALL PRODUCTION PROCESSES AT THE DCU ARE AUTOMATED AND USE ROBOTS, COMPLETELY EXCLUDING MANUAL OPERATION AND CONSIDERABLY REDUCING ENVIRONMENTAL IMPACT. AS OF TODAY, THIS IS THE MOST ADVANCED PROCESSING UNIT OF THIS KIND IN RUSSIA AND IN THE ENTIRE FSU. THE UNIT HAS PASSED THE ENVIRONMENTAL IMPACT ASSESSMENT AND COMPLIES WITH THE LATEST ENVIRONMENTAL SAFETY STANDARDS

Launch of the Delayed Coker Unit has substantially enhanced processing depth. After its launch, Bashneft moved to the top place in Russia in terms of oil processing depth.

IN 2009 A NEW PACKAGING LINE FOR HIGH-PRESSURE POLYETHYLENE WAS LAUNCHED AT THE OAO UFAORGSINTEZ. IT PACKAGES 15 TONS PER HOUR OF GRANULATED POLYETHYLENE WHICH IS FIVE TIMES HIGHER THAN PREVIOUS EQUIPMENT SPEED. THE LINE IS AUTOMATICALLY UNROLLING PACKAGING MATERIAL REEL, FILLS IT UP, WEIGHTS, CHECKS FOR IMPURITY CONTENT, LABELS, AND PLACES ON TRAYS. AN ENTIRE TEAM OF WORKERS WAS PREVIOUSLY REQUIRED FOR THIS PROCESS; NOW IT IS A JOB FOR JUST ONE TECHNICIAN. THE NEW LINE ALSO ELIMINATES THE NEED TO PURCHASE THIRD-PARTY PACKAGING MATERIAL; CURRENTLY IN-HOUSE PRODUCED PACKAGING IS USED WHICH HAS BETTER QUALITY AND LOWER PRICE

The Novoil Refinery has implemented a technology for low-temperature isomerization, increasing efficiency and contributing to production of additional high-grade gasoline components. The plant is planning to build a sulfuric acid alkylation unit, a hydrogen unit, and a hydrocracker. Continuous modernization will increase processing depth, ensure sufficient supply of hydrogen, and balance capacities for VGO processing at all OAO Bashneft JSOC refineries.

#### Implemented Fuel Grade Improvement Programs

Programs implemented	Outcomes
Overhauling diesel hydrotreaters.	Moving to production of diesel fuels with ultra-low sulfur content (Euro 4 and Euro 5). Increased production rate.
Overhauling VGO hydrotreaters and catalytic cracking units	Producing antiknock fuels with low sulfur content for Euro 4 and Euro 5 gasoline. Possibility to process secondary gasoil.
Overhauling light naphtha isomerization units.	Increased production of components for Euro 4 and Euro 5 gasoline. Higher performance numbers for commercial gasoline.

The OAO Bashneft JSOC specialists co-operate with governmental and non-governmental organizations in the area of R&D and technical innovations and implement joint projects with international partners. The Company management intends to apply every effort necessary for the Company to stay at the cutting edge of modern technologies.

IN THE SUMMER OF 2009 THE UFA REFINERY COMPLETED OVERHAULING OF THE VGO HYDROTREATMENT SECTION AT THE CATALYTIC CRACKING UNIT G-43-107/M1, INSTALLING TWO NEW HYDROTREATERS THAT COST APPROXIMATELY ONE BILLION RUBLES. THIS ENABLED THE REFINERY TO PRODUCE CAT-CRACKED GASOLINE WITH LOW SULFUR CONTENT, WHICH IS A COMPONENT OF EURO 4 AND EURO 5 FUELS

Modernization of equipment and technologies leads also to mitigated environmental impact. For more detail see the "Environmental Management and New Technologies" Section.

### IT Infrastructure Development

Centralizing data management and implementing state-of-the-art automation and integration tools, the OAO Bashneft JSOC improves balance and efficiency of its production and management.



IN 2009 THE OAO BASHNEFT JSOC ADOPTED FUNCTIONAL IT STRATEGY FOR 2010-2011

Development of a modern IT infrastructure that optimizes business processes and integrates data flows is one of the key areas for implementing new technologies at the OAO Bashneft JSOC. During the reporting year major steps were made to lay down the foundation for integration of corporate systems, improvement of telecom systems, enhancement of corporate communications, and improvement of data security.

In 2009 the OAO Bashneft JSOC adopted Functional IT Strategy for 2010-2011. This Strategy is aimed at the highest level of automation and integration of production and management processes. During the reporting period the Company was conducting large-scale preparations for installing a unified and integrated dataflow environment based on the ERP system by the SAP and the best industrial software solutions. In designing its IT infrastructure, the Company took into account the experience of major Russian and international vertically-integrated oil companies.

Installation of a unified IT infrastructure enables the OAO Bashneft JSOC to reduce operating costs, unify processes, integrate equipment, and improve availability and quality of customer services.

In the process of implementing centralized data management and developing applications in 2009, the OAO Bashneft JSOC has installed an EDM system at the operating company, built infrastructure for top executives' videoconferencing and multimedia locations, and created a help desk to centralize user support.

The Committee for IT, Communications, and Metrology has been established at the OAO Bashneft JSOC Executive Board to improve corporate IT management. Total investment in IT development in 2010 will amount to over 500 million rubles.



## Energy Efficiency

The OAO Bashneft JSOC objectives in the area of reducing energy consumption, improving energy efficiency, and increasing production rate, are highly ambitious but necessary for enhancing the Company competitive edge. Achieving its targets will enable the Company to reach global performance standards, improve its economic performance, and substantially reduce environmental impact of energy consumption.

## OUTCOMES OF ENERGY EFFICIENCY MEASURES IN THE UPSTREAM SECTOR IN 2009:

ELECTRIC ENERGY CONSUMPTION REDUCED FOR 40,097 THOUSAND KWH AND TOTAL AMOUNT OF 42.503 MILLION RUBLES

HEAT CONSUMPTION REDUCED FOR 3,085 GJ AND TOTAL AMOUNT OF 3.125 MILLION RUBLES

BOILER AND FURNACE FUEL CONSUMPTION REDUCED FOR 1,243 TOE AND TOTAL AMOUNT OF 1.955 MILLION RUBLES



## Energy Efficiency: Upstream

For over a decade, the OAO Bashneft JSOC is consistently implementing energy saving measures in all areas of its operation. Owning the largest pumping facilities in the Republic of Bashkortostan, the Company is highly attentive to improvement of their performance.

### Key Energy Saving Measures in the Upstream Sector:

- Using multiphase pumps;
- Using sucker rod pumps with chain drives;
- Pumping equipment performance optimization;
- Using variable speed drives (oil pumping; heat and water pumping; boiler support equipment; oil rig drives; beam pumping units).

Using tubular water splitters (TWS) to collect well liquids enables separation of oil from formation water immediately at the production site, avoiding double pumping, which leads to substantial energy savings. Besides, this technology reduces tank and pipeline corrosion, consequently lowering leak incidence, which in its turn reduces environmental impact.

Other measures to save energy include shutting down wells with high water flooding percentage and containment of produced water by methods of enhanced oil recovery.

The OAO Bashneft JSOC succeeded in establishing tracking of energy consumption directly at the wells by installing the Teleskop+ system for automated monitoring, control, and management of producing facilities.

Efficient utilization of associated petroleum gas is an integral part of energy efficiency. Utilization rate of APG at the Company plants reaches 85.7 percent; APG is used as fuel for boilers and power mini-stations, for pressure maintenance, and at gas treatment plants. In terms of utilization rate, Bashneft comes third in the nation, with only Surgutneftegaz and Tatneft among all Russian VIOCs performing better.

CONSTRUCTION OF GAS ENGINE GENERATOR PLANT ON THE KIRSKO-KOTTINSKY FIELD IN NIZHNEVARTOVSK REGION OF KHANTY-MANSI TERRITORY NOT ONLY LED TO AOG UTILIZATION RATE GROWTH FROM 18 TO 62 PERCENT, BUT ALSO REDUCED PRODUCTION COSTS DUE TO OWN SOURCE OF POWER. TWO MORE GAS ENGINES ARE PLANNED TO BE BUILT, WHICH WILL BRING AOG UTILIZATION RATE TO 92 PERCENT.





### Energy Efficiency: Downstream

In the recent period the OAO Bashneft JSOC succeeded in implementing procedures showing in practice that the problem of energy efficiency is quite resolvable. The Company facilities are already reaching leading positions in Russia in terms of efficient power consumption. The Ufa Refinery is one of the very few in the nation that has its own boiler and consequently does not purchase heat from a heat power plant. Moreover, from September to April the Ufa Refinery generates additional power due to an operating turbo generator.

The OAO Ufaorgsintez has invested 1.628 million rubles in automated production systems in 2009 in order to increase energy efficiency.

At the OAO Novoil facilities a comprehensive monitoring was organized in 2009 to identify opportunities to increase production energy efficiency. An Action Plan for Energy Saving and Energy Consumption Reduction is approved, taking into account recommendations from the Comprehensive Energy Efficiency Program developed by the State Enterprise BashNIIneftemash research institute.

### Energy Efficiency: Sales

Energy efficiency measures at the OAO Bashkirnefteprodukt in 2009 were mainly aimed at provision of natural gas supply to the company facilities, repair of heating systems, and boiler cleansing, setup and replacement. Total costs of these measures ran up to 7.304 million rubles. A number of efficient low-cost energy saving measures were also implemented, such as switching off unnecessary outdoor lights at the gas stations and tank farms at nighttime; monitoring heat level and timely switching off appliances and lights at the workplace. These measures significantly reduced heat and power consumption in comparison to previous years.

Reduction of Heat and Power Consumption at the OAO Bashkirnefteprodukt (%):

	Energy Saving, 2009 to 2008
Electric power, thousand kWth	11
Natural gas, thousand m3	5
Furnace fuel, tons	13
Boiler fuel, TOE	9

#### CORPORATE SOCIAL RESPONSIBILITY OF THE COMPANY IMPLIES:

RAISING QUALITY OF LIFE FOR EMPLOYEES AND LOCAL COMMUNITIES THROUGH INNOVATIVE BUSINESS DEVELOPMENT.

UNCONDITIONAL COMPLIANCE WITH THE LAW.

ADHERENCE TO ACCEPTED MORAL AND ETHICAL STANDARDS; RESPECT FOR HUMAN RIGHTS.

ENSURING OCCUPATIONAL SAFETY; INVESTMENT IN HUMAN POTENTIAL DEVELOPMENT.

ENVIRONMENT PROTECTION, CONSIDERATION OF FUTURE GENERATIONS' INTERESTS.

BALANCING STAKEHOLDERS' INTERESTS WITH THE INTERESTS OF THE COMPANY SHAREHOLDERS, PARTNERS, AND EMPLOYEES.

CONTRIBUTING TO LOCAL COMMUNITIES' DEVELOPMENT IN THE REGIONS OF OPERATION, IN PARTICULAR, THROUGH SOCIAL INVESTMENTS AND EFFICIENT SOCIAL PARTNERSHIPS.

INTEGRATING CSR ISSUES IN DAILY BUSINESS, DEVELOPING STAKEHOLDER ENGAGEMENT.

INCREASING INFORMATION TRANSPARENCY, INCLUDING THROUGH SUSTAINABILITY REPORTING.

#### KEY CSR DEVELOPMENT DIRECTIONS AT THE OAO BASHNEFT JSOC:

- HR MANAGEMENT
- INTERNAL AND EXTERNAL COMMUNICATIONS MANAGEMENT, INCLUDING COMMUNICATIONS WITH BUSINESS AND INVESTMENT COMMUNITIES
- HEALTH, SAFETY, AND ENVIRONMENT
- MANAGEMENT OF PHILANTHROPY AND SPONSORSHIP PROJECTS

## SUSTAINABILITY PERFORMANCE

### Corporate Social Responsibility

For many years the Company engages in social partnerships, implements social and environmental programs in the regions of operation. However, until recently these activities were of ad hoc nature and were mainly implemented by individual companies within the group.

In 2009 the Company began developing its Corporate Social Responsibility Policy; the document was adopted in 2010.

The OAO Bashneft JSOC adopted Corporate Social Responsibility Policy in 2010.

The body responsible for developing, reviewing and approving CSR policy, developing strategic targeted social programs, and monitoring their efficient implementation, is the Board of Directors. The operating company is responsible for management, planning and coordination of social programs and actions. Immediate implementation of social policy and CSR policy is the responsibility of individual companies.

Top executives of the Company, including its President, VPs, Department Directors and CEOs of its subsidiaries, are also involved in CSR management issues. The Vice President for Corporate Communications is responsible for the overall CSR implementation, while each subsidiary will have an appointed CSR manager.

For detailed information on the Company's approach to the sustainability reporting see the "Report Profile" Section.



### Philanthropy

Philanthropy is an important component of the OAO Bashneft JSOC social activities. The Company views philanthropy as social investment, which implies a long-term targeted social policy that responds to the needs of social development and strategic interests of the Company, its shareholders and employees. The Company also recognizes the importance of philanthropic and social initiatives for building its own corporate culture.

## PHILANTHROPY PRINCIPLES:

LONG-TERM APPROACH; INVESTING IN SOCIALLY SIGNIFICANT PROJECTS THAT BRING TANGIBLE OUTCOMES.

USING PHILANTHROPY PROJECTS TO LAY FOUNDATION FOR FUTURE WELL-BEING OF LOCAL COMMUNITIES AND OF THE BASHKORTOSTAN ENEGRY GROUP.

USING ADVANCED AND EFFICIENT PHILANTHROPY APPROACHES, ENSURING TRANSPARENCY AND PUBLIC ACCESS.

INTRODUCING EFFICIENT APPROACHES TO ALLOCATING FINANCIAL SUPPORT FOR PHILANTHROPY PROJECTS TO ENSURE FURTHER DISSEMINATION OF THE BEST PRACTICES.

INVOLVING THE COMPANY EMPLOYEES INTO SOCIAL AND PHILANTHROPY PROJECTS.

PARTICIPATION IN EDUCATIONAL, RESEARCH, AND INNOVATION PROGRAMS AND PROJECTS THAT CONTRIBUTE TO THE COMPANY HR DEVELOPMENT.



The basic document that determines the operating company and subsidiaries' philanthropy activities is the OAO Bashneft JSOC Philanthropy Policy adopted in 2009.<sup>1</sup>

In its philanthropy projects, the Company follows the principle of common good, and also aims at providing beneficial environment for the Company development.

**Corporate philanthropy activities are implemented within the framework of three key programs: Education, Culture, and Community Development**

### Education Program

Identifying gifted youths, supporting innovative technology projects designed by young people.

### Culture Program

Promoting the best cultural achievements of Russia in such areas as classical music, ballet, drama, visual arts; introducing high technology in museum practices; restoring national architectural landmarks.

### Community Development Program

Supporting youth sports; healthcare programs; supporting low-income and vulnerable social groups; other social projects.

Ongoing management of philanthropy policy and project implementation is the responsibility of the Company VP for economics and finances. The general corporate projects are implemented mainly through the Bashkortostan affiliate of the Sistema JSFC Philanthropy Foundation.

For the sake of transparency, the Company issues press-releases about its philanthropy performance that are made available to the media and published in the corporate press and online, and also are included in the Annual Report and the CSR Report.

<sup>1</sup> Internal Order # 429 of November 20th, 2009

THE COMPANY HAS DEVELOPED IN 2009 AND ADOPTED IN 2010 THE HR POLICY THAT ESTABLISHES UNIFIED APPROACHES TO PERSONNEL MANAGEMENT AND WAS DEVELOPED BASED ON SOCIAL PARTNERSHIP PRINCIPLES.

## Employees

In its HR Policy the Company adheres to the following principles:

- Transparency, openness, respect for human rights;
- Implementation of modern HR management technologies along with preservation of the best traditions;
- Ability to adapt to internal and external changes quickly and efficiently;
- High professional level; hiring and retaining skilled professionals motivated to fully realize their potential in achieving corporate objectives;
- Efficient HR management.

Ongoing management of HR Policy and its implementation is the responsibility of the HR Management Department. For more details on personnel policy implementation see "Labor and Social Policy", "Employee Training and Development", and "Employee Health and Recreation" Sections.

## Occupational Safety and Environment

THE COMPANY MISSION IN THE AREA OF ENVIRONMENTAL AND OCCUPATIONAL SAFETY IS TO ESTABLISH AN ADVANCED SYSTEM THAT PROTECTS EMPLOYEES' LIFE AND HEALTH. THAT REQUIRES AN EFFICIENT HSE MANAGEMENT SYSTEM IN PLACE THAT ADHERES TO INTERNATIONAL STANDARDS, TAKING INTO ACCOUNT SPECIFIC ASPECTS OF NATIONAL REGULATIONS AND INDUSTRIAL REQUIREMENTS. THIS PROCESS MUST LEAD TO INCREASED OCCUPATIONAL SAFETY LEVELS, REDUCED RISKS OF OCCUPATIONAL INJURIES, REDUCED GENERAL AND WORK-RELATED INCIDENCE RATE; IMPROVED OCCUPATIONAL SAFETY AND SECURITY CULTURE, AND CONSEQUENTLY IMPROVED LABOR PRODUCTIVITY AND ECONOMIC GROWTH.

In terms of environmental safety, the OAO Bashneft JSOC aims to reach the level that complies with modern levels of science, technology, and society development. The Company is fully aware of its responsibility for preserving environmental well-being and efficient resource management. Minimizing environmental impact and implementing state-of-the-art green technologies are the issues that the OAO Bashneft JSOC considers its priorities.

In 2009 the Company developed and adopted the long-term Functional HSE Strategy for 2010-2013. The Company Environmental Policy was developed in 2009 and adopted in 2010. The OAO Bashneft JSOC Industrial Environmental Monitoring Procedures were also developed and adopted in 2010.

## STAKEHOLDER ENGAGEMENT

Sustainable development and strategic corporate objectives can be only achieved if we take into consideration interests of all our stakeholders and treat them responsibly.

THE OAO BASHNEFT JSOC IS WORKING ON ESTABLISHING LONG-TERM RELATIONS WITH THE GOVERNMENT, SHAREHOLDERS, INVESTORS, EMPLOYEES, AND BUSINESS PARTNERS, APPLYING THE BEST PRACTICES OF CORPORATE PUBLIC GOVERNANCE AND ENSURING TRANSPARENT DECISION-MAKING PROCESSES.



**The Company CSR Policy defines the following target groups as key stakeholders:**

- Employees;
- Shareholders and investors;
- Consumers (individuals and corporate clients) and suppliers;
- Public authorities;
- Non-governmental and non-commercial organizations.

## Employees

**As a responsible employer, the Company has the following commitments towards its employees:**

- Creating and maintaining decent labor conditions, safeguarding employees' social well-being and mental comfort;
- Providing jobs with competitive wages and appropriate benefits;
- Complying with the Russian Federation labor laws;
- Assisting in comprehensive professional and cultural development of the employees.<sup>1</sup>

The corporate management aims at direct and open communications with the employees on a regular basis. An internal communication system is being set up within the framework of corporate culture development; this system should enable informing of all employees about the Company performance, current and future objectives, and the management expectations in relation to the employees' performance. One of the tools for this dialogue is the corporate newspaper. Employees can ask any question of the Company executives or individual subsidiaries' managers via the newspaper, and have it answered. Special mailboxes are installed at each facility for this purpose, and there is also an e-mailbox for questions and an answering machine for taking messages.

## Shareholders

**The OAO Bashneft JSOC is committed to safeguarding the following rights of its shareholders:**

- Protection of their rights and lawful interests by the company executives and employees;
- Participation in the Company governance through decision-making at the General Meeting of shareholders;
- Equal treatment of all shareholders;
- Receiving part of net profits as dividends;
- Receiving timely, full, and accurate information about the Company performance.

<sup>1</sup> See the Company's CSR Policy.



In order to guarantee equal treatment of all shareholders, General Meetings are organized so that participation would not require substantial time or expenditures. The General Meeting agendas are communicated to each shareholder in sufficient detail and well in advance, to permit each shareholder developing an informed position regarding each item on the agenda.

Stakeholders are informed according to the OAO Bashneft JSOC Information Policy and Procedures for Disclosing and Providing Information.

There is a special "Shareholder News" section on the corporate website ([www.bashneft.ru/about/ku](http://www.bashneft.ru/about/ku)), and under "Disclosures" tab shareholders and investors can see publications of notices, quarterly and annual reports, lists of affiliated persons, and other documents of interest. All website visitors have an opportunity to send questions directly to the Company President via a special page at [www.bashneft.ru/question](http://www.bashneft.ru/question) and select a mode of response.

## Consumers

The Company seeks to develop its own distribution channels reaching the end users of petroleum products. The retail sales of petroleum products are conducted via the OAO Bashkirnefteprodukt chain that includes 319 gas stations located mainly in the Republic of Bashkortostan and Chelyabinsk Region.

The Company works hard on improving customer service quality. OAO Bashkirnefteprodukt gas stations attract drivers with their modern design, creative architecture, new fuel pumps, and the last, but not the least, easy accesses and exits.

In July 2009, the OAO Bashkirnefteprodukt opened the first in Bashkortostan floating filling station on the Pavlovskoye Reservoir for waterborne vehicles, mainly for light motor and small river boats, cutters and yachts.

The OAO Bashkirnefteprodukt was one of the first in Russia back in 1993 to start accepting payments for petroleum products with credit and debit cards at its gas stations. Today over 300 gas stations take cards. This reduces time spent on buying fuel and makes it more convenient for drivers.

## BASHKIRNEFTEPRODUKT

LEADING RETAILER OF MOTOR FUELS VIA ITS OWN CHAIN OF GAS STATIONS IN THE REPUBLIC OF BASHKORTOSTAN.

20 FIELD OFFICES AND 319 GAS STATIONS IN THE REPUBLIC OF BASHKORTOSTAN AND NEIGHBORING REGIONS.

THE FIRST AND ONLY FLOATING FILLING STATION IN BASHKORTOSTAN.

SALES OF HIGHER-GRADE GASOLINE BRANDS COMPLIANT WITH THE EURO 4 STANDARD: REGULAR EURO-92 AND PREMIUM EURO-95.

CONSTANT QUALITY CONTROL OF MOTOR FUELS VIA ITS OWN NETWORK OF LABORATORIES.

LARGE VEHICLE FLEET FOR UNINTERRUPTED SUPPLY OF PETROLEUM PRODUCTS TO CONSUMERS.



In 2010 the Company plans to draft Customer Service Procedures at its gas stations and loading/unloading sites to improve quality of its customer service, and also intends to open a 'hot line' to receive consumer feedback. The Procedures will include customer service recommendations for employees and detailed emergency procedures.

The 'hot line' will receive customer complaints concerning petroleum products or services provision at the gas stations, and also suggestions and recommendations concerning customer service improvements.

### Product Quality

Quality control of sold motor fuels is one of the OAO Bashkirnefteprodukt priorities.

At all stages of petroleum products handling, there are lab tests of their quality. Monitoring tests are performed at fixed-site laboratories accredited by the Federal Agency for Technical Regulations and Metrology. All chemical analysis labs of the OAO Bashkirnefteprodukt have state-of-the-art equipment that allows promptly determining compliance of key performance and environmental characteristics of petroleum products with appropriate standards. Acceptance tests are conducted at every delivery of petroleum products to gas stations and tank farms.

During 2009, 136255 lab tests were performed (on 2396 samples) for the OAO Bashkirnefteprodukt field offices and 548 tests (on 187 samples) for third-party organizations. When accepting waste petroleum products from third parties under petroleum operation accounts, field offices perform incoming tests. Overall certification and test costs in 2009 amounted to 2.2 million rubles.

In 2009 the OAO Bashkirnefteprodukt started sales of new-generation gasoline produced by the OAO Bashneft JSOC Ufa refineries. These fuels were previously produced according to Technical Specifications; now they must comply with the Russian Federation National Standards (GOSTs). Compliance to GOSTs means stricter adherence of motor fuels produced to all standard specifications. New gasoline brands – Regular Euro-92 and Premium Euro-95 – comply with Class IV fuels in Russian technical regulations and with the Euro-4 standard (that will become mandatory in Russia in 2012).

### Supplier Engagement

The OAO Bashneft JSOC not only works on its economic performance, but aims at improving management procedures that would increase transparency of its business operations. One of the most vulnerable to corruption elements of the business processes chain is the system of procurement. This is why the Company works on introducing modern approaches to and technologies of procurement that are based on openness and public accessibility and preclude opportunities for abuse.

The Company executives have developed and adopted Regulations for Open Procurement Procedures at the Bashkortostan Energy Group enterprises. According to these Regulations, a network of procurement committees is established; these committees select suppliers of goods and services for the Company. Larger procurements (in the amount exceeding 50 million rubles) are centralized. In order to monitor and control procurement, the Procurement Department was established at the operating company, and specialized procurement offices were created at all subsidiaries. Strictly complying with laws and regulations concerning labor employee rights and HSE issues, the Company expects the same from its business partners.

As of November 1st, 2009, the OAO Bashneft JSOC is conducting procurement by tender via the official corporate website "Bashkortostan Energy Group Procurement and Sales" ([www.zakupki.bashneft.ru](http://www.zakupki.bashneft.ru))



where all the procurement data are published. This approach enhances transparency, attracts more bidders, and provides a level playing field. These procedures eventually allow the Company to substantially reduce procurement expenditures.

The OAO Bashneft JSOC is implementing e-commerce tools not only for procurement purposes, but also for sales. In 2010 the B2B-Bashneft online marketplace, besides procurement, was offering for sale Bashneft petrochemical products, scrap iron and nonferrous metals, real estate and movables, and some other excessive and overstocked goods.

### Public Authorities

Oil is a strategic national resource. Earnings from domestic and export sales of oil and petroleum products and taxes paid to budgets of all levels by oil producers have a substantial effect on the national budget. This is why the Government that regulates oil upstream and downstream sectors is one of the most important Company stakeholders.

The OAO Bashneft JSOC engagement with public authorities of various levels is regulated by the corresponding Policy, adopted in 2009.

**Interaction with the executive branch and local self-governments takes the following forms:**

- Personal meetings of the Company executives with public officials;
- Participation of the Company representatives in meetings concerning the Company interests;
- Participation in public events such as conferences, seminars, trade shows, etc.;
- Invitation of public officials to events organized by the Company;
- Expert and advisory participation in discussions of governmental orders, decrees, draft laws, and other documents relevant for the Company interests.





Thus, the OAO Bashneft JSOC is included in the Working Group on Petroleum Products Pricing at the Federal Anti-Trust Service.

The OAO Bashneft JSOC representative, along with other Russian energy majors, is included in the Russia's Ministry of Energy Working Group on Use (Utilization) of APG that was established following the decisions made at a meeting chaired by the Head of the RF Government.

The Company representative sits on the R&D Council of the Bashkortostan Subsurface Use Department of the federal Subsurface Use Agency ('Bashnedra').

In 2009 Mr. Alexander Goncharuk, Chairman of the Board of Directors, OAO Bashneft JSOC, became a member of the Presidential Council of the Republic of Bashkortostan, which is a permanent advisory body entrusted with developing recommendations for key directions of the public policy in the Republic, suggesting measures that enhance good governance, and a number of other tasks.

**Interaction with the Russian Federation Federal Assembly, with legislative assemblies of Russian regions, and with representative bodies of local self-governments on the issues that may impact the Company business takes the following forms:**

- Expert and advisory discussions of draft laws and regulations;
- Participation in committee and commission meetings;
- Participation in parliamentary hearings, roundtable discussions, and working groups;
- Membership of Company representatives in expert advisory boards at various committees and working groups.

The Company chief executive officers – President Viktor Khoroshavtsev and Senior VP Viktor Gantsev – are serving as elected representatives in the local legislative branch – the State Assembly or Kurultai – of the Republic of Bashkortostan.

IN 2010 THE COMPANY HAS DEVELOPED AND ADOPTED THE OAO BASHNEFT JSOC POLICY FOR NGO ENGAGEMENT

Ongoing implementation of the Company Engagement with Public Authorities and Local Self-Governments Policy is the responsibility of the VP for interaction with public authorities. Direct implementation of this Policy is performed by the OAO Bashneft JSOC offices: the Department for Interaction with the Federal Government and the Department for Interaction with Regional Governments.

## NGO Engagement. Participation in Trade Associations and Initiatives.

The goal of NGO engagement and participation in trade associations and initiatives is to increase stakeholder awareness of the Company activities and directions of its future development.

**This stakeholder group is engaged in the following forms:**

- Joint participation in expert and analytical assessments;
- Developing mechanisms for public monitoring;
- Organizing and attending discussions, public hearings, negotiations and other forms of dialogue and information exchange;
- Joint implementation of socially important events and actions;
- Discussions of topics relevant for the Company activities in trade association and labor union committees and boards;
- Developing concerted decisions on the issues relevant for the Company core business.

The OAO Bashneft JSOC recognizes importance of public discussion of socially relevant issues and supports constructive dialogue with NGOs and other civil society organizations. The Company is also open to co-operation with NGOs in the field of its philanthropy activities.

In 2010 the Company has developed and adopted the OAO Bashneft JSOC Policy for NGO Engagement.

**The Company participates in the following trade and business associations:**

- National Association for Assessment of Mineral Resources – Non-commercial Partnership;
- Russian National Committee of the World Petroleum Council;
- Union of Oil and Gas Producers of Russia;
- Association of the Oil Refiners and Petrochemists;
- Russian Union of Industrialists and Entrepreneurs (member, Oil and Gas Complex Taxation Subcommittee; RUIE Committee on Energy Policy and Energy Efficiency);
- Interregional Oil and Gas Complex Exchange;
- Saint-Petersburg International Mercantile Exchange.







## People and Community



LABOR AND SOCIAL POLICY

EMPLOYEE TRAINING AND DEVELOPMENT

EMPLOYEE HEALTH AND RECREATION

CO-OPERATION WITH LOCATIONS OF OPERATION

SPONSORSHIP PROJECTS



## LABOR AND SOCIAL POLICY

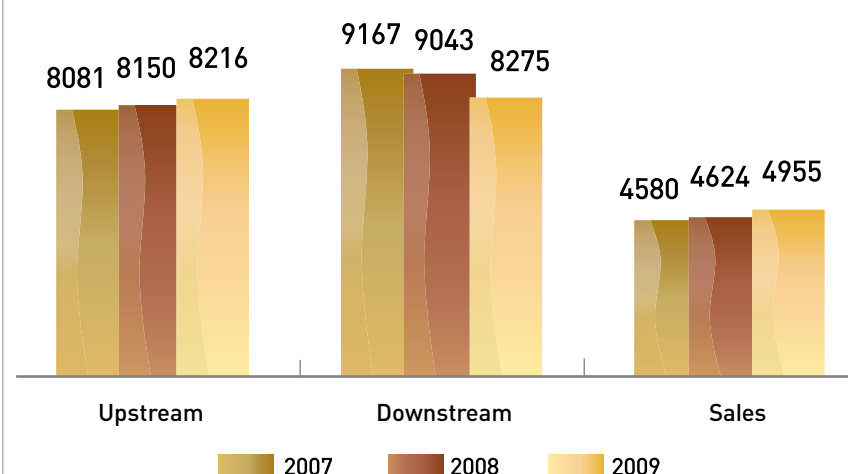
The OAO Bashneft JSOC employees are the Company's most valuable asset. We are convinced that our business success fully depends on the people who work with us. This is why enhancing labor productivity and employee motivation to improve the Company performance are the priorities of the Bashneft Labor Policy.

Our HR management is based on absolute compliance with national and international labor laws and regulations, on equal opportunities, and on mutual respect of all parties involved.

The OAO Bashneft JSOC is a responsible employer. The Company ensures equality of its employees, offers competitive wages, and aims at enhancing quality of life of its employees and their families. The OAO Bashneft JSOC seeks to provide safe and comfortable labor conditions for each employee, as well as the maximum opportunities for development and professional growth.

THE COMPANY INTENDS TO TAKE UPON ITSELF ADDITIONAL COMMITMENTS IN THE AREA OF CORPORATE CULTURE. IN 2009 WE HAVE DEVELOPED, AND IN 2010 ADOPTED THE CORPORATE CODE OF CONDUCT AND ETHICS THAT ADHERES TO INTERNATIONAL STANDARDS AND RECOMMENDATIONS. THE CODE SETS FORTH THE PRINCIPLES OF BUSINESS CONDUCT THAT TAKE INTO ACCOUNT CORPORATE SOCIAL RESPONSIBILITY TOWARDS EMPLOYEES, COMMUNITIES IN THE LOCATIONS OF OPERATION, THE COMPANY AFFILIATES AND SUBSIDIARIES, THE GOVERNMENTS, AND THE SOCIETY AT LARGE. THE CODE AFFIRMS THE COMMITMENT TO RESPECTING HUMAN RIGHTS, IN PARTICULAR, ALLOWING NO DISCRIMINATION; GUARANTEES EQUAL RIGHTS AND OPPORTUNITIES TO ALL COMPANY EMPLOYEES IN TERMS OF LABOR COMPENSATION AND CAREER PROMOTION.

Staff on the payroll at the OAO Bashneft JSOC facilities in 2009 amounted to 21.7 thousand employees. Despite the global financial crisis in the reporting period, the Company managed to avoid massive lay-offs or compensation cuts. The Company also refrains from job cuts when installation of new equipment reduces demand for manual labor. This is a conscious stance based on the intention to retain the workforce and to benefit from experience of the people who have created the best operations in the industry. This approach to a large extent ensures social peace in the region of operation..



Staff by Business Segments, # of employees

### Recruiting

The OAO Bashneft JSOC aims at recruiting the best specialists in the field. Virtually all Company employees have specialized education and substantial professional experience; approximately 15 percent of the workforce are under 30 years of age. Bashkortostan Energy Group is



continuously recruiting the most promising university graduates. This combination of youth, knowledge, and experience gives the Company stability and confidence in the future.

**In order to secure sufficient human resources, the OAO Bashneft JSOC implements the following system of measures:**

- Proactive head hunting for managers and professionals with substantial experience, skills, energy, reliability, and initiative;
- Transparency of selection criteria, using a merit system based on unified principles of assessing candidates' professional and managerial skills and general development potential;
- Monitoring of workforce turnover trends and causes; auditing personnel headcount and flow.

#### KEY HR DEVELOPMENT MEASURES AT THE OAO BASHNEFT JSOC

MENTORING UNIVERSITY GRADUATES;

TALENT DEVELOPMENT PROGRAM;

COMPREHENSIVE SYSTEM OF CONTINUOUS PROFESSIONAL TRAINING FOR ALL STAFF GROUPS AND MANAGEMENT LEVELS;

DEVELOPMENT OF LONG-TERM TARGETED PROGRAM FOR CO-OPERATION WITH LEADING SCHOOLS AND UNIVERSITIES.

### Motivation and Compensation

**In order to efficiently motivate its staff, the Company uses the following means:**

- Competitive wages;
- Bonuses based on KPIs;
- Long-term bonuses for top and mid-level executives;
- Competitive benefits based on the Company hierarchy;
- Motivation through recognition.

#### ADVANTAGES OF GRADE SYSTEM:

TRANSPARENT PAY SYSTEM;

CAREER DEVELOPMENT ASSISTANCE  
TO EMPLOYEES;

PAY COMPARABILITY ACROSS  
FUNCTIONS;

ADDITIONAL CHANGE MANAGEMENT  
TOOL;

REDUCED PAYROLL ADMINISTRATION  
COSTS.



## New Pay System

While many sectors of Bashkortostan economy have suffered from significant pay cuts, the majority of the Bashkortostan Energy Group employees have either retained their earnings, or experienced insignificant cuts. In any case, at the OAO Bashneft JSOC the general level of compensation was higher than the regional average and retained a competitive edge in comparison to other oil companies.

Since the end of 2009, a new system of compensation and motivation is introduced in the Company. It is based on pay grades. This system presupposes assessment of each employee's individual contribution to the Company performance and appropriate remuneration according to its level. Grading is based on a wide range of criteria for assessing employees' professional knowledge and skills, including the sphere and complexity of decision-making, experience, qualifications, responsibility level, efficiency, and ability to define and achieve job objectives.

The pay grade system enables the Company to structure the labor evaluation process, makes it more clear, fair, and objective. Employees can understand their place in the overall hierarchy, properly assess their prospects, and define directions for professional growth. Grading helps to identify needs for training on a regular basis, draft individual development plans for the staff and establish the talent development programs. Besides, this new system helps to set in order the corporate social benefits, linking salaries, wages, and other forms of rewards, to the value of work performed.

Pay grade system will not affect such forms of compensation as harmful exposure allowance, overtime and night differential, etc.; they will be paid in full compliance with the law in force. Minimal base salary for successful employees will be maintained at the average market level for their job categories by means of annual adjustments.

## Trade Unions

Primary organizations of the Trade Union of Oil and Gas Industry and Construction Workers of the Russian Federation operate at the Company enterprises. Labor and social guarantees; commitments of employers to provide decent working conditions; mutual responsibility of the parties for compliance with labor laws are included in the long-term collective agreements with trade unions. These agreements reflect the key provisions of industry agreements concerning minimal wages, labor conditions, benefits, and social safety net. A collective agreement

ALL OAO BASHNEFT JSOC  
EMPLOYEES HAVE MEDICAL  
INSURANCE COVERAGE.

is signed between the employer represented by the company CEO and the employees. Thus, at the OOO Bashneft-Production, the Employees' Council represented by its Chairperson and the Council of Chairpersons of Primary Trade Union Organizations represented by its Chairperson, act on behalf of the employees.

Collective agreements in force during the reporting period were signed at the end of 2007 for a three-year term. All their provisions, including regulation of compensations; employment safety while retaining manning levels or staff; working hours and resting time; security and work discipline; and others are honored by the Company in full.

**All collective agreements in force include provisions concerning benefits and social safety net for employees. As a rule, the Company provides social assistance for the following purposes:**

- Recreation and rehabilitation of employees;
- Healthcare;
- Cultural events;
- New Year gifts for children and holiday events;
- Funeral costs;
- Financial aid to retirees;
- Rewards in conjunction with employees' anniversaries.

Retirees who are registered with the Company also receive financial aid in conjunction with their anniversaries, and for purchasing health resort vouchers. The Company also covers funeral costs for deceased retirees. Individual Company subsidiaries may provide additional forms of social aid and benefits.





For example, at the OAO Bashkirnefteprodukt the overall benefits provided in 2009 amounted to 23.899 million rubles, including 22.931 million rubles spent on employees, and 968 thousand rubles spent on retirees. Similar spending at the OAO Bashneft JSOC has amounted to 24.629 million rubles for employees and 8.699 for retirees. Besides, the company allocated 79.713 million rubles for financing hot meal stations.

IN 2010 THE OAO BASHNEFT JSOC HAS ADOPTED REGULATIONS THAT ESTABLISH UNIFIED APPROACH TO PROVISION OF SOCIAL BENEFITS TO ALL COMPANY EMPLOYEES.

## Employee Training and Development

One of the key objectives of the OAO Bashneft JSOC is to create conditions for constant professional development and growth of its managers, engineers, researches, and other employees.

Professional training takes the following forms:

- Short-term training (seminars and courses of up to 72 academic hours);
- Mid-term training (professional retraining programs of 72 to 500 academic hours);
- Long-term training (two-year long master's program);
- Distance learning courses.

Employees attend mandatory trainings prescribed by industrial laws and development training offered by the Company. In 2009 the main emphasis was on the mandatory technical training and occupational safety issues [for more details see "Occupational Safety" Section].



## Average hours of training per year per employee by employee category

Workers	101
Office staff	15
Specialists	54
Managers	38

OVERALL COSTS OF MANDATORY AND DEVELOPMENT TRAINING OF THE OAO BASHNEFT JSOC EMPLOYEES IN 2007-2009 AMOUNTED TO 180 MILLION RUBLES.

Additional trainings for top and mid-level managers are organized on a regular basis. Starting with 2010, the Sistema JSFC Corporate University participates in organizing seminars and trainings for development of professional and personal competencies.

## EMPLOYEE HEALTH AND RECREATION

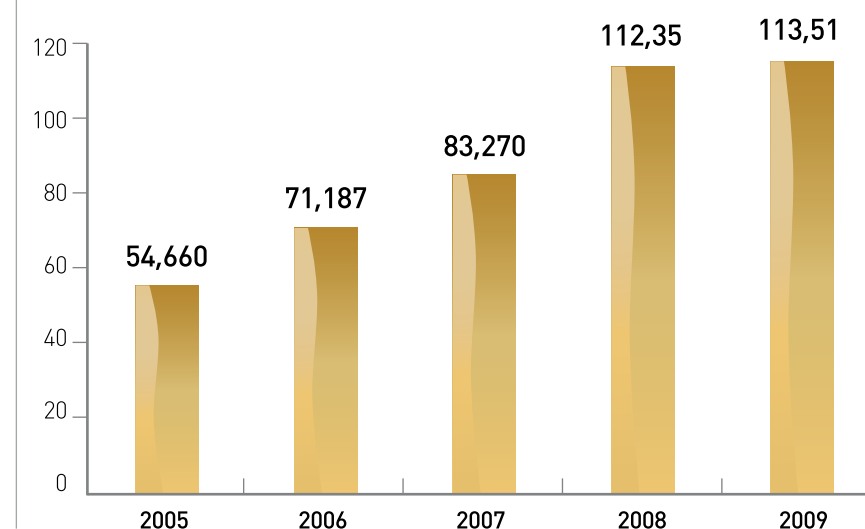
### Improving Health of Employees and Their Families

Maintaining traditions of social aid that existed at the Bashkortostan Energy Group enterprises, the Company allocates substantial resources to supporting recreation and rehabilitation facilities for its employees and their families. Year after year tens of thousands of Bashkortostan Energy Group employees spend their vacations and receive medical treatment in medical and preventive treatment institutions owned by the OAO Bashneft JAOC.

In 2009 the OAO Bashneft JSOC allocated 113.51 million rubles for medical and preventive treatment, therapeutic resort procedures and hospital treatment of its employees. From 2005 to 2009, the overall spending for these purposes totals 434.8 million rubles. 5,935 employees of the Company subsidiaries have received treatment at therapeutic resorts in 2009.

MEDICAL AND RECREATION-AL FACILITIES OWNED BY THE OAO BASHNEFT JAOC INCLUDE 5 CHILDREN HEALTH CAMPS; 7 PREVENTIVE TREATMENT CENTERS; AND 3 RECREATION CAMPS. THESE SOCIAL INFRASTRUCTURE ENTITIES ARE MANAGED BY THE OOO REHABILITATION AND PREVENTION COMPLEX.

Financing of therapeutic resort procedures for the Company employees in 2005-2009, million rubles





**TREATMENT AND REHABILITATION FACILITIES IN 2009, INCLUDING 3,134 CHILDREN OF THE COMPANY EMPLOYEES.**

According to the collective agreement provisions, Bashneft employees have to bear actual costs of treatment only partially, covering from 10 to 30 percent, while the remaining part is covered by the Company. In 2009, the Company allocated 36.8 million rubles to pay for summer vacations of employees' children only, and twice that much – approximately 60 million rubles – will be spent on that particular aid in 2010, while total spending on social corporate programs implemented by the Company subsidiaries will amount to approximately one billion rubles.

## Sports

The Company allocates substantial means to support sports and promote healthy life style to its employees and their families. One in every two employees there is engaging in sports and athletic activities. The Company organizes athletic competitions for its employees; finances renting of swimming pools, gyms, skiing lodges, etc.; and purchases sports clothing and equipment. Athletic events organized by Bashneft subsidiaries help employees bond, build team spirit, and promote healthy life style.

**IN 2009 THE UPSTREAM SECTOR OF THE OAO BASHNEFT JSOC ALLOCATED 3.247 MILLION RUBLES TO SUPPORT SPORTS, FITNESS AND HEALTH RECREATION EVENTS.**

With active involvement of trade union organizations, the Company organizes summer and winter sports cups, cross-country skiing, chess and checkers tournaments, table tennis competitions, an indoor soccer tournament, a kettlebell lifting tournament, a zonal volleyball



championship. Try-outs are organized throughout the year, and winners are sent to the Kandrikulsky Games – a traditional athletic competition which is taking place for more than 15 years prior to the Day of Oil and Gas Industry Workers at the Kandri-Kul health camp on the shores of one of the largest Bashkortostan lakes.

The "Impulse" distance runners club at the Arlanneft oil/gas field office organizes a semi-marathon since 1994; its members run the distance of 21 kilometers, which is one half of a marathon distance. Most runners are employees of the OOO Bashneft-Production field offices. Arlan semi-marathon is included in the Russian Association of Marathons and Distance Runs calendar.

**THE OAO UFA REFINERY FINANCES SOCCER AND VOLLEYBALL COMPETITIONS IN CHILDREN HEALTH CAMPS. "FATHERS AND SONS" SOCCER AND VOLLEYBALL TOURNAMENTS INVOLVE THE REFINERY EMPLOYEES WHOSE CHILDREN ARE STAYING AT THE CAMPS. HOCKEY TOURNAMENTS FOR CHILDREN ON THE STREET HOCKEY RINKS ARE ORGANIZED IN WINTER.**

THERE ARE TWELVE ATHLETIC TEAMS, REPRESENTING MAIN PRODUCTION SUBDIVISIONS OF THE REFINERY AND ITS PRODUCTION-SERVICING COMPANIES, WHICH COMPETE IN SEVEN SPORTS. IN 2009 THE REFINERY TEAMS TOOK PART IN THE UFA INDOOR AND OUTDOOR SOCCER CHAMPIONSHIPS. THE REFINERY YOUTH TEAMS WERE SUCCESSFULLY COMPETING AT TOURNAMENTS ORGANIZED FOR THE REFINERY EMPLOYEES AND THEIR FAMILIES BY THE UFA CITY COMMITTEE FOR YOUTH POLICY. A SUMMER TRACK AND FIELD EVENT TO CELEBRATE THE ATHLETS DAY AND A WINTER SPORTS "SKIING SUNDAY" EVENT ARE ORGANIZED ANNUALLY.

In 2009 the Bashneft team participated for the first time in the National Games organized by the Sistema JSFC for 12 strongest corporate athletic teams, and won Silver.

All field offices of the Bashneft Upstream sector use sports facilities that belong to the cities and towns where these companies operate; gyms and swimming pools are rented by the Company for its employees and their families. Ufa Refineries have their own gyms where their employees exercise after work.





*"...We are not going to take anything away from the Republic; we are going to enrich its territory instead. Our co-operation is entirely constructive. Bashkortostan Energy Group today includes the best oil refineries in Russia ... We understand very well, that besides these assets, we also acquire a responsibility towards the Republic citizens".*

Vladimir Yevtushenkov,  
Chairman, Board of  
Directors, Sistema JSFC

<http://www.regnum.ru/news/1144703.html>

## Corporate Events

Traditionally, holidays are celebrated by organizing functions where employees who particularly distinguish themselves receive awards and recognition; by musical concerts; by tea parties to which the Company veterans are invited. Functions for the WWII veterans – former Bashkortostan Energy Group employees – take place in May of each year. Children are invited to traditional New Year's Eve matinees with an entertainment program and gifts and to the First-Grader Day where all the kids who are about to go to school for the first time are congratulated. An art contest for children "My Family Are Oil Producers" was announced at the end of 2009.

**IN 2009 THE COMPANY SPENT 3.594 MILLION RUBLES AND CULTURAL AND CORPORATE EVENTS.**

Also in 2009, a professional skills competition "The Best Worker in the Field" was organized, and a conference for young specialists accompanied by an expo where the best R&D projects by young researchers were showcased. The Company support for these events totaled 1.798 million rubles.



## Co-operation with Locations of Operation

Energy sector enterprises with powerful upstream sector, comprehensive oil processing and petrochemical production, are the backbone of Bashkortostan economy. Upstream and downstream petroleum facilities employ approximately 7 percent of the regional workforce and generate over 60 percent of regional GDP.

The OAO Bashneft JSOC is the largest taxpayer in the Republic of Bashkortostan; the Energy Group supplies about 40 percent of the regional budget tax revenues.

The city of Ufa is built around Ufa Refineries; their taxes supply more than one half of the city budget. After the group ownership changed, all operating structures were still incorporated on Bashkortostan territory so that the region would not lose its tax revenue flows. Economic recession triggered by the global financial crisis has forced many companies to substantially cut their social programs. The OAO Bashneft JSOC enterprises during their first year under the OAO Sistema JSFC management were not only showing robust financial and economic performance, but also maintained

their contributions to development of Bashkortostan society in the same amounts as the Energy Group used to do in previous years.

**THE COMPANY BELIEVES THAT ITS CONTRIBUTION TO THE SOCIAL DEVELOPMENT OF THE LOCATIONS WHERE IT OPERATES MUST BE SYSTEMIC, TRANSPARENT, AND CLEAR TO LOCAL COMMUNITIES. ONLY THEN WILL THAT WORK ENHANCE THE BASHNEFT SUSTAINABILITY.**

*"Social and philanthropy projects are an integral part of our mission in the Republic of Bashkortostan, and agree with Sistema JSFC general social strategy. We value traditions of corporate social responsibility maintained at Bashkortostan petroleum enterprises for many years, and we are aware of how much importance is given by Bashkortostan government to the issues of quality of life of local citizens. High social standards established in Bashkortostan are in full harmony with the social policy implemented by Sistema JSFC in all regions of its operation".*

Viktor Khoroshavtsev,  
President, OAO  
Bashneft JSOC

<http://www.mkset.ru/news/today/12178/>

**IN 2009 THE COMPANY PAID 545 MILLION RUBLES FOR CONSTRUCTION AND RENOVATION OF 7 EDUCATIONAL FACILITIES AND 455 MILLION RUBLES FOR CONSTRUCTION AND RENOVATION OF 7 HEALTHCARE FACILITIES. ADDITIONAL 200 MILLION RUBLES WERE ALLOCATED FOR PRESERVATION AND MAINTENANCE OF LOCAL CULTURAL AND HISTORICAL LANDMARKS. TOTAL AMOUNT OF SOCIAL INVESTMENTS EXCEEDS 1.2 BILLION RUBLES.**







Assistance was provided to hospitals, clinics, childcare facilities, schools, sports facilities, spas, and summer health camps for children, and not only in larger towns and cities, but also in remote small towns and villages. Thus, citizens everywhere in the Republic are given access to high-quality state-of-the-art educational and healthcare services. For example, a new hospital wing in Sibay, build with the oil producers' money, hosts cardiology and neurology wards, a general therapy division and a computer tomography center, all fitted with state-of-the-art equipment. And thanks to the new dialysis station, local renal patients do not need to travel to Ufa anymore for necessary procedures.

CORPORATE SOCIAL POLICY INCLUDES ASSISTANCE TO VULNERABLE CHILDREN. THE OAO BASHNEFT JSOC SUPPORTS THE Ufa SOCIAL REHABILITATION YOUTH CENTER. OVER 50 CHILDREN ARE LIVING THERE, AND THE COMPANY IS TRYING TO PROVIDE THEM WITH THE SAME COMFORTS AND EDUCATION AND RECREATION OPPORTUNITIES, AS THOSE OF THEIR PEERS WHO LIVE WITH PARENTS. THE OAO BASHNEFT JSOC SUPPORTS ORGANIZATION OF HOLIDAY PERFORMANCES FOR THESE CHILDREN; BRINGS THEM GIFTS FROM SANTA CLAUS. ON THE NEW YEAR'S EVE THE ORPHANAGE RECEIVED 350 THOUSAND RUBLES FROM THE OIL PRODUCERS.

The Company helps schools to acquire necessary equipment and teaching aids. For example, Ufa High School # 141 received a modern computer lab, and the Company supported construction of a school sports ground.

A MODERN COMPUTER LAB GIVEN TO Ufa HIGH SCHOOL # 141 IS THE COMPANY CONTRIBUTION TO DEALING WITH THE "DIGITAL DIVIDE" ISSUE. SPECIALIZED SOFTWARE HELPS TEACHERS TO GUIDE STUDENTS. THIS INNOVATIVE MULTIMEDIA EDUCATIONAL ENVIRONMENT SOLUTION HAS BEEN DEVELOPED BY THE SITRONICS SOFTWARE COMPANY, A SUBSIDIARY OF SISTEMA JSFC. IT IS HELPFUL NOT ONLY IN COMPUTER SCIENCE CLASSES, BUT WHEN STUDYING ANY OTHER SUBJECT. THE SCHOOL HAS ALSO RECEIVED A SPORTS GROUND AS PART OF THE SOCIAL SUPPORT PROGRAM.

Other social facilities that received financing from the Company in 2009 include: Central District Hospital in Sterlibashevsky district; Baikmaysky Agricultural College; schools in Baltachevsky, Burayevsky, and Khaibullinsky districts; recreational center at the Kargai health resort in Mechetlinsky district; a cultural center in Abdulkarimovo village of Baimaysky district; other educational and healthcare facilities.

The OAO Bashneft JSOC is developing a system of fellowships for graduate and postgraduate students of the Ufa State Petroleum Technical University.

Bashneft supports conservation and maintenance of historical, religious, cultural, and natural heritage. It finances renovations and construction of churches. A corporate hotel building was placed in service of the Muslim Religious Board of Bashkortostan.

The Philanthropy Committee that started working in 2010 accepts applications for aid from individuals and organizations, and also works on a draft Registry of construction projects in Bashkortostan that will be financed by the Company philanthropy funds under the 2010 General Agreement. A list that includes 17 such projects has been agreed upon with the Bashkortostan Government. These are sports, educational, and medical facilities in Ufa and other municipalities of the Republic.

APPROXIMATELY 1.24 BILLION RUBLES WILL BE INVESTED IN BASHKORTOSTAN COMMUNITY IN 2010.



The Company cooperates with public authorities not only on the level of the Republic, but also on local levels. For example, the Nizhnevartovsk local self-government signs annual agreements with Nizhnevartovsk field office of Bashneft – Ufa affiliate on co-operation in social and economic spheres. Previously the Company was providing local community only with construction and transportation services. The 2009 agreement provided for co-operation in implementing community development programs. The local self-government and the Company executives are discussing such issues as employment or construction of a highway towards oil fields via Laryak village.

IN 2009 THE OAO BASHKIRNEFTEPRODUKT WAS SELLING EURO DIESEL FUEL TO LOCAL FARMERS AT SUBSTANTIAL DISCOUNTS DURING PLANTING AND HARVESTING SEASONS.

## Sponsorship Projects

The OAO Bashneft JSOC provides sponsorship for athletic clubs and teams; supports sports events, competitions, and tournaments of various levels. For example, the Company sponsors the Bashkortostan Boxing Federation and the Bashneft checkers club. In 2009 the Novoil Refinery contributed 330 thousand rubles to the Bashkortostan Hockey Federation. The Company has made a decision to sponsor the CSKA Moskva football team. In order to develop this co-operation and to promote football in the Republic, the Company plans to design special programs for students of athletic football schools in Bashkortostan.

IN 2009 THE UPSTREAM SECTOR ALLOCATED 5.75 MILLION RUBLES TO SPONSOR ATHLETIC TEAMS, CLUBS, AND CHILDREN AND YOUTH SPORTS SCHOOLS. ARTS AND HUMANITIES WERE SPONSORED IN THE AMOUNT OF 8.682 MILLION RUBLES.







## Environment and Safety



ENVIRONMENTAL POLICY AND ENVIRONMENTAL IMPACT  
MANAGEMENT

OCCUPATIONAL HEALTH AND SAFETY

ENVIRONMENTAL PERFORMANCE

GOALS FOR THE NEXT REPORTING PERIOD

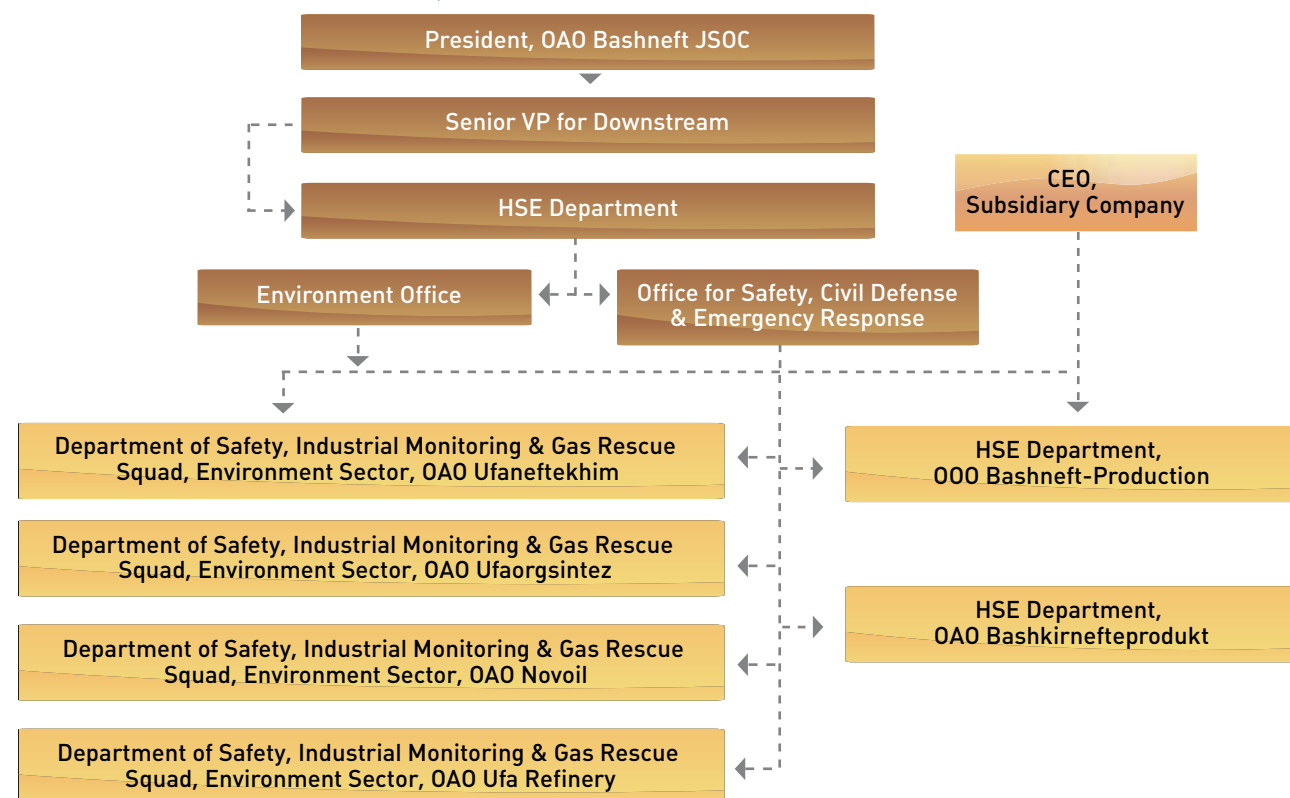


## ENVIRONMENTAL POLICY AND ENVIRONMENTAL IMPACT MANAGEMENT

HSE issues are undisputable priority for a modern petroleum company. This is due not only to tough governmental regulations, but also to recognition by the Company and its executives of their responsibility towards society and future generations for safeguarding environmental well-being and protecting employee health and safety.

Mitigation of adverse environmental impacts and implementation of environment-friendly technologies are at the top of the OAO Bashneft JSOC agenda. Environmental safety issues are inextricably tied with occupational health and safety issues, and that is reflected in the Company management structure.

### HSE, Civil Defense and Emergency Response Management Structure at the OAO Bashneft JSOC and Its Subsidiaries



The operating company is responsible for organizing and coordinating HSE activities at the Company subsidiaries; it monitors overall compliance, and subsidiaries are immediately responsible for providing healthy and safe labor conditions and for complying with HSE requirements.

**By 2010 the Company developed and adopted the long-term functional HSE strategy for 2010-2013<sup>3</sup>.**

In 2009 the HSE Department has audited the HSE management system of the Company and declared it efficient. The OAO Bashneft JSOC ambition is to reach the best HSE performance indicators among Russia's oil majors.

**By the end of 2013 the OAO Bashneft JSOC intends to develop and implement a unified HSE management system harmonized with the OHSAS 18001-2007 and ISO 14000 requirements at all its subsidiaries.**

<sup>3</sup>Adopted by Executive Order # 370 of June 8th, 2010.

**The OAO Bashneft JSOC invested 130 million rubles in environmental protection in 2009.**

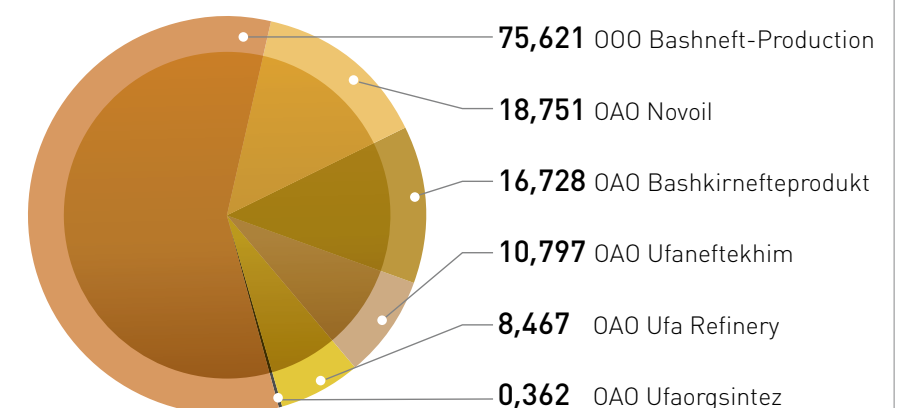
Such a system sets up very high standards for environmental impact management, employee health and safety protection, risk assessment procedures factoring in human errors, and incident investigations.

**By law, any business that might adversely impact the environment, must implement industrial environmental monitoring (IEM) system. In 2010 the Company adopted the Regulations for environmental monitoring in the following areas:**

- Air pollution control;
- Waste treatment;
- Water management;
- Natural resources management;
- Complying with regulations for sanitary protection (buffer) zones;
- Paying pollution charges.

Implementation of IEM will lead, among other things, to establishing a unified system of sustainability-related environmental data gathering from all subsidiaries, which will improve sustainability reporting quality.

Safety spending of the Company subsidiaries in 2009, million rubles



## OCCUPATIONAL HEALTH AND SAFETY Industrial Safety

The OAO Bashneft JSOC enterprises are installing the state-of-the-art technologies and applying best practices for continuously improving labor conditions, enhancing safety, mitigating environmental impacts, minimizing risks of accidents, and improving employee competency.

The Company is working hard on upgrading and modernizing production facilities, equipment, and systems of monitoring, control, and accident prevention. All Company enterprises have adopted targeted programs for ensuring compliance with safety standards. In 2009, the subsidiaries have invested 194.6 million rubles in safety measures.

**Financing of safety measures by the Company totaled 194.6 million rubles in 2009.**

The total length of oil gathering, treatment, and pumping pipeline systems built by the OAO Bashneft JSOC on the Republic of Bashkortostan



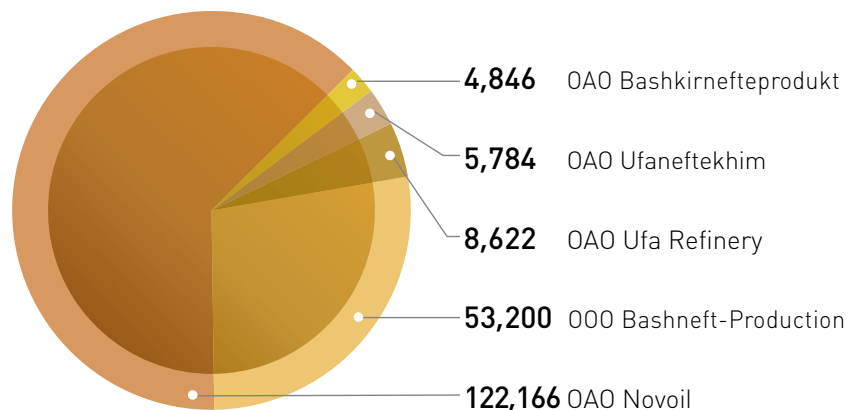
Safety spending of the Company subsidiaries in 2009, million rubles

#### MAIN CAUSES OF ACCIDENTS REGISTERED IN 2009 INCLUDE:

DEFORMATION, PHYSICAL DAMAGE (33%)

MANUFACTURER'S CONCEALED DEFECTS (33%)

CORROSION (34%)

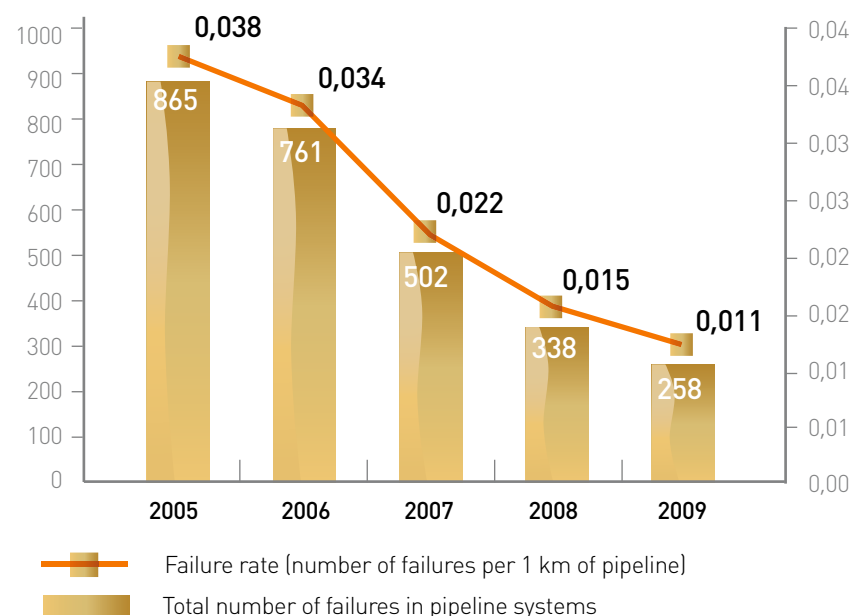


territory alone exceeds 20 thousand kilometers. Many producing oilfields are mature, which means that formation fluids are saturated with salts and corrosive substances. Refineries and petrochemical plants are equipped with highly complex machinery which is also operating in corrosive environment and is run by automated control systems. It is not possible to make systems of that level of complexity one hundred percent failure-proof; however, the Company's objective is to reduce failure incidence and minimize impact of possible accidents, in particular, on employee health and on the environment.

In 2009, one hundred percent of all accidents were caused by manufacturers' latent defects.

The majority of pipeline failures are caused by external corrosion; however, their incidence rate is steadily declining.

Key measures for eliminating identified causes of accidents are described mainly in the "Modernization" Section of this Report.



Pipeline Failures Profile:

## Occupational Health and Safety

The majority of oil industry employees work outdoors, in adverse eco-climate. Other factors that can adversely affect employee health include: intensity of work; occupational noise and vibrations; exposure to oil and petroleum products and to harmful chemical substances.

All company workers are provided with personal protective equipment (PPE) according to specific labor conditions at their workplace; workplaces comply with health and safety requirements.

Safety spending, million rubles

#### FUNDAMENTAL HSE PRINCIPLES AT THE OAO BASHNEFT JSOC:

COMPLIANCE WITH KEY REQUIREMENTS AND DIRECTIONS OF GOVERNMENTAL POLICY.

ENSURING SAFETY OF ALL EMPLOYEES AND CONSERVATION OF NATURE IN THE INTERESTS OF FUTURE GENERATIONS.

COMPLIANCE WITH LAWS AND REGULATIONS.

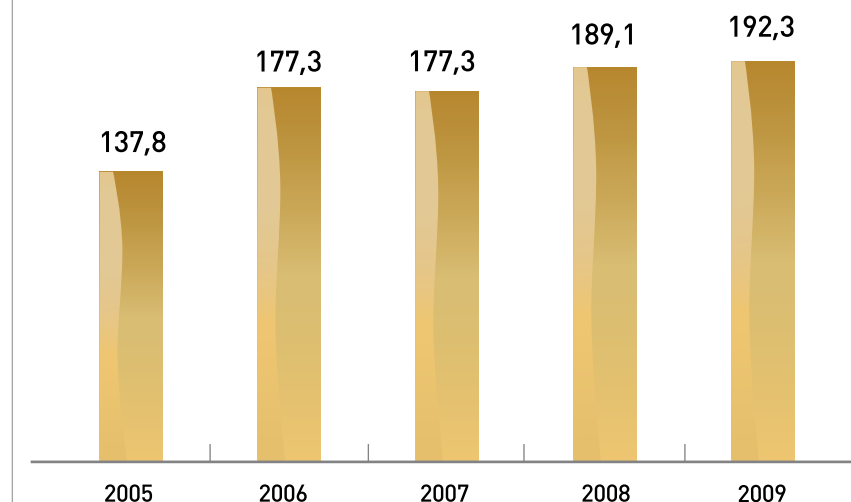
TRANSPARENCY AND ACCESS TO INFORMATION; MOTIVATING EMPLOYEES FOR PERSONAL PARTICIPATION IN HSE MANAGEMENT SYSTEM IMPLEMENTATION.

CONTINUOUS IMPROVEMENT OF HSE MANAGEMENT SYSTEM OPERATION.

REWARDING EMPLOYEES FOR ACTIVE PARTICIPATION IN ENSURING SAFETY.

Main injury reasons in 2009

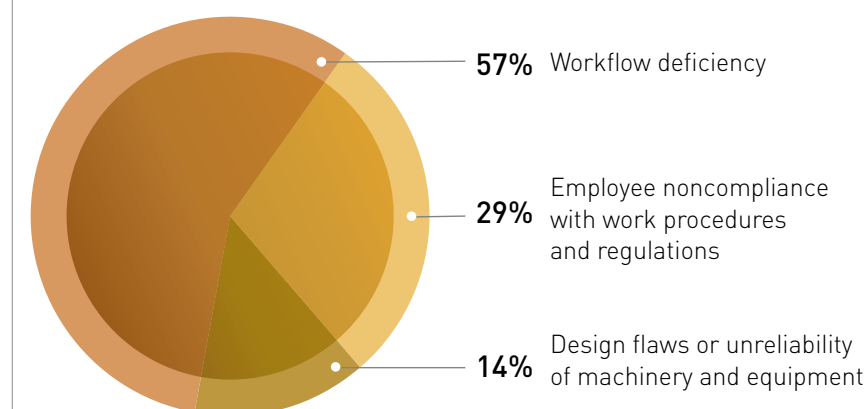
In 2009 the Company continued to implement best innovative safety practices; take preventive measures to preclude accidental injuries and occupational illnesses; strengthening control over compliance to health and safety requirements.



A NEW LD POLYETHYLENE PACKAGING AND FILLING LINE, INSTALLED AT THE OAO UFAORGSINTEZ PLANT IN 2009, IMPROVES INDUSTRIAL AND ENVIRONMENTAL SAFETY OF THE FILLING PROCESS. PREVIOUSLY EMPLOYEES HAD TO WEAR PROTECTIVE MASKS; NOW THERE IS A FILTER THAT COMPLETELY ABSORBS HARMFUL DUST, THUS IMPROVING LABOR ENVIRONMENT. BESIDES, THE UNIT SECURITY SYSTEM INCLUDES HUMAN PRESENCE DETECTION NEAR DANGEROUS MACHINE COMPONENTS, THAT AUTOMATICALLY SHUTS IT DOWN.

During the reporting year, the OAO Bashneft JSOC enterprises organized 10 comprehensive assessments and 11 targeted inspections of HSE systems. The overall HSE strategy of the Company is aimed at achieving zero fatalities and reducing injuries for 25 percent in 2010-2013. In 2009 the injury rates at the Company subsidiaries were substantially below the national average.

One of the key reasons for injuries at workplace is workflow deficiency.



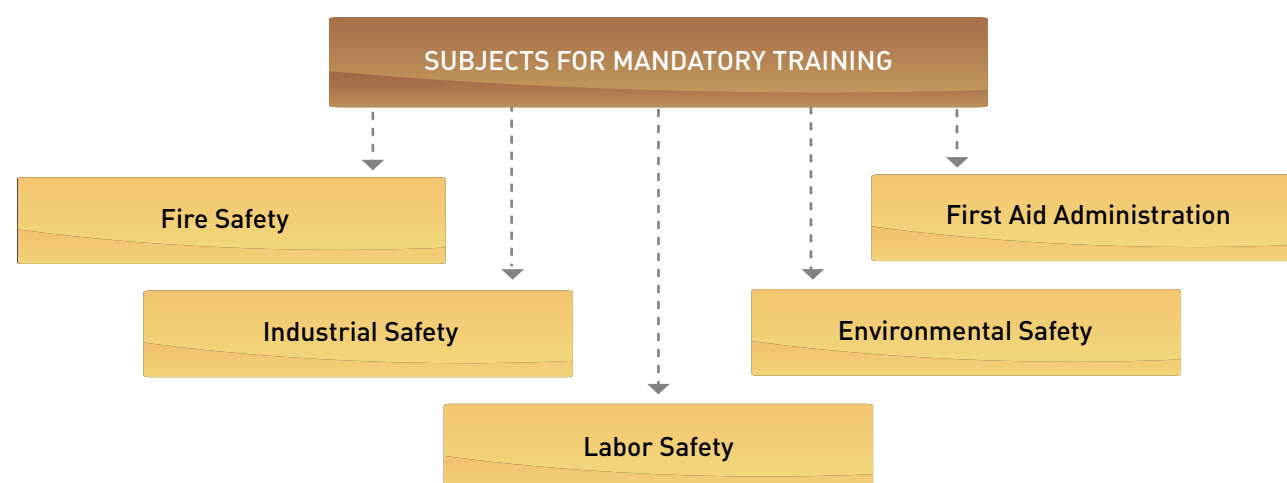
DUE TO COMPREHENSIVE HSE MEASURES AND EMPLOYEE PREVENTIVE, RECREATIONAL, AND MEDICAL TREATMENT, THERE ARE NO CASES OF OCCUPATIONAL DISEASES AT THE COMPANY SUBSIDIARIES SINCE 2005.

## Employee HSE Training

The Company HSE Policy implies active participation of all employees on all levels. We were continuing our work on personnel training and engagement in this process in 2009. Several seminars were held on HSE topics, as well an assessment of employee knowledge of safety procedures; there is a system set in place to reward employees for active participation in ensuring occupational health and safety. Developing corporate culture of safety and security; promoting safety culture is one of the key objectives of the Functional HSE Strategy for 2010-2013.

**IN 2009, THE COMPANY SPENT APPROXIMATELY 24 MILLION RUBLES ON ITS EMPLOYEE TRAINING.**

Mandatory training, including professional retraining, is organized in all subsidiaries in full, according to approved schedules. In 2009, the Company spent approximately 24 million rubles on its employee training.



Professional skills competitions are organized annually for employees in main lines of occupation. Among other things, candidates compete in their compliance with HSE requirements and regulations. Winners receive diplomas, valuable gifts and monetary bonuses.

There is a firefighter competition that involves volunteer fire brigades from various enterprises and departments; a competition among oil-well pumpers and among loading operators.

## ENVIRONMENTAL PERFORMANCE

### Environmental Impacts

Being a cornerstone of national economy, the energy sector substantially impacts natural environment. Industrial concentration in the Republic of Bashkortostan is higher than the national average, especially in terms of oil extraction, oil processing, and petrochemicals production. The complex of chemical and petrochemical plants extends for 270 kilometers along the Belaya River, from Meleuza to Blagoveschensk.

**Main environmental impacts include the following:**

- Using large amounts of fresh water for industrial purposes;
- Ground water and surface water contamination with brine and oil;



- Soil contamination caused by oil pipeline and water supply line breaks due to corrosion or abuse;
- Soil contamination caused by storage pits for sludge (cuttings), brine, and oil from developed wells;
- Harmful emissions, including CO<sub>2</sub>, sulfur dioxide, and soot from APG flaring;
- VOC emissions (carbons, sulfur dioxide, carbon oxide, nitrogen oxides) from oil processing plants.

The Company is working continuously on reducing environmental impact of its operations.

## Reducing Emissions

Each Company enterprise runs a program for reducing emissions. Polluting emissions of the OAO Bashneft JSOC facilities never exceed established standards. In 2009, the gross emission was reduced by 6.7 thousand tons in comparison to 2008, despite increased oil processing production. That was due to efficient organizational and technical measures implemented by the Company.

The Upstream sector is actively working on increasing utilization rate of associated petroleum gas (APG). The company is one of the national leaders in resolving this important problem. The OOO Bashneft-Production uses a number of advances methods for increasing utilization rate of APG and reducing emissions, such as: wet gas injection by multiphase booster pumps; associated gas injection into roof reservoir areas of depleted reef deposits of Ishimbai Group. The APG utilization rate at the OAO Bashneft JSOC is 85.7 percent already; in a couple of years it will reach 95 percent required by the Russian Government.

In 2009, APG output at the OOO Bashneft-Production totaled 376 million cubic meters; in 2008 it totaled 362 million m<sup>3</sup>. APG flaring was reduced from 56 million m<sup>3</sup> in 2008 to 53 million m<sup>3</sup> in 2009, and utilization rate grew to 85.7 percent. The OAO Bashneft JSOC is one of the top three oil majors in terms of successfully addressing this important environmental issue

**ONE EXAMPLE OF SUCCESSFUL APG UTILIZATION MANAGEMENT AT THE OAO BASHNEFT JSOC IS CONSTRUCTION OF A GAS-PISTON POWER PLANT AT THE KIRSKO-KOTTINSKY FIELD IN WEST SIBERIA. THIS PROJECT ALLOWED INCREASING APG UTILIZATION RATE FROM 18 TO 62 PERCENT. CONSTRUCTION OF TWO ADDITIONAL GAS-PISTON UNITS WILL INCREASE UTILIZATION RATE TO 95 PERCENT.**

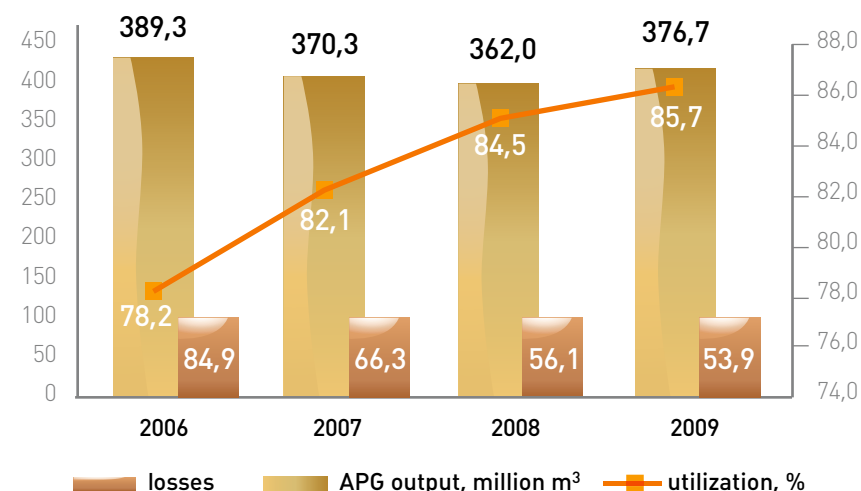
In line with the program of APG utilization rate increase till 2015, all Upstream enterprises of the Company are expected to increase APG utilization rate to 95 percent. Measures to that end include: construction or renovation of over 200 km of additional gas-collection networks that transport APG to utilization sites; introduction of wet gas injection in a number of oil fields.

All OAO Bashneft JAOC tank farms are equipped with vapor recovery units (VRU). Ten such units are annually preventing emissions of up to 30 thousand tons of polluting substances. Besides, VRUs are reducing loss of valuable hydrocarbons and improving oil quality by enriching it with captured lighter fraction, and also increase tank farms reliability and fire safety.

Systematic realization of the Company environmental policy in recent years led to radical improvement of environmental performance at the Ufa Refineries. Thus, emissions at all refineries do not exceed prescribed limits. The majority of captured substances are solid particles of catalysts



### Utilization of Associated Petroleum Gas in 2006-2009



captured by the VRUs at catalytic cracking facilities. A large portion of lighter hydrocarbons is captured in VRUs jointly with hermetic loading units for light petroleum products tank cars. All flares at processing plants are equipped with units for collecting accidental gas discharges with subsequent gas compression and reversion. The OAO Ufaorgsintez plant is equipped with a state-of-the-art air filtering system that is also reducing environmental impact.

Another approach that the OAO Bashneft JSOC takes to reducing emissions is to improve product quality. The Company makes substantial investments in producing more environmental-friendly fuels. The Downstream sector of the OAO Bashneft JSOC is rapidly approaching the international standards in terms of environmental safety. The Ufa refineries produce Euro 4 and Euro 5 gasoline. These fuels reduce polluting emissions tenfold, which is particularly relevant for larger cities.

## Water Management

The OAO Bashneft JSOC facilities aim at maximum efficiency in consuming water which is needed at virtually all stages of oil production and processing. Reduction of water consumption is primarily related to active recycling of water and partial reuse of treated effluents, and to prevention of leakage. The OAO Ufaneftekhim since 1999 and the OAO Novoil since 2007 are using bio-treated effluents from the OAO Ufaneftekhim to feed water circulation systems, which reduces water intake from the Belaya River by 7 million cubic meters annually, and equally reduces waste dumping to this water basin.

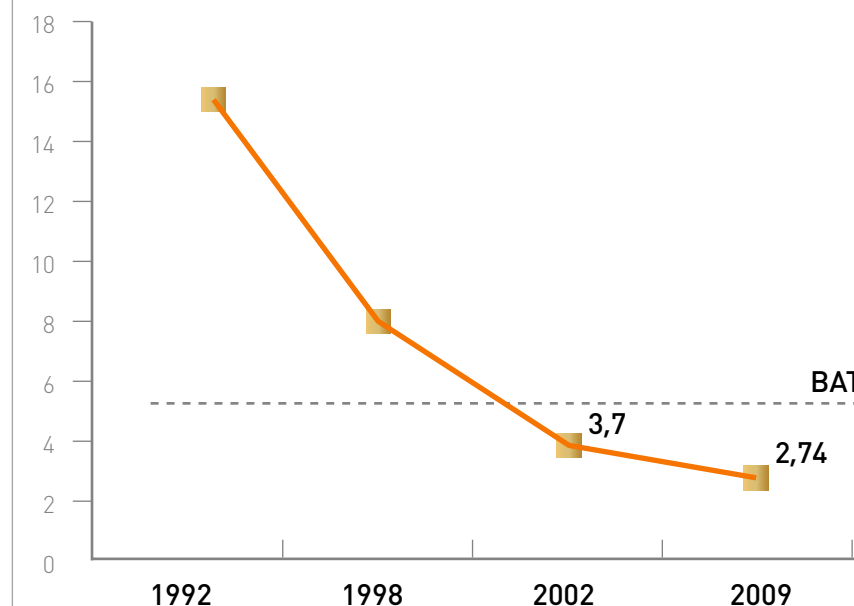
Mechanical purification plants installed at the Ufa refineries – Ufaneftekhim, Ufa Refinery, Novoil, and Ufaorgsintez – separate waste water from oil and base sediments which reduces petroleum products content 100 times: from about 1000 mg/L at the input to less than 10 mg/L at the output. Hydrocarbons are partially reintroduced into production processes, while solids are used in road construction. Waste water from all refineries is transported to the OAO Ufaneftekhim bio-treatment facilities: 62.9 percent of treated water (11.6 million cubic meters per annum) returns to the refineries, and the remaining 37.1 percent whose contents fully comply with environmental regulations are dumped into the Belaya River.

Wastewater treatment parameters at the biological treatment facilities of OAO Ufaneftekhim plant exceed the capabilities of the best available technologies (BAT) in the Russian Federation both in terms of biochemical oxygen demand (BOD, which is generally used as an indication of the organic quality of water) and in terms of oil in water content.

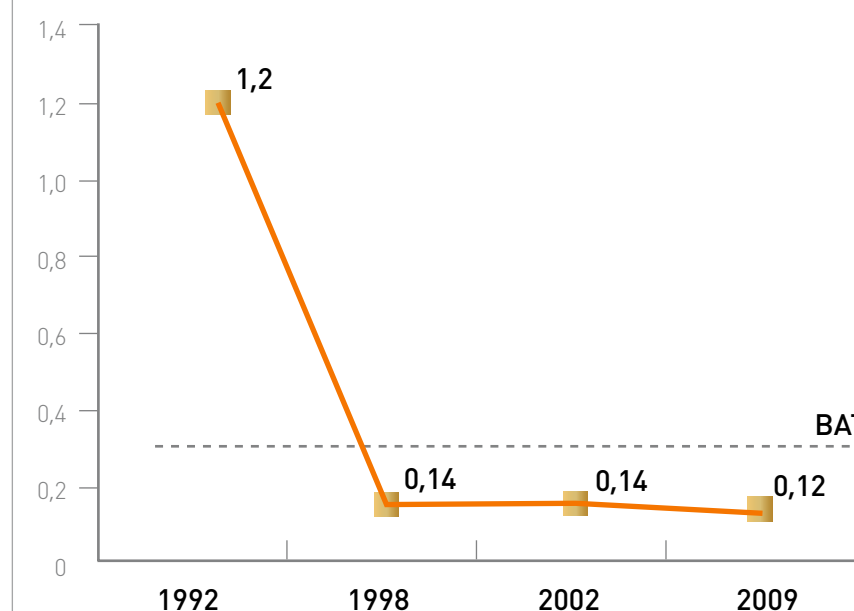
In order to reduce adverse impact on ground and surface waters, gas

THE REFINERIES REUSE 62.9 PERCENT OF WATER AFTER TREATMENT.

### Biochemical oxygen demand, mg/L.



### Oil, mg/L.



station and tank farm sites are equipped with storm water collection systems. SUPER-PEK units are used to treat waste, and treated water is reused by the facilities.

IN JULY 2009, THE OAO BASHKIRNEFTEPRODUKT OPENED THE FIRST IN BASHKORTOSTAN FLOATING FILLING STATION ON THE PAVLOVSKOYE RESERVOIR FOR SMALL WATERBORNE VEHICLES. THIS STATION INCLUDES AN OIL-CARRYING VESSEL WITH TWO MODERN FUEL DISPENSERS AND AN UNDERWATER DOUBLE-SKIN TANK. UNDER NORMAL OPERATION MODE, IT PRECLUDES WATER POLLUTION. THE STATION TAKES ALL NECESSARY PRECAUTIONS THAT COMPLETELY EXCLUDE PETROLEUM LEAKS. THE FACILITY IS EQUIPPED WITH COLLECTORS FOR TREATED WASTE AND ACCIDENTAL SPILLS, OILBOOMS, AND SPECIAL ABSORBENTS IN CASE OF ACCIDENTAL SPILLS OF PETROCHEMICALS. PRIOR TO THE CONSTRUCTION OF PAVLOVSKAYA FLOATING STATION, OWNERS OF MOTOR VESSELS BROUGHT GASOLINE FROM LAND GAS STATIONS IN CANS AND FILLED THEIR FUEL TANKS WITH NO REGARD FOR ENVIRONMENTAL SAFETY REQUIREMENTS. EACH SUCH FILLING COULD LEAD TO WATER CONTAMINATION WITH PETROCHEMICALS.

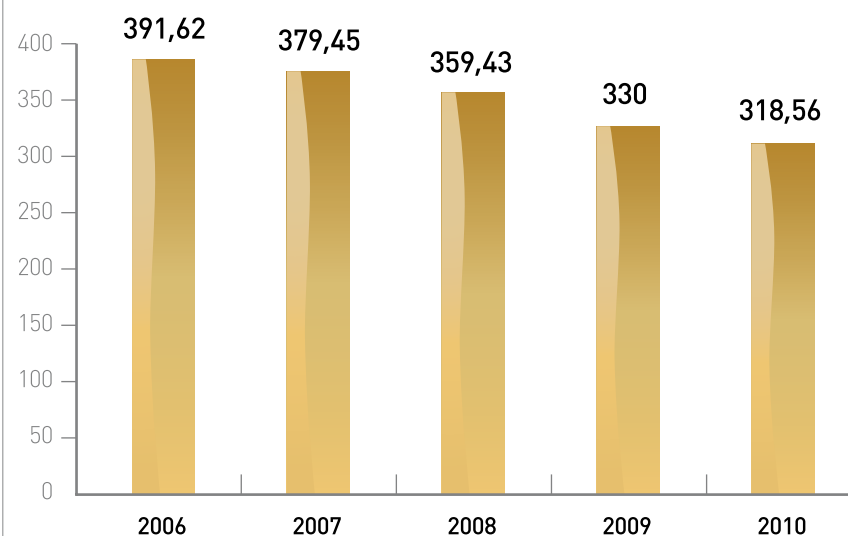
Systems for reuse and recycling of water become more and more common at oil production sites. Water waste is almost completely used in oil extraction processes, which reduces the amount of fresh water injected to maintain formation pressure.

## Recycling and Oil Spills

Oil extraction, treatment, and transportation require numerous production facilities: wells, pumps and various technology units, oil gathering stations, oil and water pipelines, gas collection networks, and various waste-disposal sites. This is why oil industry is one of the active consumers of land reserves.

The main type of waste generated by the OAO Bashneft JSOC is oil sludge – waste created by oil production and oil processing. And one of the key tasks in terms of environmental performance is the maximum treatment and recycling of sludge. The Company is dealing with problems inherited from the Soviet times, disposing waste that was accumulating in collectors for decades waiting for the new treatment technologies to emerge. Today the Company has built specialized sites with modern equipment where 20 to 25 thousand tons of sludge is processed annually.

Utilization of oily waste at the OOO Bashneft-Production is performed by an Alfa Laval sludge treatment unit with processing rate of 5 tons per hour. Over 130 thousand cubic meters of waste was processed since 2001, when this equipment was commissioned. That led to elimination of 29 out of 37 sludge storage pits by 2010. Currently a program of liquidation and reclamation of sludge storage pits is implemented; at 11 former sludge collector areas in Tuymazy district, biological stage of land recultivation is underway.



Reduction of accumulated sludge, thousand tons



Another important innovation in utilizing oily waste is the project "Sludge Utilization with New "Consortium" Bio-Preparation". For more details please see the "Environmental Management and New Technologies" Section.

**CURRENTLY THE VOLUME OF NEWLY GENERATED SLUDGE EQUALS THE VOLUME OF TREATED WASTE AND POSES NO RISK FOR THE ENVIRONMENT.**

In 2009, the OOO Bashneft-Production purchased two new MegaMacS (USA) mobile tank cleaning units. One such unit has already been in operation for several years with good results. Unlike traditional methods of tank cleaning, this technology substantially reduces solids in sludge storage pits. Over 7 thousand cubic meters of sludge was prepared for processing with the MegaMacS units.

The OAO Bashneft JSOC refineries take particular care of waste recycling. Petroleum products captured at the refineries' mechanical purification plants and scavenge oils are recycled at own processing units. In recent years, volumes of recycled, treated and utilized oily sludge exceed newly generated volumes. In 2009, while 30.3 thousand tons of sludge was generated, 36.4 thousand tons was recycled and utilized (in comparison to 36.6 thousand tons and 56 thousand tons respectively in 2008).

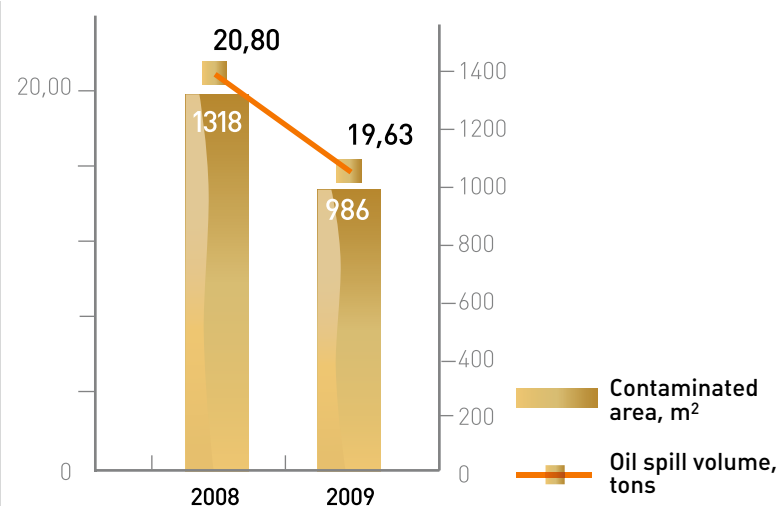
## Spills

Infield pipeline leaks are steadily declining due to a comprehensive set of safety measures, which reduces oil spills and contaminated areas. Since the majority of leaks are due to pipe corrosion, the Upstream facilities prevent accidents by implementing anticorrosive monitoring of pipelines; corrosion inhibitor injection; replacement of steel pipes with corrosion-resistant ones. Thus, the length of corrosion-resistant pipelines at the OAO Bashneft JSOC exceeds 8.3 thousand kilometers (37 percent of total pipeline length).

Over 30 types of industrial and household waste generated by the OAO Bashneft JSOC subsidiaries and oilfield services are utilized under service agreements with specialized facilities.



Soil contamination caused by oil pipeline failures



## Environmental Management and New Technologies

Besides environmental management measures required by law, such as environmental monitoring, utilization of waste at designated sites, land recultivation, water management, air pollution control, overhaul and replacement of damaged sections of oil-gathering systems, water supply lines, and containers, the OAO Bashneft JSOC is actively implementing innovative technologies. Modern technologies and production methods increase lifespan of mature and depleted oil fields. Over 80 efficient oil production technologies are tested and implemented at the OAO Bashneft JSOC and over 20 percent of the overall output is extracted today by enhanced oil recovery methods.

GRACHEVSKY, STARO-KAZANKOVSKY, AND SHAMOVSKY OIL FIELDS USE GAS-DRIVE DEVELOPMENT WHICH ACCOUNTED FOR ADDITIONAL PRODUCTION OF 54.6 THOUSAND TONS OF OIL IN 2009. 126.9 MILLION CUBIC METERS OF GAS WAS INJECTED IN 2009, AND ASSOCIATED PETROLEUM GAS ACCOUNTED FOR TWO THIRDS OF THIS VOLUME. ASSOCIATED PETROLEUM GAS IS SUBSTANTIALLY CHEAPER THAN NATURAL GAS, THUS THE ABOVE METHODOLOGY PERMITS TO UTILIZE A SUBSTANTIAL AMOUNT OF APG AND TO SAVE COSTS.



One of the advanced methods for reducing emissions and simultaneously increasing APG utilization rate is the booster multiphase pumps technology. This technology was applied in Russia for the first time at Ilishevsky oilfield for wet gas injection, which utilizes APG and maintains reservoir pressure.

The OAO Bashneft JSOC has actively participated in organizing the "New Technologies and Safety in Oil and Gas Drilling" conference that was held during the Eighth Russian Petroleum and Gas Congress in Ufa.

The Company has developed and successfully implements a comprehensive program of protecting oilfield equipment from corrosion. The program includes such widely applied technologies as sealing oil gathering systems to prevent introduction of oxygen in oil production, or vapor recovery units. Other common technologies include cathodic protection and corrosion inhibitors.

SUMMARIZING MANY YEARS OF EXPERIENCE AND RESEARCH, THE OAO BASHNEFT JSOC SPECIALISTS HAVE PROPOSED A NEW PRINCIPLE OF OILY SLUDGE TREATMENT BASED ON HYDROCARBON FRACTION UTILIZATION AND BIODEGRADATION OF OIL BOTTOM SEDIMENTS BY MEANS OF APPLYING "CONSORTIUM" PREPARATION AT SPECIALLY DESIGNED WASTE-DISPOSAL SITES. "CONSORTIUM" BIO-

PREPARATION IS A SPECIFIC INDIGENOUS MICROBIAL CONSORTIUM WITH HIGH OILY WASTE BIOREMEDIATION RATE. TESTS HAVE SHOWN THAT OVER 80 PERCENT OF OIL DEGRADES IN THE FIRST 48 HOURS FOLLOWING TREATMENT, AND BY THE FIFTH DAY THE BIODEGRADATION RATE REACHES 95 PERCENT.

THE "CONSORTIUM" PREPARATION IS MUCH MORE EFFECTIVE THAN ITS COMMERCIALY AVAILABLE COUNTERPARTS, AND ITS APPLICATION SUBSTANTIALLY REDUCES ADVERSE ENVIRONMENTAL IMPACT OF OIL EXTRACTION. IN DECEMBER 2009 "CONSORTIUM" BIO-PREPARATION DESIGNED BY THE COMPANY WON THE FOURTH NATIONAL ENVIRONMENTAL AWARD IN THE "SCIENCE FOR ENVIRONMENT" CATEGORY. CURRENTLY TWO WASTE TREATMENT SITES ARE CONSTRUCTED WHERE THIS TECHNOLOGY IS APPLIED, AND FIVE MORE ARE TO FOLLOW. ECONOMIC IMPACT OF IMPLEMENTED MEASURES EXCEEDS 60 MILLION RUBLES ANNUALLY.

Automated control systems and emergency shutdown systems based on microtechnology, installed at the OAO Bashneft JSOC facilities, increase reliability and efficiency of production processes. In its turn, this increases safety and reduces probability of accidents harmful for the environment.

Implementation of the AutoTracker remote vehicle control system increases efficiency of the OAO Bashkirnefteprodukt transport operation. The system, based on GPS and mobile communication technologies, provides real-time data on the exact location of vehicles and various other parameters. Besides saving costs of vehicle operation and maintenance and reducing idle times, the AutoTracker system increases oil transportation safety, optimizes routes, saves fuel, reduces unnecessary mileage, and therefore reduces CO2 emissions.







## Goals for the Next Reporting Period

### Safety Goals

- Achieve zero fatalities and reducing injuries for 25 percent in 2010-2013;
- Ensure employee health and safety; improve safety performance; reduce the number of jobs in hazardous occupational environment by 11 percent in 2010-2013;
- Modernize production units; ensure compliance of dangerous production units with the HSE requirements and regulations;
- Reduce the risk of spending on restoration of dangerous production units with optional accident insurance;
- Reduce pipeline failure rate by 30 percent in 2010-2013;
- Ensure sufficient employee protection in case of emergencies; introduce 3D modeling of potentially dangerous objects into management procedures;
- Establish a system of occupational risk management aimed at minimizing adverse impact of production conditions on employee health.

### Environmental Goals

- Raise utilization rate of associated petroleum gas to 93.5 percent;
- Complete a feasibility study and develop a project for modernization of a unified facility for biological treatment of industrial waste to make the quality of treatment comply with regulatory requirements;
- Relocate from the water protection zone of the Belaya River or tear-down pipelines for untreated waste water;
- Reduce accumulated oil sludge by means of building facilities for oil sludge biological treatment and utilization by third-party organizations.

IN 2010 THE OAO BASHNEFT JSOC AND ITS SUBSIDIARIES WILL SPEND 12.6 BILLION RUBLES ON HSE







# Report Profile

This report is the first Sustainability Report prepared by the OAO Bashneft JSOC. The reporting period covers the 2009 calendar year. For comparative purposes, the data prior to the reporting period are also included where appropriate to better reflect the changes taking place in the Company. The report also includes information about sustainability policies that were still under development in 2009, and were adopted only in 2010.

The reporting process was guided by the Communications Department of the OAO Bashneft JSOC. The reporting methodology follows the GRI Sustainability Reporting Framework (G3 Guidelines).

**The report includes information about the key Upstream and Downstream enterprises operating mainly in the Republic of Bashkortostan, including the following:**

Governance	OAO Bashneft JSOC
Upstream	OOO Bashneft-Production
	OOO BashNIPIneft Research Institute
	OOO Bashneft-Geostroy (oilfield services)
Downstream	OAO Ufaneftekhim
	OAO Ufa Refinery
	OAO Novoil
	OAO Ufaorgsintez
Sales	OAO Bashkirnefteprodukt

The report does not include data concerning some of oilfield service assets such as, for example, drilling companies, since the OAO Bashneft JSOC is currently changing its oilfield services structure and shifting part of these companies to outsourcing.

The Sistema JSFC has acquired the majority interest in Bashkortostan energy assets only in March 2009, and therefore the process of transforming the OAO Bashneft JSOC into a vertically-integrated oil company took the entire reporting period. A unified system of data gathering, especially of collecting sustainability data, is still to be implemented. This is the reason why this report includes a limited range of performance indicators, in some cases covering only some of the business segments.

Thus, environmental performance indicators cover mainly the Downstream and Sales segments.

YOU COMMENTS AND SUGGESTIONS CONCERNING THIS REPORT CAN BE MAILED TO:

# 30, KARL MARX ST.,  
 UFA, REPUBLIC OF  
 BASHKORTOSTAN, 450008,  
 RUSSIA

MEDIA@BASHNEFT.RU

As integration processes near their completion and a unified system of data gathering and processing is established, the number of sustainability performance indicators reported will grow.

In order to determine materiality of the report contents, we have analyzed the Company’s internal and published documentation covering its development strategy, as well as public and corporate media and online publications, statements of the Company executives and owners, stakeholders’ expectations recorded during closed consultations and public meetings and events.

The main stakeholders and potential users of this report are the Company employees, shareholders, suppliers, and customers, and also public authorities and the general public represented by NGOs. The main groups of stakeholders were identified while developing and approving the OAO Bashneft JSOC Corporate Social Responsibility Policy.

We believe that the overall disclosure of performance indicators in this report is consistent with the Application Level C. We plan to issue such reports annually from now on.

For the list of Standard Disclosures and performance indicators, please see Appendix 1.

## Standard Disclosures



<b>1.1 Statement from the most senior decision maker of the organization</b>	Address from the Chairman of the Board, OAO Bashneft JSOC Address from the President, OAO Bashneft JSOC
<b>2.1 Name of the organization.</b>	Publicly Traded Company (OAO) "Bashneft Joint-Stock Oil Company"
<b>2.2. Primary brands, products, and/or services.</b>	<p><b>The OAO Bashneft JSOC core business includes the following:</b></p> <ul style="list-style-type: none"> <li>• oil and gas exploration;</li> <li>• oil and gas fields development;</li> <li>• oil extraction, gathering, and processing;</li> <li>• natural and associated gases' extraction, gathering, and processing;</li> <li>• construction and installation, repair, and roadwork;</li> <li>• oil and gas field development;</li> <li>• domestic sales of oil, petroleum products and petrochemicals;</li> <li>• export sales of oil, petroleum products and petrochemicals;</li> <li>• production of petroleum products, commercial gases, thermal and electric power generation;</li> <li>• production services in all core business areas; equipment leasing;</li> <li>• oil and gas wells and equipment workover;</li> <li>• manufacturing of equipment, parts, and materials;</li> <li>• distribution and sales;</li> <li>• research and development;</li> <li>• marketing and investment.</li> </ul> <p>For complete list of petroleum products, petrochemicals and LPGs, please visit the Company website at: <a href="http://www.bashneft.ru/resources/links/nomenklatura_npz.doc">www.bashneft.ru/resources/links/nomenklatura_npz.doc</a>.</p>
<b>2.3 Operational structure of the organization</b>	See the "Operational Structure" Section
<b>2.4 Location of organization's headquarters.</b>	#30, Karl Marx St., Ufa, Republic of Bashkortostan, 450008, Russia
<b>2.5 Number of countries where the organization operates</b>	The Company operates in the Russian Federation
<b>2.6 Nature of ownership and legal form.</b>	Shared ownership. Publicly traded company. Main shareholders as of the end of 2009: Sistema JSFC – 52.1% of equity capital Sistema-Invest JSFC – 20.8% of equity capital
<b>2.7 Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).</b>	<p>The Company Upstream is located mainly in the Republic of Bashkortostan, and also in Khanty-Mansi Autonomous Territory, the Republic of Tatarstan, and Orenburg Region.</p> <p>The Company Downstream facilities are located in the Republic of Bashkortostan. Bashneft products are sold across Russia and exported to Eastern and Western European countries, Kazakhstan and Ukraine. Retail sales of petroleum products are conducted mainly via the Company chain of 319 gas stations – the OAO Bashkirnefteprodukt – in the Republic of Bashkortostan and Chelyabinsk Region.</p>
<b>2.8 Scale of the reporting organization</b>	See "Key Financial and Economic Performance Indicators in 2009" Section.
<b>2.9. Significant changes during the reporting period regarding size, structure, or ownership</b>	Acquisition of majority stakes in OAO Bashneft, OAO Ufa Refinery, OAO Ufaneftekhim, OAO Novoil, OAO Ufaorgsintez, and OAO Bashkirnefteprodukt; acquisition offers made to other shareholders; organizational structure changes; OOO Bashneft-Production subsidiary established.

<b>2.10. Awards received in the reporting period.</b>	See "Awards for CSR and Sustainability Performance" Section
<b>3. REPORT PARAMETERS</b>	
<b>Report Profile 3.1 – 3.13</b>	See "Report Profile" Section
<b>4. GOVERNANCE, COMMITMENTS, AND ENGAGEMENT</b>	
GOVERNANCE	
<b>4.1. Governance structure of the organization</b>	See "Corporate Governance" Section
<b>4.2. Indicate whether the Chair of the highest governance body is also an executive officer</b>	The Chairman of the Board is not an executive officer of the company. The Company CEO (President) may not simultaneously serve as the Chairman of the Board (Board of Directors Regulation, Paragraph 3.2.1.)
<b>4.3. The number of members of the highest governance body that are independent and/or non-executive members.</b>	<p>In 2009, the Board of Directors included 9 members representing shareholders and the Company management. The complete list of Board members as of the end of 2009, and their personal details, can be found in the Quarterly Report for Q4 2009 at: <a href="http://www.bn-rb.ru/files/bn_report_123.rtf">www.bn-rb.ru/files/bn_report_123.rtf</a></p> <p>The Company aims at assuring nomination and election of independent Board members in compliance with the current legislation.</p> <p>In 2010, the Board includes one independent Director in compliance with the independence criteria established in the Board of Directors Regulation, Paragraph 2.5.5., and recommended in the Federal Commission for the Securities Market Corporate Code of Conduct.</p>
<b>4.4. Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.</b>	See "Key Stakeholders and Stakeholder Engagement" Section
<b>4.5. Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organization's performance.</b>	Members of the Board of Directors and the Checkup Committee do not receive monetary compensation. Members of the Executive Board receive monthly salaries according to their labor contracts and performance-based bonuses in the amount determined by the Board of Directors. The Company is implementing a modern employee motivation system based on a balanced set of key performance indicators. The KPI system registers financial and qualitative performance aspects and allows their objective assessment. The KPI level determines monetary bonuses. The KPI list includes social and environmental performance indicators.
<b>4.6. Processes in place for the highest governance body to ensure conflicts of interest are avoided.</b>	Members of the Board of Directors avoid any actions that can potentially lead to conflicts of interest; if such a conflict exists or emerges, they disclose it to the Board of Directors (Board of Directors Regulation, Paragraph 2.4.2.). Similar provisions are included in the Corporate Code of Conduct. A candidate for the Board of Directors membership may not be an executive or a supervisor in any of the OAO Bashneft JSOC supplier companies or be affiliated with such suppliers.
<b>4.7. Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics.</b>	Qualifications and expertise of the Executive Board members are determined by the Board of Directors. An Executive Board member should have a university degree, an impeccable reputation, and no record of conviction for economic crimes, offence against the state or morality.



4.8. Internally developed statements of mission or values.	See "Sustainability Policy" Section.
4.9. Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance.	Assessment of internal and external audit findings and of the Checkup Committee results. Application of the KPI system.
4.10. Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	The Board of Directors' performance is also assessed on the basis of KPIs. See paragraph 4.5 above.
4.12. Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses.	The Company plans to join the Russian Union of Industrialists and Entrepreneurs' Social Charter in 2010.
4.13. Memberships in associations.	See "Stakeholder Engagement" Section
4.14. List of stakeholder groups engaged by the organization.	See "Stakeholder Engagement" Section
4.15. Basis for identification and selection of stakeholders.	See "Stakeholder Engagement" Section
4.16. Approaches to stakeholder engagement.	See "Stakeholder Engagement" Section
4.17. Key topics and concerns that have been raised through stakeholder engagement.	See "Stakeholder Engagement" Section
5. PERFORMANCE INDICATORS	
ECONOMIC PERFORMANCE INDICATORS	
EC1. Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	Partially disclosed in the "Key Financial and Economic Performance Indicators in 2009" Section
EC3. Coverage of the organization's defined benefit plan obligations.	Retirement pensions for the Company's employees in compliance with current legislation.
EC6. Policy and practices of spending on locally-based suppliers.	See "Suppliers" Section
EC7. Procedures for local hiring and proportion of senior management hired from the local community.	The Company does not have separate procedures for local hiring; however, at locations of significant operation, which include the Republic of Bashkortostan, the majority of employees, including managers, and in fact coming from the local community.



EC8. Development and impact of infrastructure investments and services provided primarily for public benefit.	See "Co-operation with Locations of Operation" Section
EC9. Understanding and describing significant indirect economic impacts.	See "Co-operation with Locations of Operation" Section
ENVIRONMENTAL PERFORMANCE INDICATORS	
EN1. Materials used by weight or volume.	See partially in the "Our Business" Section
EN2. Percentage of materials used that are recycled input materials.	See "Recycling and Oil Spills" Section
EN5. Energy saved due to conservation and efficiency improvements	See "Energy Efficiency" Section
EN6. initiatives to provide energy-efficient products and services.	See "Energy Efficiency" Section
EN9. Water sources significantly affected by withdrawal of water	See "Water Management" Section
EN10. Percentage and total volume of water recycled and reused.	See "Water Management" Section
EN18. Initiatives to reduce greenhouse gas emissions and reductions achieved.	See "Reducing Emissions" Section
EN23. Total number and volume of significant spills.	See "Spills" Section
EN26. Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	See "Environmental Performance" Section
EN30. Total environmental protection expenditures and investments by type.	See "Environmental Policy and Environmental Impact Management" Section



## SOCIAL PERFORMANCE INDICATORS

<b>LA1. Total workforce by employment type, employment contract, and region.</b>	<b>Workforce by gender</b>		
	Total workforce including:	21926	
	men	13318	
	women	8608	
	<b>Workforce by employment type:</b>		
	managers	9.7	2130
	professionals	16.0	3505
	workers	0.3	71
	office employees	74.0	16220
	<b>Workforce by age group</b>		
	< 30	14.6	3202
	30 to 50	62.2	13635
	> 50	23.2	5089
	See "Labor and Social Policy" Section		
<b>LA2. Total number and rate of employee turnover by age group, gender, and region.</b>	<b>Employee turnover by gender</b>		
	Total number of employees leaving the organization during the reporting period including:	854	
	men	423	
	women	431	
	<b>Employee turnover by age group</b>		
	Total number of employees leaving the organization in 2009 – 854 including the age groups:		
	< 30	14.6	86
	30 to 50	62.2	369
	> 50	23.2	399
<b>LA3. Benefits provided to employees.</b>	<b>Costs in 2009, in thousand rubles</b>		
	costs of recreation and rehabilitation	64698.3	
	costs of healthcare	697	
	cultural events	88	
	New Year gifts for children and holiday events	2598.3	
	funeral costs	5076.2	
	financial aid to retirees	7145.4	
	rewards in conjunction with employees' anniversaries	13598.2	
	other benefits, including:		
	– financial aid for compassionate reasons	941.7	
	– benefits in conjunction with retirement	5180.6	
<b>LA4. Percentage of employees covered by collective bargaining agreements.</b>	All employees (100%) are covered by collective bargaining agreements.		
<b>LA5. Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.</b>	In compliance with Chapter IV "Employment Provision" of the Collective Agreement, in case of substantial operational changes (such as liquidation of the organization or lay-offs), the employer should notify each employee individually two months prior to the termination of their employment; and send two-months written notices concerning such events to the Employees' Council and to the Field Offices' Representative Boards of Primary Trade Union Organizations (in case of large-scale lay-offs, three-months notices).		



LA7. Rates of injury..	See "Occupational Health and Safety" Section		
LA9. Health and safety topics covered in formal agreements with trade unions.	The "Occupational Safety" Section is a mandatory part of all collective bargain agreements.		
LA10. Average hours of training per year per employee by employee category.	See "Employee Training and Development" Section		
LA11 Programs for skills management and lifelong learning.	Employees' training schedules include annual programs for improving their economic literacy and management skills. These are usually short training courses of up to 72 academic hours. These training courses are funded under the budget item "Employee Training and Development". Upon retirement, employees receive retirement benefits. If it is necessary to dismiss an employee prior to the age of retirement, possibilities for offering other employment with the company are examined. If necessary, the company may pay for the employee's professional retraining. If it proves impossible to offer the employee another job with the company, he or she receives severance payment.		
LA12 Percentage of employees receiving regular performance and career development reviews.	Procedures for annual performance and career development reviews cover the company's engineers and technicians, who constitute approximately 30 percent of all employees. No reviews were given in 2009 *Upstream data only		
LA13 Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Composition of governance bodies:	%	Number
	men	77.6	1652
	women	22.4	478
	< 30 years of age	8.0	171
	30 to 50	8.2	1453
	> 50	23.8	506
LA14 Ratio of basic salary of men to women.	There is no difference in salary levels for men and women holding the same positions.		

## HUMAN RIGHTS PERFORMANCE INDICATORS

<b>HR1 Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.</b>	Not assessed.
<b>HR2 Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.</b>	Not assessed.
<b>HR3 Total hours of employee training on policies and procedures concerning aspects of human rights.</b>	No such training.
<b>HR4 Total number of incidents of discrimination and actions taken.</b>	No incidents of discrimination were recorded in 2009.
<b>HR5 Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.</b>	The Company employees exercise in full their rights to freedom of association. Trade unions operate freely at all the subsidiaries, and collective bargaining is taking place prior to signing collective agreements.





HR6 Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor.	All labor arrangements strictly comply with legislation in force, and in particular with the Labor Code. Due to the nature of the Company business, there is no risk of using child labor.
HR7 Operations identified as having significant risk for incidents of forced or compulsory labor.	No incidents of forced or compulsory labor have been recorded. All labor arrangements strictly comply with legislation in force, and in particular with the Labor Code.
HR8 Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.	No such training.
HR9 Total number of incidents of violations involving rights of indigenous people.	No incidents of violations involving rights of indigenous people have been recorded.

#### SOCIETY PERFORMANCE INDICATORS

S01 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	See "Co-operation with Locations of Operation" Section
S02 Percentage and total number of business units analyzed for risks related to corruption.	No such analysis performed.
S03 Percentage of employees trained in organization's anti-corruption policies and procedures.	No such training conducted.
S04 Actions taken in response to incidents of corruption.	No incidents of corruption have been recorded. The employees' conduct towards corruption is regulated by the Corporate Code of Conduct. Corruption is also deterred by transparent procedures of decision-making, for example, when choosing a supplier (see "Suppliers" Section), and by the established corporate system of internal audits.
S05 Public policy positions and participation in public policy development and lobbying.	See "Public Authorities" Section.
S06 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	The Company does not make contributions to political parties.
S07 Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.	There are no such legal actions.
S08 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.	No such data available.

#### PRODUCT RESPONSIBILITY PERFORMANCE INDICATORS

PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	See "Product Quality" Section
PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services.	No incidents recorded.
PR3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	In compliance with the Russian Federation laws.
PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	No incidents recorded.
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	See "Consumers" Section.
PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications.	Advertising, promotion, and sponsorship activities of the entire Company and of all its subsidiaries fully comply with existing laws and regulations.
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	No complaints have been recorded.

GLOSSARY OF ACRONYMS

APG	Associated petroleum gas
BAT	Best available technology
BOD	Biochemical oxygen demand
CSR	Corporate social responsibility
HSE	Health, safety, and environment
IEM	Industrial environmental monitoring
JSFC	Joint Stock Financial Corporation
JSOC	Joint Stock Oil Company
KPI	Key performance indicators
LD polyethylene	Low density polyethylene
LNG	Liquefied natural gas
LTA	Lost time accidents
OOO	Limited liability company
OA0	Joint stock company
PPE	Personal protective equipment
RAS	Russian Accounting Standards
TsDU TEK	Central Control Administration, Fuel and Energy Complex, Ministry of Energy
VOC	Volatile organic compound
VRU	Vapor recovery unit



