



**BASHNEFT**



2015

STAYING  
THE COURSE  
Sustainability  
report

# STAYING THE COURSE

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

**The key aim of our business** is to increase the Group's shareholder value.

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

**Our values include:** professionalism, quality, safety, efficiency and team spirit.





**BASHNEFT**

# STAYING THE COURSE

Sustainability report  
for 2015

# KEY RESULTS OF THE YEAR



**1.2** BILLION  
ROUBLES

Expenditure on occupational safety



**0.3**

Lost time injury frequency rate (LTIFR)



**95.7%**

Of gasoline output and almost 100% of diesel fuel output meets the Euro 5 standard

# HIGHLIGHTS OF THE YEAR



PAGE 27

Approval of a new Strategy and a Long-Term Development Programme for the period from 2015 through 2020



PAGE 61

Start of construction of an oil sludge processing unit at the Group's refineries



PAGE 83

Conclusion of agreements with MSU and leading regional universities



PAGE 88

Significant expansion of the scope of social programmes



PAGE 118

Continued implementation of charitable programmes under agreements with our operating regions

## Headcount, thousand employees

In 2015 the average number of Bashneft's employees increased by

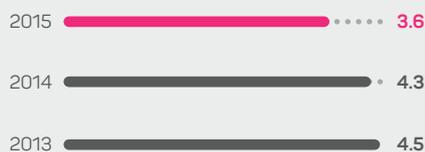
**7.8%**



## Staff turnover, %

In 2015 staff turnover decreased by

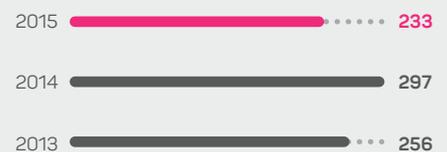
**0.7** P.P.

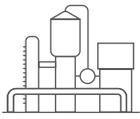


## Total amount of tax payments, billion rubles

We paid in tax to budgets of all levels

**233** BILLION RUBLES





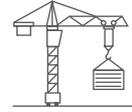
27%

Increase in oil sludge processing



3.6%

Staff turnover



~1.9 BILLION ROUBLES

Expenditure on development of operating regions

## MAIN ACHIEVEMENTS in the sphere of sustainable development

### SAFE DEVELOPMENT AND ENVIRONMENTAL PROTECTION

- The LTIF rate was reduced by 10%.
- The annual safety training plan was implemented; the amount of training in occupational and process safety provided to employees exceeded 4,800 person-courses.
- The traffic accident rate was reduced by 33%.
- The share of incidents caused by contractors decreased by 6%.
- The stage of construction of biological treatment facilities scheduled for the year was completed.
- Nine sludge pits were eliminated; 68 thousand tonnes of drilling waste was processed.
- Harmful atmospheric emissions were reduced as installation of floating roofs and gas line hook-up was completed at oil storage facilities.
- Associated gas utilization rate within the group of payers using subsoil resources increased to 85.8%.
- The pipeline failure rate was reduced by 5%.
- The HSE management system once again underwent a compliance audit to assess its conformity with the OHSAS 18001 and ISO 19001 standards. Three companies forming part of the Group underwent additional certification.

### SOCIAL POLICY AND HUMAN RESOURCE DEVELOPMENT

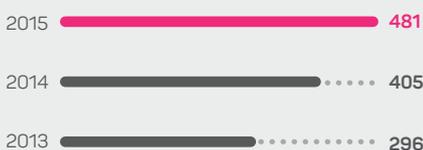
- The headcount in the Group amounts to almost 36 thousand people, including more than 31 thousand employees in the Republic of Bashkortostan.
- The staff turnover rate was reduced to 3.6%.
- The number of employees who underwent performance evaluation grew by 19%.
- Expenditure on the implementation of social policy exceeded 1.2 billion roubles.
- The development of education programmes, including distance learning, was continued.
- A project to create the Group's talent pool was launched.
- Funding for training and development programmes in 2015 totalled around 190 million roubles.
- Support of corporate culture development programmes, including sports events and volunteering, was enhanced.

### CORPORATE GOVERNANCE AND STAKEHOLDER ENGAGEMENT

- A competent Board of Directors was formed.
- There are five committees under the Board of Directors.
- The Audit Committee and the Nominating and Compensation Committee of the Board of Directors comprise only independent directors.
- Independent directors serve on all committees of the Board of Directors.
- 233 billion roubles were paid in tax to budgets of various levels in 2015.
- 1.9 billion roubles were spent on charity work and development of social infrastructure in the Group's operating regions.
- Funding was provided for 80 social and infrastructure projects in the Republic of Bashkortostan.

### Renovation and major repairs of flowlines, kilometres

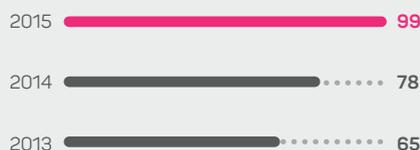
In 2015 we considerably expanded the scope of our programme of renovation and major repairs of flowlines.



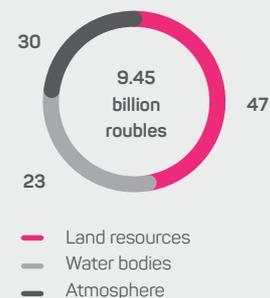
### Oil sludge processing, thousand tonnes

In 2015 the volume of oil sludge processing grew by

27%



### Expenditure on environmental protection by area



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# ABOUT THE REPORT

## GENERAL PROVISIONS

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

PJSOC Bashneft publishes the Sustainability Report on an annual basis. This Report covers data within the reporting period from January 1 to December 31, 2015. The previous Report covered the same period in 2014 and was published in June 2015. [G4-28, G4-29, G4-30](#)

**This Report contains information on the following legal entities:**

- The Group's parent company, PJSOC Bashneft, including its branches:
  - Bashneft-UNPZ Branch,
  - Bashneft-Novoil Branch,
  - Bashneft-Ufaneftekhim Branch,
  - Bashneft – Regional Sales Branch;
- Material subsidiaries:
  - LLC Bashneft-Dobycha (a 100% stake),
  - LLC Bashneft-Retail Sales (previously LLC Bashneft-Udmurtia; a 100% stake),
  - LLC Bashneft-Polyus (a 74.9% stake),
  - LLC Burneftegaz (a 100% stake),
  - PJSC Ufaorgsintez (a 67.53% stake<sup>1</sup>). [G4-17](#)

The Report also contains information on other subsidiaries and joint ventures.

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

When preparing this Report, we used the Core option of information disclosure. A table containing a complete list of aspects covered by the Report and the numbers of pages where the relevant indicators are discussed is presented in Appendix 2 'GRI Content Index.' [G4-32](#)

We are considering a gradual expansion of the scope of information disclosures in the future as part of a transition to the Comprehensive option; therefore, in this Report we seek to dis-

close more information on a number of aspects than what is required for the Core option.

This Sustainability Report has not been externally assured by professional auditors. Nevertheless, the Group recognizes the importance of external professional assurance procedures for improving confidence in non-financial reports and plans to seek external assurance in the future. At the same time, we have received public endorsement for our Report from the RSPF Council on Non-Financial Reporting and have used the GRI Materiality Disclosures Service procedure. [G4-33](#)

Certain amounts presented in tables, graphs and diagrams in this report may differ from the sum of component parts due to rounding.

## PROCESS FOR DEFINING MATERIAL ASPECTS AND THEIR BOUNDARIES [G4-18](#)

The process for defining the content of the 2015 Sustainability Report is based on a dialogue with key stakeholders throughout the reporting period. We gather, classify and analyse issues raised and topics discussed by stakeholders across the entire range of communication channels, and we compile the first provisional list of areas of the greatest interest and importance to stakeholders.

This process also involves holding consultations within the Group in order to get the opinion of independent members of the Board of Directors serving on the Health, Safety, Environment and Social Responsibility Committee and the opinion of the Group's senior executives. We also take into account the opinion of managers of Bashneft's divisions and subsidiaries as they have direct knowledge of the situation in specific areas taking into account potential aspect boundaries within the Group.

Analysis of performance indicators and key events in the reporting period provides an additional source of information: we assess the impact of various changes in the Group, including those related to its geographical footprint, corporate governance, shareholder structure, strategy, etc., on the composition, content and boundaries of aspects that may be considered to be material.

In addition, we analyse best practices used by Russian and foreign oil and gas companies for defining the content of non-financial reports.

Based on the analysis of information that we have gathered, we compile a provisional list of aspects. A working group discusses the provisional list with heads of the Group's divisions and business units in order to form a set of aspects that have a high level of materiality and a considerable impact on stakeholders' opinions and decisions and to assess the boundaries of the aspects. At the same time, we maintain continuity and consistency with regard to the aspects and indicators disclosed in previous years.

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

## DIFFERENCES FROM THE SUSTAINABILITY REPORT FOR 2014 [G4-22](#)

The scope of consolidation of data for 2015 includes LLC Burneftegaz, a large oil producer whose main assets are located in the Khanty-Mansi Autonomous District, and JSC UPC, a company within which the Group's petrochemical assets (PJSC Ufaorgsintez, LLC Tuimazinskoye Gas Processing Plant and LLC Shkapovskoye Gas Processing Plant) have been consolidated. In addition, starting from 2015 we consolidate data on LLC Bashneft-Polyus on a 100% basis.

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

In 2015 the Involuntary Resettlement aspect in the Society subcategory of the Social category was excluded from the scope of material aspects. There were no significant changes in aspect boundaries compared to previous reporting periods. [G4-23](#)

1. In March 2016, Bashneft acquired an additional 19.04% stake in the authorized share capital of PJSC Ufaorgsintez having consolidated 86.57% of its share capital

## Material aspects and their boundaries G4-19, G4-20, G4-21

### CATEGORY

### SUBCATEGORY

### ASPECTS



#### Economic

-

- Economic Performance
- Market Presence
- Indirect Economic Impacts
- Reserves



#### Environmental

-

- Materials
- Energy
- Water
- Ecosystem Services including Biodiversity
- Emissions
- Effluents and Waste
- Products and Services
- Compliance
- Overall
- Environmental Grievance Mechanisms



#### Social

Labour Practices and Decent Work

- Employment
- Occupational Health and Safety
- Training and Education

Human Rights

- Indigenous Rights

Society

- Local Communities

- Anti-corruption

- Compliance

- Emergency Preparedness

- Asset Integrity and Process Safety

Product Responsibility

- Customer Health and Safety



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



# ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE PRESIDENT OF THE GROUP G4-1, G4-2



ALEXEY TEKSLER,  
Chairman of the Board of Directors  
of PJSC Bashneft

A blue ink handwritten signature of Alexey Teksler, consisting of several loops and a final flourish.

## DEAR COLLEAGUES AND PARTNERS!

We are glad to present PJSC Bashneft's Sustainability Report for 2015, which contains key information on the operating and economic results achieved by the Group and on such aspects as health, safety and environment, interaction with employees, charity work, social and economic development of the Group's operating regions.

The reporting year was characterized by continued high volatility and imbalance in the global oil markets. Our approach to dealing with this situation involved further improvement of performance of our core business and development of corporate social responsibility as tools for making the Group more competitive. At the same time, we sought to maintain a reasonable balance between operational and financial achievements, on the one hand, and high standards in social responsibility, health, safety and environment, on the other hand.

In 2015 focused efforts enabled Bashneft to achieve record operating and financial results in the Group's recent history.

Bashneft proved once again that it is an industry leader in terms of oil production growth as it boosted production by almost 12% to 19.9 million tonnes. Moreover, production growth was driven not only by our new assets in Timan-Pechora and Western Siberia but also by mature fields in Bashkortostan as the amount of new oil reserves totalled more than double the volume of oil production. The reserve replacement ratio totalled 202%.

In the refining segment, the Group also achieved an important result as it completed the transition to production of Euro 5 gasoline and diesel fuel. At the same time,

Bashneft optimized its product mix with a focus on production of modern engine fuel and phasing out of cheap heavy petroleum products. We continued to upgrade and retrofit our refining complex in Ufa in order to achieve further improvement in key operating and environmental metrics. As a result, by the end of 2015 the Nelson Index, which is a measure of complexity of our refineries, increased to 9.1; refining depth reached 85.8%, while the share of light products grew to 68%.

In the marketing segment, we continued to improve sales efficiency and to optimize and rebrand our retail network, which comprised 566 own filling stations of the Group and 178 partner filling stations by the beginning of 2016.

Operating results achieved by Bashneft had a positive impact on its financial indicators: during the year, adjusted EBITDA increased by 27.1% to 130.3 billion roubles, while revenue amounted to 611.3 billion roubles. Net income grew by 34.8% to 58.2 billion roubles.

One of the most important events in the reporting year was the adoption of a new Strategy for the period from 2015 through 2020, which gives great emphasis to further improvement of corporate governance. We rely on the best international practices to make Bashneft more attractive to investors and increase the transparency of its business. Independent directors serve on all committees of the Board of Directors; moreover, the Audit Committee and the Nominating and Compensation Committee of the Board of Directors comprise only independent directors.

The updated Strategy places special emphasis on sustainable development.



Almost 100% of engine fuel produced by Bashneft in 2015 met the Euro 5 standard

# 202%

Reserve replacement ratio

# +2.5%

Annual oil production growth at brownfields

The Strategy maintains continuity of the strategic goal, which is to achieve the best performance in the industry in terms of working conditions, the injury frequency rate, equipment safety and production processes; at the same time, it sets specific objectives for each operating business segment.

Our priorities in health, safety and environment are to reduce the number of industrial injuries to zero, to eliminate risks of industrial accidents and equipment failures and to minimize the adverse impact of our operations on employees and local residents. Key tasks in these spheres are accomplished due to high efficiency of the corporate management system in the relevant areas.

In 2015 we continued to implement an important project that involves construction of biological treatment facilities at the Bashneft-Ufaneftekhim Branch, which uses the most efficient modern wastewater treatment technologies. To reduce the negative impact on land resources, in 2015 we started to implement a project to construct an oil sludge processing unit within the refining complex.

Occupational safety measures include a long-term plan for reducing the number of industrial injuries. Furthermore, we involve not only our employees but also contractors in tightening up safety rules to be followed during operations.

Bashneft's efforts in the sphere of social development include initiatives to develop human resources, improve training systems, further develop the corporate culture and corporate social responsibility. A well-thought-out HR policy resulted in a reduction in the staff turnover rate to 3.6% by the end of the year.

Social development outside the organization is aimed at improving the quality of life in our operating regions, implementing environmental projects and promoting cooperation with all of the Group's stakeholders. In 2015 Bashneft allocated about 1.9 billion roubles for projects related to the construction of social infrastructure: schools, nursery schools, hospitals, water supply systems and sports facilities.

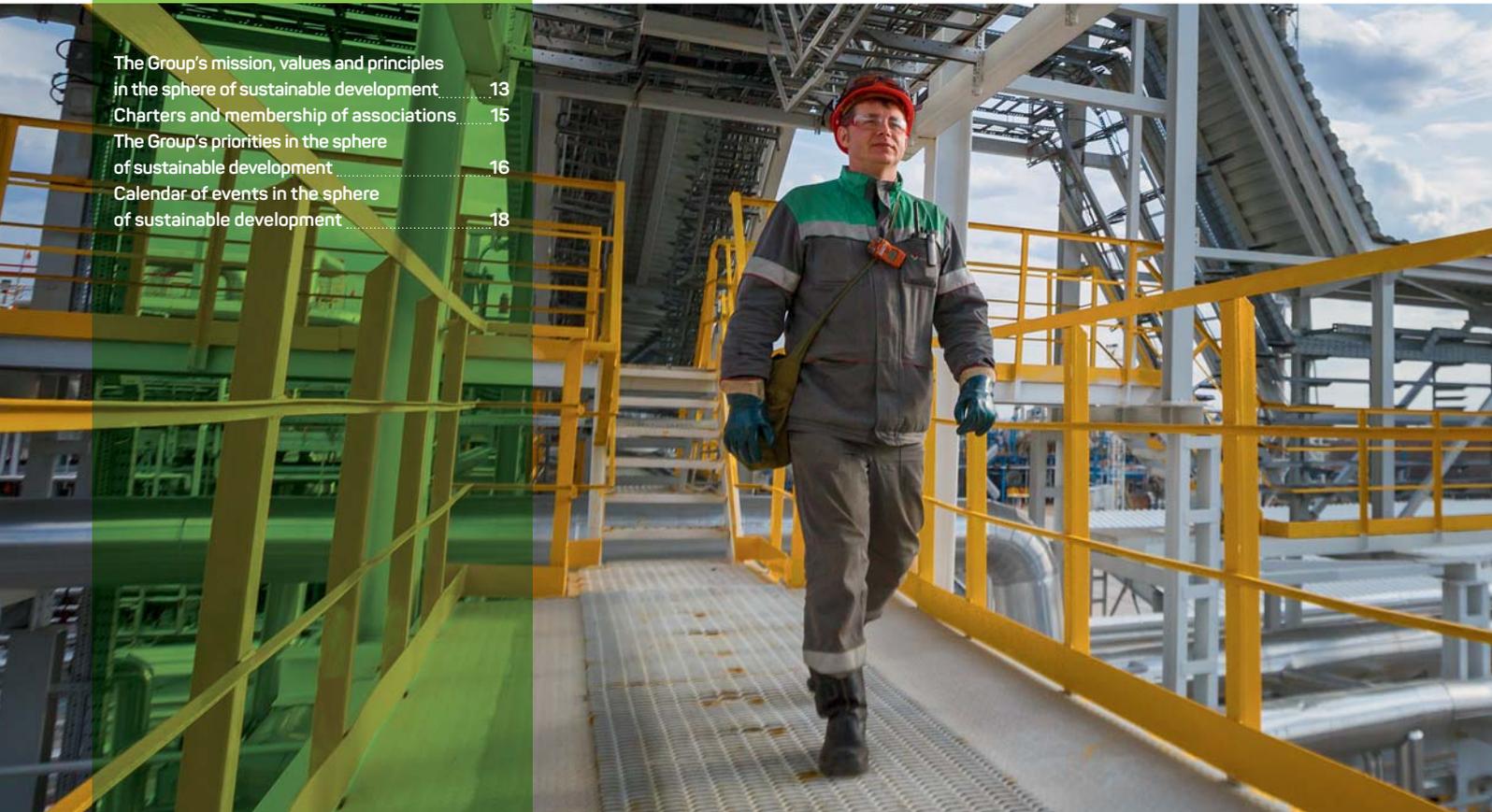
We are aware of the importance of an integrated sustainable development strategy, and we hope that this Report will provide a comprehensive picture of our initiatives in this area.

We would like to thank you for your attention to our work.



ALEXANDER KORSIK,  
President of PJSC Bashneft

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# SUSTAINABLE DEVELOPMENT

'By following a sustainable development policy, Bashneft will be able to make an important contribution to making Russian economy more competitive and will facilitate the social and economic development of regions.'

Alexey Teksler,  
Chairman of the Board of Directors



## THE GROUP'S MISSION, VALUES AND PRINCIPLES IN THE SPHERE OF SUSTAINABLE DEVELOPMENT

The Group's commitment to the principles of sustainable development is reflected in Bashneft's mission: 'To create energy for the society, with maximum efficiency, social responsibility and care for the environment'.

Our understanding of sustainable development and social responsibility is also embodied in our corporate values: professionalism, quality, efficiency, safety and team spirit. The set of our core values highlights the importance of the social and environ-

mental aspects of our business both within and outside the organization. Our values help to develop a common approach to achievement of strategic goals and unite all of Bashneft's employees. [G4-56](#)

We define sustainable development as the Group's continuous development while maintaining a balance between such spheres as economic development, social responsibility and improvement of performance in the sphere of health, safety and environment.

**Commitment to the principles of sustainable development is a crucial element of Bashneft's business in the long term. We view a high level of corporate social and environmental responsibility and respect for the interests and opinion of absolutely all stakeholders as a competitive advantage determining our considerable potential for harmonious long-term development.**

In our business, we invariably follow principles consistent with international best practice established over the years of development of responsible business:

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

We view sustainable development as a multilateral and multifaceted process. We define the Group's sustainable development as a set of targets, means and results aimed at:

- **ensuring steady economic growth at Bashneft.** We aim to develop our core business, diversify our operations, improve the efficiency of our technology and business processes, enable the Group to adapt to changes in its environment and have confidence in the effectiveness of our business in the foreseeable future;
- **ensuring the safety and facilitating the development of the Group's employees as its key asset.** We consider creating safe working conditions for all of the Group's employees to be our top priority. We also pay attention to talent development in order to enhance our competitive advantage: our united and highly professional team;
- **protecting and preserving the environment.** Bashneft seeks to protect the environment not only in its operating regions but also globally: we increase the share of high-grade environmentally friendly engine fuel (meeting the Euro 5 standard) in our output; in 2015 it reached almost 100%. We process waste and upgrade wastewater treatment facilities; we make every effort to minimize the

negative environmental impact of our operations;

- **maintaining and developing a dialogue with all stakeholder groups.** The Group is a responsible corporate citizen; in the course of its operations, it cooperates with a variety of stakeholders, from shareholders to suppliers and contractors. We aim to make this cooperation attractive and mutually beneficial for both parties;
- **developing our operating regions.** As a socially responsible company, Bashneft is committed to economic, social and cultural development of its operating regions. On the one hand, this contributes to the development of society; on the other hand, it helps improve the Group's reputation on local markets, thus providing it with an additional competitive advantage.

We believe that only successful efforts in all areas listed above can ensure Bashneft's sustainable development in the future. To define the goals and mechanisms for their attainment more specifically, Bashneft uses the Strategy and the Long-Term Development Programme (LTDP) of the Company.

In September 2015, PJSOC Bashneft's Board of Directors approved an Updated Strategy and the Group's LTDP until 2020. In these documents, much greater importance is attached to the principles of sustainable development as part of the Group's strategic priorities. Apart from operational and financial benchmarks, we focus on adopting best practices in the sphere of health, safety and environment, on maintaining our partnership with the Group's employees, and maintaining Total Shareholder Return (TSR) as one of the indicators of shareholder and investor engagement on a high level.

Implementation of the Strategy will help enhance the Group's long-term potential and will make a positive impact on its operating regions. As we work towards our strategic goals, we seek to meet international standards and to use best practices adopted by oil and gas companies throughout the world. Bashneft's operations contribute to making Russia's economy more competitive; at the same time, the Group pays proper regard to environmental protection and development of environmental awareness, including among our partners.

## HSE

Our strategic goal in the sphere of health, safety and environment (HSE) is to achieve the best performance in the industry; it has been highlighted for each business segment: upstream, refining and petrochemicals, marketing and sales. The updated Strategy gives greater emphasis to improvement of corporate governance and development of a personnel management system. Another major focus is the development and use of new and innovative technology.



For details on the updated Strategy and Long-Term Development Programme of the Company, see the section 'About the Group'.

# CHARTERS AND MEMBERSHIP OF ASSOCIATIONS G4-15



Bashneft's activities in the sphere of sustainable development are governed by the ISO 26000:2010 International Standard (Guidance on Social Responsibility) and the GOST R ISO 26000-2012 standard (Guidance on Social Responsibility).

We subscribe to guidelines on human rights, employment relations, environmental protection and anti-corruption measures set out in the UN Global Compact Blueprint for Corporate Sustainability Leadership and the principles and main provisions of the Social Charter of Russian Business of the Russian Union of Industrialists and Entrepreneurs (RSPP).

Starting from 2009, Bashneft's non-financial disclosures and preparation of Sustainability Reports are based on the Global Reporting Initiative methodology for information disclosure, which is integrated into its own methods for preparing and gathering information.

Bashneft subscribes to principal provisions of the precautionary principle (Principle 15 of the Rio Declaration on Environment and Development of the UN, 1992). G4-14

Bashneft is a member of the International Petroleum Industry Environmental Conservation Association (IPIECA). The Group has also joined the International Association of Oil & Gas Producers (OGP). G4-16

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

The Group has also been a member of the Chamber of Commerce and Industry of the Republic of Bashkortostan since 2000. The membership enables the Group to lobby for the Company's interests in the industry and maintain the Company's business reputation, provides GR support and additional opportunities for building up business contacts. In addition, PJSOC Bashneft and some of its subsidiaries are members or participants of a number of specialized industrial self-regulated organizations and non-profit partnerships.



## IPIECA OGP

Bashneft is a member of international associations

# THE GROUP'S PRIORITIES IN THE SPHERE OF SUSTAINABLE DEVELOPMENT



## AREA OF SUSTAINABLE DEVELOPMENT



## KEY PRIORITIES FOR THE MEDIUM TERM



## ACHIEVEMENTS IN 2015



### The Group's economic development

To maintain and develop the resource base

- The reserve replacement ratio totalled 202%.
- The success rate of prospecting and exploration drilling stands at 75%.
- Geological exploration in the Republic of Bashkortostan: the scope of prospecting drilling increased by 44%, while the scope of 3D seismic surveys increased by 28% year on year.

To increase oil production and production efficiency

- Annual oil production increased by 11.9% to 19.9 million tonnes.
- A 2.5% year-on-year increase in oil production at brownfields.

To further upgrade production facilities in order to improve the profitability of the product mix

- Almost 100% of engine fuel produced by Bashneft meets the Euro 5 standard.
- Refining depth increased to 85.8%; the share of light products reached 68.0%, while the Nelson Index rose to 91.

To develop efficient marketing channels

- Bashneft is implementing a programme to consolidate regional networks of filling stations on the basis of LLC Bashneft-Retail Sales.
- A large-scale rebranding programme is underway.



### HSE measures

To reduce the accident rate and the occupational injury rate

- The LTIF rate was reduced to 0.3.
- The number of pipeline failures was reduced by 5%.

To reduce the negative environmental impact

- Associated gas utilization rate within the group of payers using subsoil resources increased to 85.8%.
- Oil sludge processing increased by 27%.



### Social work

To maintain and develop the talent pool

- Bashneft continued to develop training programmes.
- The amount of funding for social programmes increased considerably.
- The staff turnover rate is traditionally low and stands at 3.6%.

To improve the quality of life in operating regions

- The Group continued charity work in five regions of the Russian Federation; total expenditure on charity work and development of social infrastructure in the Group's operating regions increased to 1.9 billion roubles.
- Funding was provided for 80 social and infrastructure projects in the Republic of Bashkortostan.



**MEDIUM-TERM OBJECTIVES**

- To proceed with the geological exploration programme.
  - To maintain a high reserve replacement ratio.
- 
- To maintain production at brownfields.
  - To ensure that production at Burneftegaz and Bashneft-Polyus reaches a plateau.
  - To widely use innovative technology in the sphere of oil production.
- 
- To maintain the quality of petroleum products manufactured by Bashneft at the level reached to date.
  - To build and upgrade a number of process units at the integrated refining complex, including a delayed coker in the Bashneft-UNPZ Branch.
- 
- To develop existing marketing channels and to establish new specialized channels enabling guaranteed sales.
- 
- To achieve the best performance in the industry in terms of the injury frequency rate, working conditions, process safety and condition of equipment.
  - To prevent fatal accidents in the workplace.
  - To reduce the lost time injury frequency rate by 10% per year.
- 
- To increase the associated gas utilization rate to 95% by 2018.
  - To reduce the amount of accumulated oil sludge; to build an oil sludge processing unit in accordance with the schedule.
- 
- To ensure that employees have an appropriate level of professional qualification.
  - To increase labour productivity.
  - To further develop employees' competencies.
  - To further develop the corporate culture and CSR.
- 
- To develop local and regional infrastructure while actively participating in identifying the areas of charity work together with regulatory bodies.
  - To tackle social issues in the Group's operating regions.
  - To support socially disadvantaged groups.



annual oil production growth

**+11.9%**



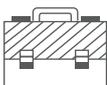
Consolidation of regional networks of filling stations on the basis of LLC Bashneft-Retail Sales is underway

**16.3 years**

reserves-to-production ratio

# CALENDAR OF EVENTS IN THE SPHERE OF SUSTAINABLE DEVELOPMENT G4-13

## 2015



Bashneft and Yokogawa Electric Corporation signed a Long-Term Partnership Agreement on supplying production facilities of the refining complex in Ufa with Automatic Process Control Systems (APCS) and Instrumentation and Control Equipment (I&C).



Bashneft-Polyus and Vostok NAO signed protocols to Cooperation Agreements with the Administration of the Nenets Autonomous District. The documents signed by

the companies stipulate that in 2015 LLC Bashneft-Polyus is to provide charitable funding for infrastructure and social projects, as well as for measures in the field of sports, culture, education and health care in the Nenets Autonomous District totalling 40 million roubles, while LLC Vostok NAO Oil Company is to provide 10 million roubles.

On March 11, 2015, an Extraordinary General Meeting of Shareholders of JSOC Bashneft was convened and elected a new Board of Directors of the Company. In addition, the Board of Directors approved the number and the list of members of the Health, Safety, Environment and Social Responsibility Committee (chaired by Charles Watson).

JANUARY

MARCH

FEBRUARY

APRIL

MAY

Bashneft and the Government of the Orenburg Region signed a Protocol for 2015 to the Agreement on Social and Economic Development. In accordance with the document, in 2015 Bashneft will continue to implement social projects in the Orenburg Region and will allocate up to 20 million roubles for this purpose. Part of the funds will be allocated for supporting infrastructure, educational and cultural projects in the Alexandrovsky, Oktyabrsky, Perevolotsky and Orenburgsky Districts, where the Group produces oil.

The Board of Directors of JSOC Bashneft approved a number of appointments. Sergey Zdolnik was appointed Vice President for Oil and Gas Production; Igor Kalyuzhny was appointed Vice President for Information Technologies; Vitaly Kozlov was appointed Vice President for Refining and Petrochemicals; Igor Marchenko was appointed Vice President for Strategy and Development; Vladislav Pozdyshev was appointed Vice President for Organizational Development and Human Resources.

Bashneft started to produce ATUM-95 motor gasoline and sell it via the Company's retail network; this is a new high-quality premium fuel that is more environmentally friendly and characterized by improved fuel performance.



The Board of Directors of JSOC Bashneft approved the appointment of Denis Stankevich as Bashneft's First Vice President for Refining and Commerce.



Bashneft signed a contract with KMT International for the design and supply of equipment for an oil sludge processing unit. The Group plans to put the unit into operation in 2018 at the site of the Bashneft-Ufaneftekhim Branch. The total cost of the project is about 3 billion roubles. Construction of the oil sludge processing unit is an important environmental project that will enable us to eliminate sludge pits in the northern industrial area of Ufa. The unit with a rated capacity of 75 thousand tonnes per year will make it possible to process all newly produced oil sludge and eventually to eliminate all accumulated oil-containing waste, whose volume totals about 220 thousand tonnes, and to vacate part of the occupied land after land restoration is completed.

Preferred shares of PJSOC Bashneft were included in the First (top) Tier quotation list. Inclusion of Bashneft's preferred in the top quotation list of the Moscow Exchange was the result of consistent efforts to make the Group more attractive to investors. This decision reflects Bashneft's full compliance with listing rules.



Bashneft and Lomonosov Moscow State University (MSU) signed a five-year Cooperation Agreement. The Agreement provides for cooperation between MSU and Bashneft in research aimed at tackling fundamental issues related to oil and gas geology, prospecting for conventional and unconventional hydrocarbon deposits, their exploration and development, hydrocarbon processing techniques; in implementing state-of-the-art methods and technical solutions in these spheres and training highly qualified personnel.

**JUNE**

**NOVEMBER**

**JULY**

**SEPTEMBER**

**FEBRUARY 2016**

The President of the Russian Federation signed an Order in accordance with which the Russian Federation transferred 25% of the Group's ordinary shares to the Republic of Bashkortostan. Subsequently the two principal shareholders concluded a shareholder agreement outlining the approach to coordination of their work in the course of management of the Company.

The Board of Directors of PJSOC Bashneft approved the appointment of Alexey Lisovenko as Vice President for Economics and Finance and Chief Financial Officer.

Bashneft started pilot operation of a new process line of the elemental sulphur production unit at the Bashneft-Ufaneftekhim Branch. Investments in the project totalled 2.4 billion roubles. The elemental sulphur production unit helps ensure that hydrogen sulphide produced as part of hydrotreatment, hydrocracking, delayed coking and tar deasphalting processes is utilized as effectively as possible. The technology used by the Group helps achieve a high level of conversion of hydrogen sulphide into elemental sulphur, which is used in the chemical and metals industries.

A new Collective Agreement regulating social and employment relations between PJSOC Bashneft and the Company's employees came into force. The agreement was concluded for three years and stipulates that the scope of the package of guarantees and benefits specified in the previous agreement effective from 2013 through 2015 shall remain unchanged.



In July 2015, the Republic of Bashkortostan became the owner of 25% of share capital of PJSOC Bashneft

**OCTOBER**

The Board of Directors approved PJSOC Bashneft's Strategy, including its Long-Term Development Programme and a long-term financial model for the period from 2015 through 2020 with an outlook until 2025. Key strategic priorities for the period from 2015 through 2020 include adoption of best practice in HSE.

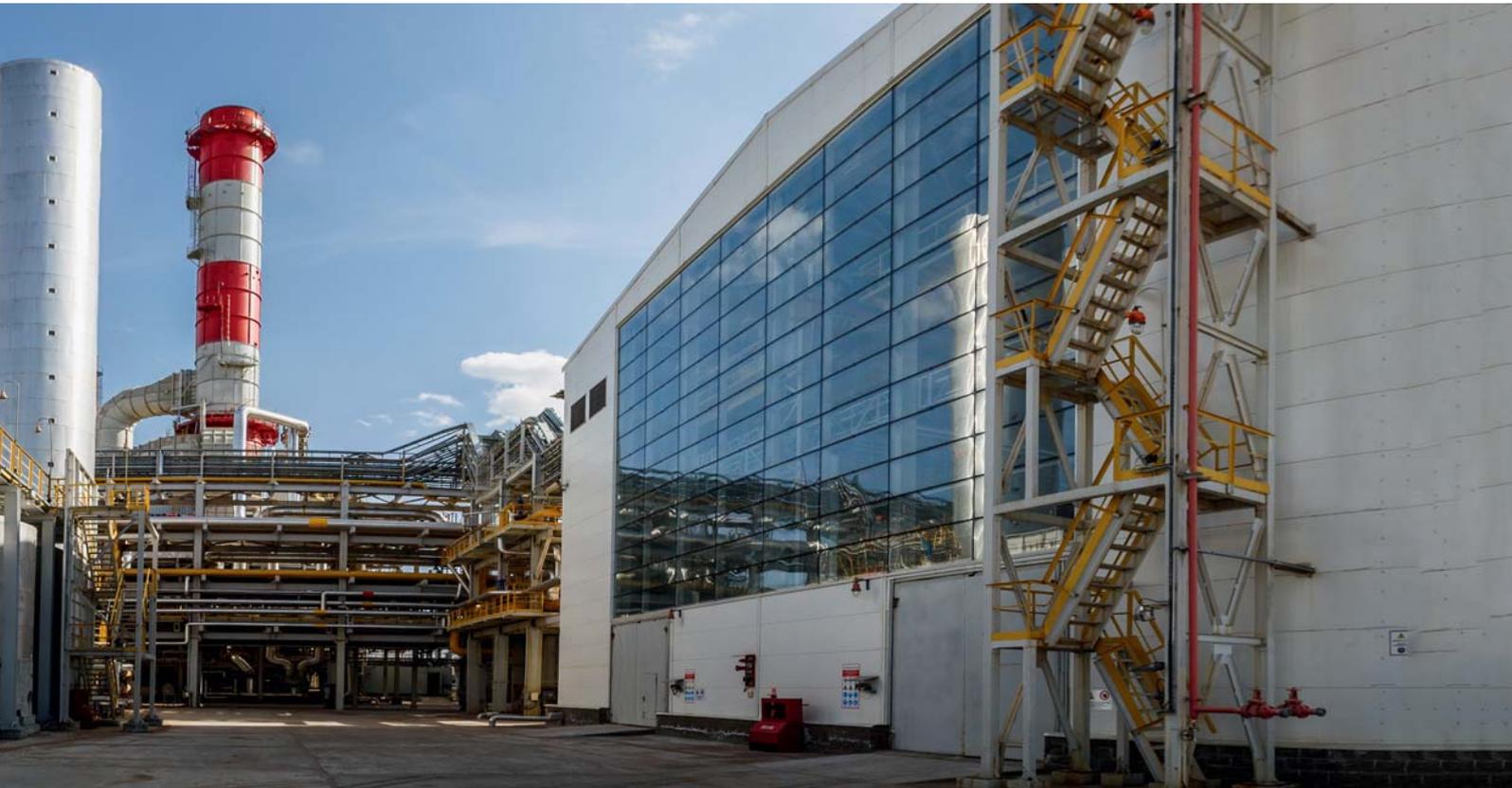


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Sustainable development strategy.....	27
Strategy implementation and contribution to the sustainable development of the industry in 2015.....	28
Risk management and market factors.....	34
Supply chain.....	35

# ABOUT THE GROUP

‘Steady improvement in operating and financial performance forms the basis of the Group’s sustainable development. It is a basis on which we can rely as we take a step towards the future.’

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



## BASHNEFT TODAY

Bashneft is a fast-growing vertically integrated Russian oil company. It is an efficient and diversified company with growing production, high-tech refining, stable distribution channels, strong financial results and attractive dividend policy.

We believe that our contribution to the oil industry's sustainable development consists in uninterrupted supply of high quality products to consumers, introduction of advanced oil production and refining techniques, responsible use of subsoil resources, effective development of the resource base, preservation of the country's natural resources for future generations and development of our operating regions.

### SHARE CAPITAL STRUCTURE

Since December 2014, Bashneft is a partially state-owned company. In the summer of 2015, the Republic of Bashkortostan represented by its Ministry of Land and Property Relations became the

owner of 25% of the Company's authorized share capital. This imposes on us additional obligations to participate in economic and social life of the country as a whole and of our operating regions in particular.

### ASSET STRUCTURE

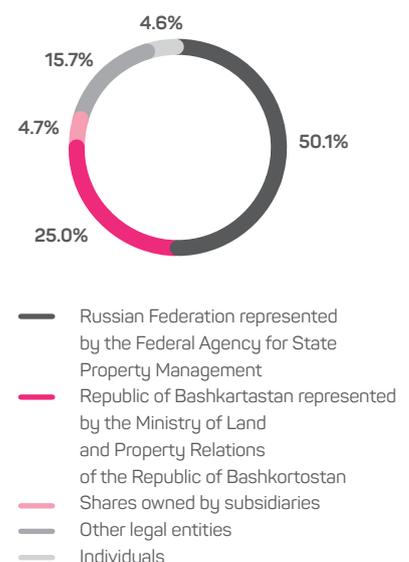
The Group's core operations include oil and gas exploration and production, manufacture of petroleum products and petrochemicals and distribution of its products.

The Group's business structure enables it to control the processes along the entire value chain, from gaining access to mineral resources to domestic and export sales of petroleum products.

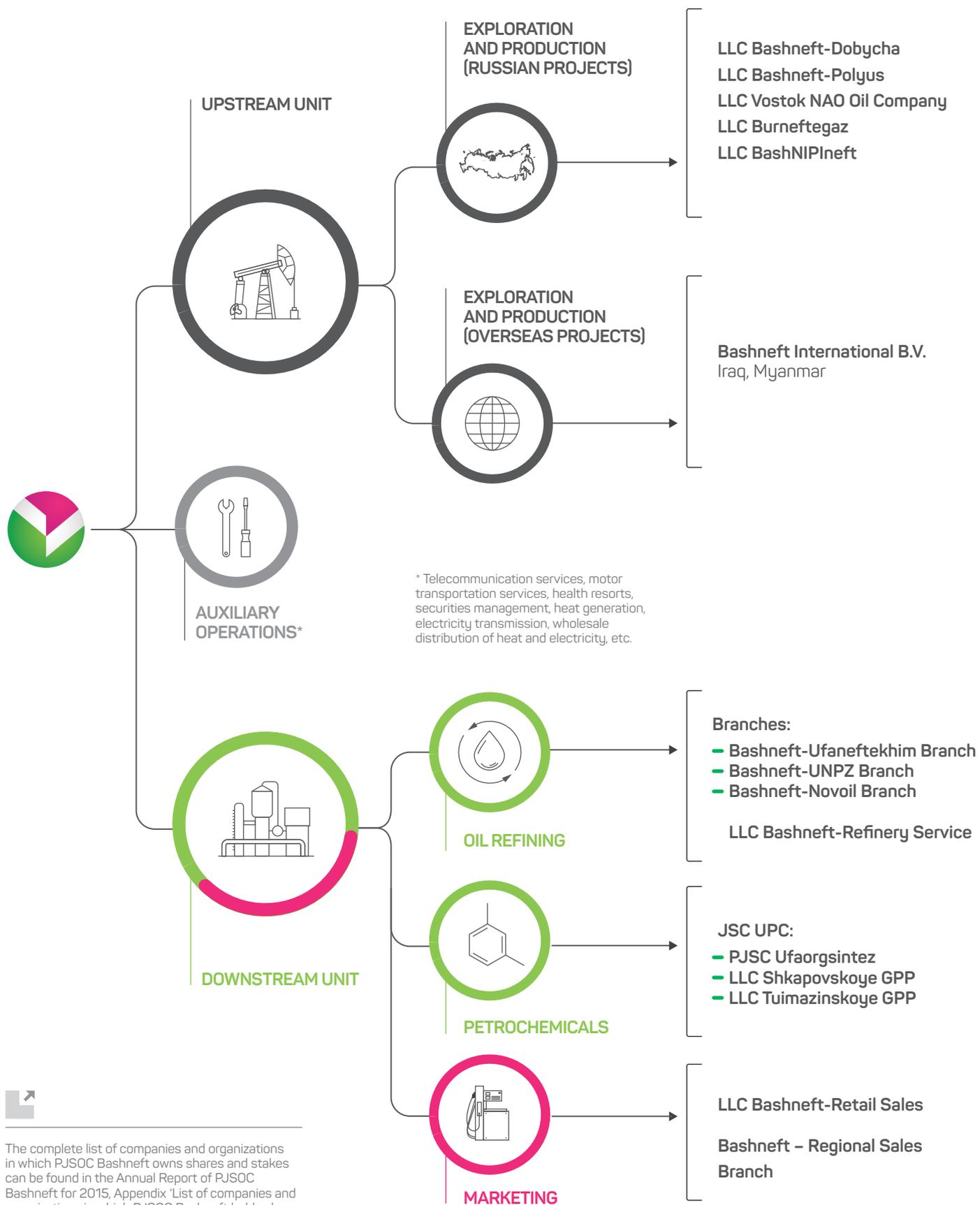
PJSOC Bashneft is the holding company of the vertically integrated Bashneft Group.

The Group's organizational structure has been formed in accordance with its core operations and comprises two core business units as well as companies conducting auxiliary operations.

Share capital structure  
as of December 31, 2015

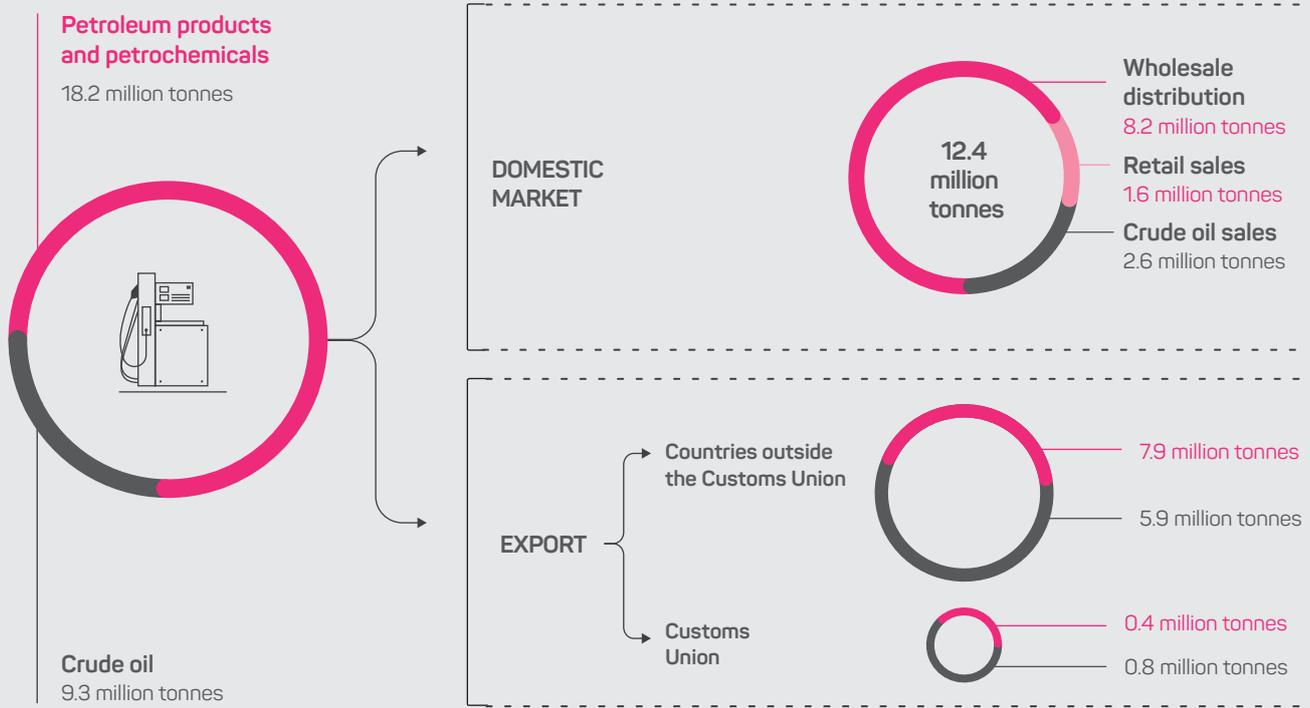


# STRUCTURE OF BASHNEFT GROUP



The complete list of companies and organizations in which PJSOC Bashneft owns shares and stakes can be found in the Annual Report of PJSOC Bashneft for 2015, Appendix 'List of companies and organizations in which PJSOC Bashneft holds shares and stakes'.

Sales of crude oil, petroleum products and petrochemicals in 2015



TYPES OF PRODUCTS

The Group’s marketable products include crude oil, refined products and petrochemicals.

The optimum ratio of sales to refining volumes is calculated based on the macroeconomic environment and business conditions.

Bashneft produces high-quality products in compliance with the principles behind our relations with customers and partners.

Our diversified sales channels allow us to maximize profits under any market conditions.

GEOGRAPHIC FOOTPRINT

G4-6, G4-0G1, G4-4

Bashneft has a balanced portfolio of upstream assets in key oil and gas provinces of Russia.

As of the end of 2015, the Group owned 253 hydrocarbon exploration and development licences. The Group’s portfolio includes 194 oil and gas fields in the Republic of Bashkortostan, the Khanty-Mansi Autonomous District, the Nenets Autonomous District, the Orenburg Region

and the Republic of Tatarstan. The Group also participates in joint geological exploration projects in Iraq and Myanmar as an operator.

Crude oil is processed by the Group’s Integrated Refining Complex comprising three oil refineries: the Bashneft-Ufaneftekhim, Bashneft-UNPZ and Bashneft-Novoil Branches.

Bashneft’s refining complex is one of the best refining complexes in the industry; it is fully integrated and complies with all applicable technical standards in fuel production, is technologically advanced and produces high-quality products. A flexible configuration of the integrated refinery, deep integration of refining and petrochemical complexes, as well as a high degree of complexity of technological processes used by Bashneft makes it possible to produce a wide range of high-margin products at optimal cost.

To produce an optimal petroleum product mix in terms of economic efficiency, we provide our refineries both with oil produced by Bashneft itself and oil purchased from external suppliers. In 2015 we purchased 8.7 million tonnes of crude oil and gas condensate.



5

strategic regions of oil exploration and production

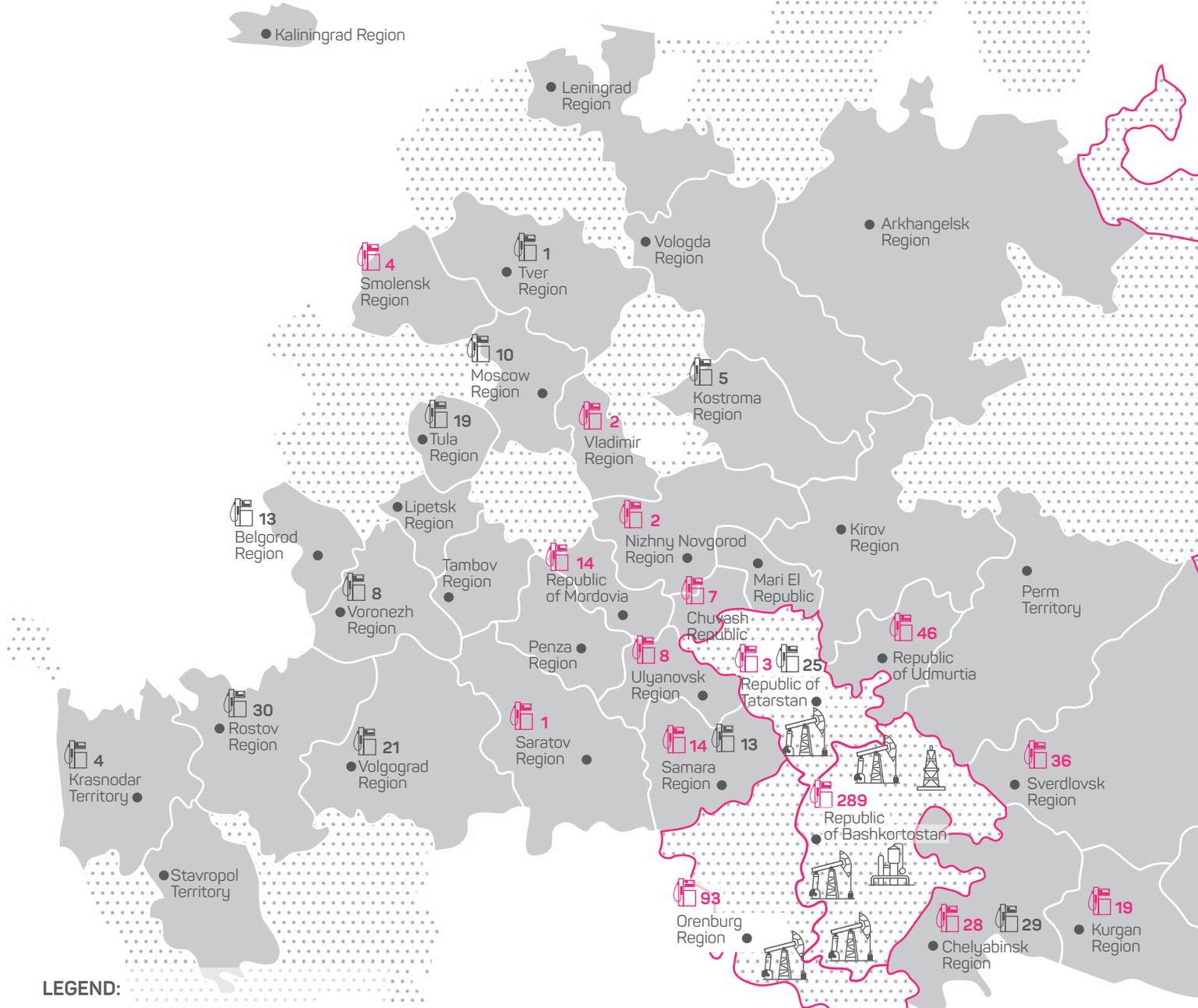


194

oil and gas fields owned by Bashneft

## Geographic footprint

In 2015 production growth at brownfields and at new assets accounted for 20% and 80% of production growth respectively.



**LEGEND:**



Exploration

Production

Refineries



Own filling stations



Partner filling station



Regions of small-scale wholesale distribution



Regions of exploration and production

**5** regions of exploration and production

**744** filling stations – Bashneft's retail network

## Assets with potential for further development

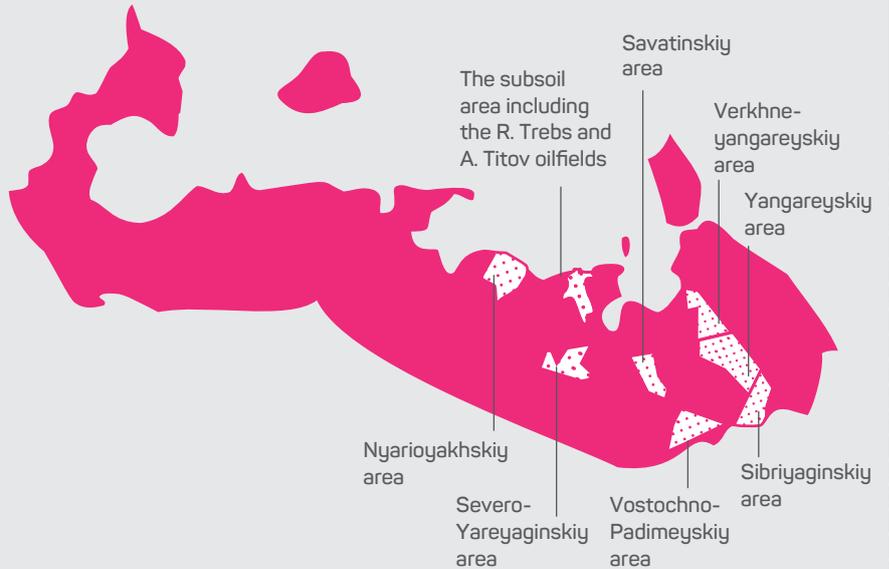
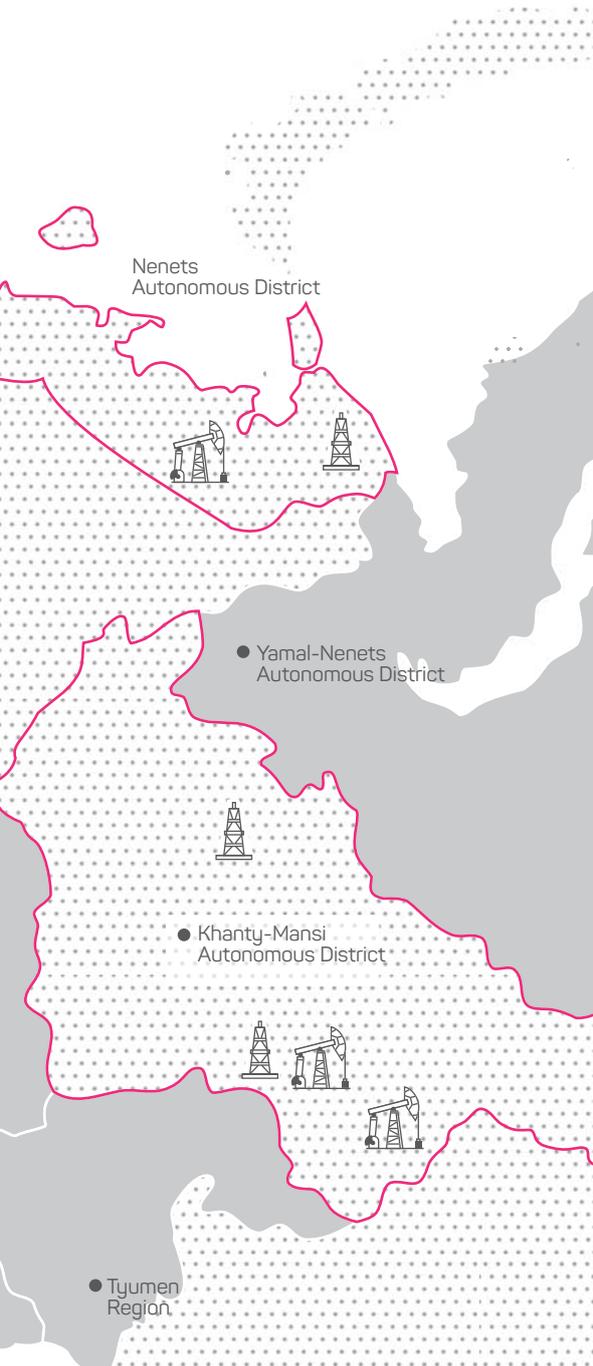
# 1.4

### NENETS AUTONOMOUS DISTRICT

# 8

 LICENCE  
AREAS

### MILLION TONNES OF OIL PRODUCED IN 2015



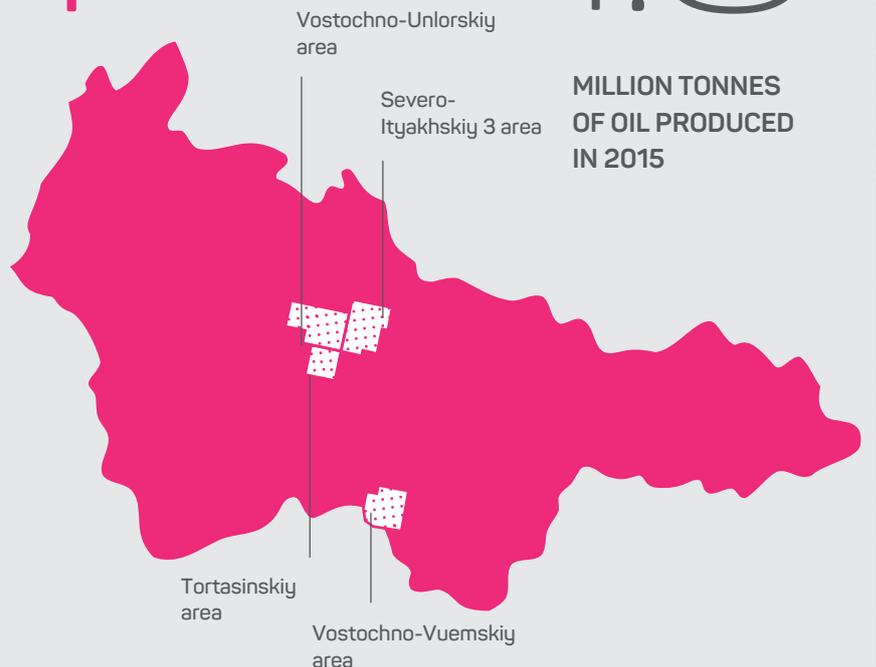
### KHANTY-MANSI AUTONOMOUS DISTRICT

# 4

 LICENCE  
AREAS

# 1.8

### MILLION TONNES OF OIL PRODUCED IN 2015



**CONTRIBUTION TO SUSTAINABLE  
DEVELOPMENT OF THE REGIONS**

The Group's main producing fields are located in the Republic of Bashkortostan. We plan to keep developing our business in this key region. In 2015 highly effective geological and engineering operations

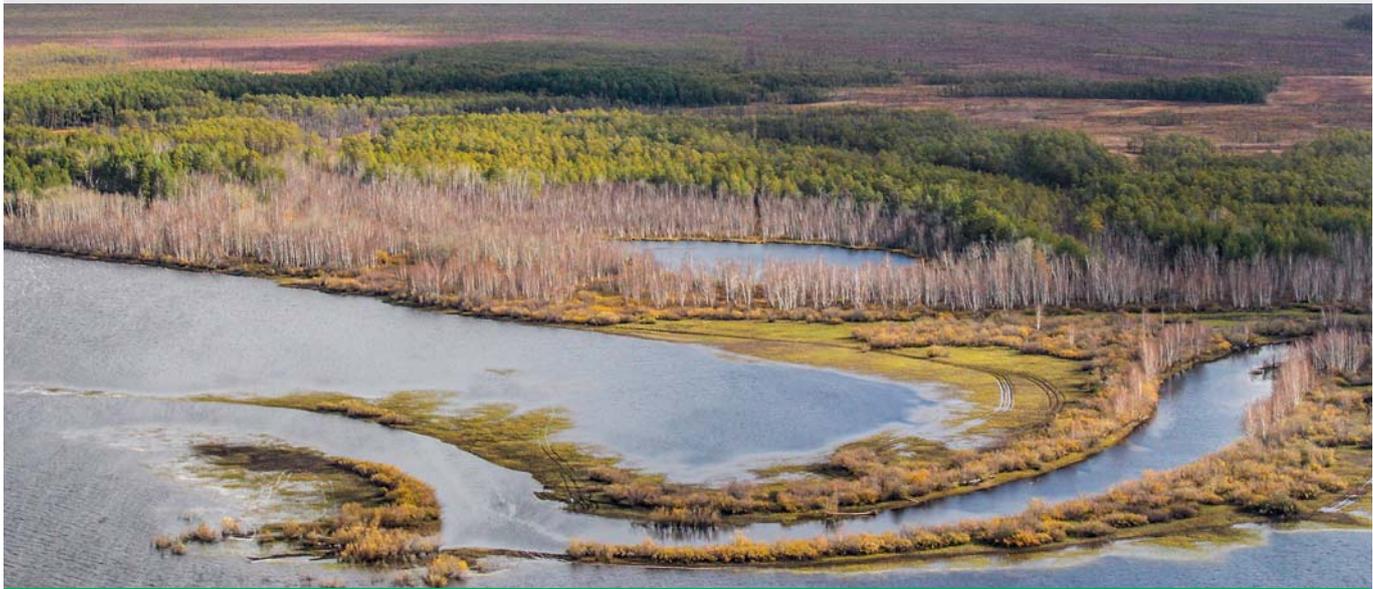
and optimization of the field development system enabled us to increase oil production at brownfields by 2.5%.

In addition, we develop promising fields in new regions: Timan-Pechora and Western Siberia, which are an important growth driver.



**68%**

share of light products at Bashneft's integrated refining complex



As a result of further upgrades and shutdown of unprofitable capacities, in the second half of 2015 the total crude oil distillation capacity was reduced to 23.2 million tonnes. In the reporting year, refining totalled 19.1 million tonnes of oil, down by 11.7% compared to 2014. In the current macroeconomic environment and under the current tax regime, a flexible approach to capacity utilization enabled the Group to maximize the value of its product mix by increasing the share of light products. At the same time, refining depth increased to 85.8%, while the share of light products reached 68.0%.

Petroleum products are sold retail via a network of our own and partner filling stations. As of the end of December 2015, the Group's retail network comprised 566

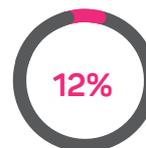
own filling stations in 15 regions of Russia as well as 178 partner filling stations.

**POSITION  
IN THE INDUSTRY** G4-8, G4-9

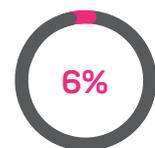
Bashneft Group ranks sixth among the country's largest oil companies in terms of oil production and fourth in terms of refining; it has a significant impact on the development of the Russian fuel and energy sector as a whole.

Bashneft sells petroleum products in Russia, accounting for about 12% of the Russian motor gasoline market and 6% of the Russian diesel fuel market. In addition, we export petroleum products accounting for about 5% of petroleum product and petrochemical export from Russia.

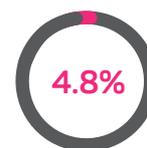
Share in gasoline sales in Russia, %



Share in diesel fuel sales in Russia, %



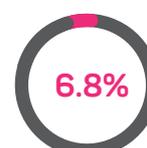
Share in export sales of petroleum products and petrochemicals, %



Share in Russia's oil production, %



Share in Russia's oil refining, %



— Bashneft  
— Other oil companies

# SUSTAINABLE DEVELOPMENT STRATEGY

The scale of the Group's operations means that it has a high degree of responsibility towards the society and all stakeholders.

Principles of sustainable development are an integral part of the Group's Strategy.

In 2015 Bashneft's updated strategy for the period from 2015 through 2020 including a Long-Term Development Programme (LTDP) was approved.

The trajectory of the Group's development is still focused on improving the efficiency of its operations and business processes. Key strategic priorities during the period from 2015 through 2020 will include adopting best practices in the field of health, safety and environment; maintaining a high level of TSR and EBITDA metrics; developing the resource base and boosting oil production; maintaining efficiency in the refining segment (taking into account the 'tax manoeuvre') and developing premium marketing channels. Efforts in all high-priority areas will be combined with obligatory cost reduction, improvement of energy efficiency and introduction of innovative technologies.

As part of the proposed Strategy and the LTDP, Bashneft also formulated strategies for the Upstream and Downstream business areas, as well as functional strategies for auxiliary units.

## STRATEGIC PRIORITIES AND MAIN AREAS OF THE GROUP'S LONG-TERM DEVELOPMENT PROGRAMME FOR THE PERIOD FROM 2015 THROUGH 2020 [G4-2](#)

### In the upstream segment:

- Implementation of best practices and achievement of best results in the field of health, safety and environment
- Development of the resource base and replenishment of oil reserves
- Continued oil production growth
- Improving operating performance in the Upstream segment

- Active implementation of innovative technologies in oil production

### In refining:

- Achievement of the best HSE performance in the industry
- Continued modernization of the Integrated Refining Complex
- Development of the petrochemical business and synergies from integration with the refineries
- Improving operating performance in the refining segment
- Efficient supply of raw materials from the market to refineries to increase the refining margin

### In the field of marketing of petroleum products:

- Guaranteed sales of engine fuel through premium channels with a streamlined structure
- Creation of an efficient system for bulk sales of petroleum products
- Improvement of performance of the niche product and by-product sales system

### In the field of financial management:

- Remaining a leader in terms of operational efficiency by controlling operating costs and being committed to a balanced approach to capital expenditure and M&A transactions
- Maintaining a high level of dividend payout
- Keeping the Net Debt / EBITDA ratio below 2
- As a minimum, keeping the current credit ratings
- Continuous work with the credit portfolio aimed at diversification, reduction in borrowing costs and maintaining a flat repayment profile
- Meeting liquidity targets

### In the field of personnel management:

- Development of the corporate culture and CSR

- Improving the efficiency of cooperation by focusing on the development of management business processes
- Introduction and development of human resources strategic planning
- Employee training and development; development of industry-specific competencies
- Increasing labour productivity by improving monitoring, remuneration/incentive and KPI systems
- Improvement of the HR function: development of business partnership and automation

### In the sphere of corporate governance:

- Improvement of the corporate governance system and implementation of best corporate governance practices
- Optimization of the Group's structure
- Safeguarding the rights and legitimate interests of shareholders and investors
- Improvement of market perception of the Group's business via information disclosure
- Making the Group more attractive to investors and improving the transparency of its business

### In the field of development and use of new innovative technologies (R&D):

- Use of new technologies to maximize operational performance
- Development of the Group's own new innovation centres, including on the basis of LLC BashNIPneft
- Conducting own research and development (R&D) in the following key areas: geological exploration and development, oil and gas production, development of research infrastructure, refining, petrochemistry, organizational and managerial activities, social responsibility



For more information on Bashneft's Strategy and its implementation in 2015, see the Annual Report of PJSC Bashneft for 2015.

# STRATEGY IMPLEMENTATION AND CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT OF THE INDUSTRY IN 2015



‘The prospects of any oil-producing company are assessed based on changes in the volume of its reserves and production. In these areas, we are doing fine.’

Mikhail Stavskiy, First Vice President for  
Exploration and Production

In the upstream segment, the Group’s efforts result in growth of reserves and stable growth of oil production, including at mature fields.

We use a systematic approach to formation of our resource base by maintaining a high reserve replacement ratio and strictly controlling the costs.

The Group’s long-term development involves increasing the number of development licences in the Group’s key regions.

At the licence areas, the Group conducts geological exploration in order to replenish its resource base and provide a foundation for future production.

When carrying out geological exploration, the Group gives priority to efficient development of subsoil resources in strict compliance with environmental safety standards and to wide use of modern technologies.

3D seismic surveys conducted in 2015 covered 3.6 thousand sq. km.

As a result of our active work to expand the resource base, in 2015 the reserve replacement ratio increased to 202%.

Increased operational efficiency is one of the Group’s priorities in the sphere of oil production. Bashneft applies enhanced oil recovery techniques and promising innovative technologies at oilfields that are in commercial operation.

We maintain a steady rate of growth of annual production through comprehensive measures to support production at brownfields combined with successful development of new assets.

A significant part of oil produced by the Group is used as feedstock for its refining complex. In addition, we purchase oil, gas condensate and natural gas liquids from external suppliers.



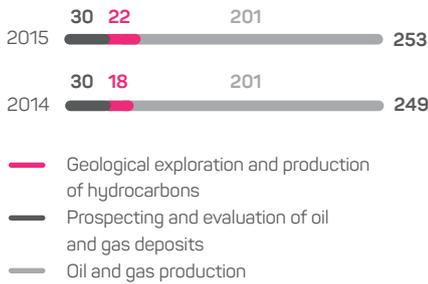
## IMPLEMENTATION OF MODERN GEOLOGICAL AND ENGINEERING OPERATIONS

We are gradually switching over to interventions aimed at developing reserves that have not been drained before; this involves commissioning new wells and sidetracking (ST), including at new fields

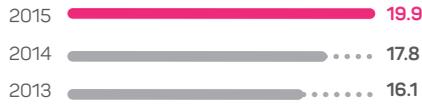
In 2014 geological and engineering operations aimed at increasing the well productivity index (hydraulic fracturing, bottomhole treatment, reperforation) accounted for over 40% of additional oil production. In 2015 the share of such measures dropped to 34%, and the emphasis shifted to the commissioning of new wells and sidetracking, whose share increased from 39% to 51%. At the same time, the share of horizontal wells in drilling increased from 60% in 2013 to 90% in 2015.

The Group intends to further increase the share of horizontal drilling in the future.

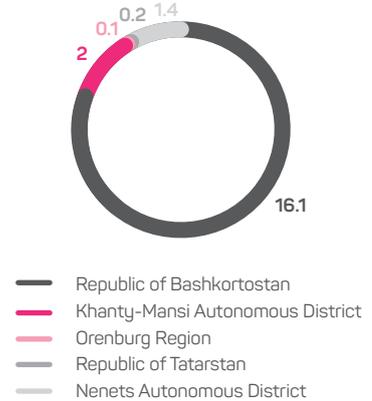
**Number of licences held by Bashneft Group**



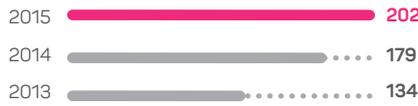
**Oil production, million tonnes**



**Oil production in 2015 by region, million tonnes**



**Reserve replacement ratio, %**



**RESERVE LIFE**

In 2015 the Group's proved reserves grew by 7% and totalled 2,323.8 million barrels. The audit findings suggest that Bashneft's reserves-to-production ratio amounts to 16.3 years.

**In refining,** we increase the share of high-margin products meeting the highest quality standards.

In 2015 refining depth in Bashneft Group averaged 85.8%, which is one of the best results among Russian vertically integrated oil companies. The share of light products increased to 68.0%.

In 2015 almost all engine fuel produced by Bashneft met the Euro 5 standard.

**In the sphere of marketing of petroleum products,** Bashneft is expanding its distribution channels in order to increase their profitability and gain access to consumers.

In 2015 the volume of retail sales via Bashneft's own network of filling stations increased by 4.3% compared to 2014.



'The development and implementation of a programme to improve operational availability is one of our key strategic objectives forming part of our efforts to improve operating performance and increase profit by reducing unscheduled downtime.'

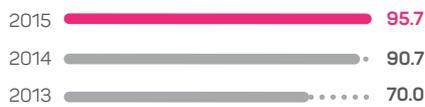
Vitaly Kozlov, Vice President for Refining and Petrochemicals



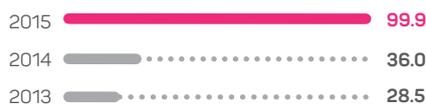
**RESPONSIBLE ATTITUDE TO SUBSOIL RESOURCES. GEOLOGICAL EXPLORATION AT EXISTING OILFIELDS AIMED AT FURTHER EXPLORATION**

In 2015 deep exploration and prospecting drilling and deepening of existing wells resulted in the discovery of 28 oil and gas deposits within the fields developed by Bashneft. Bashneft started to develop some of the uncovered deposits; their initial well production rates range from 3 tonnes per day to 65 tonnes per day in Bashkortostan and up to 138 tonnes per day in the Nenets Autonomous District.

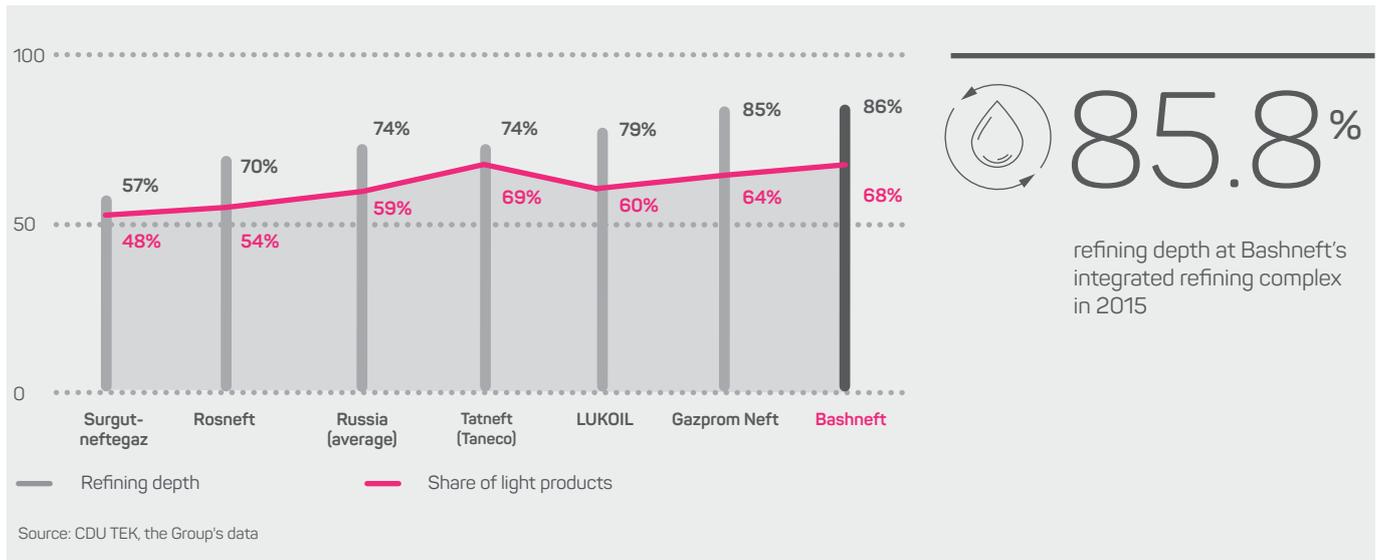
**Share of Euro 5 motor gasoline, %**



**Share of Euro 5 diesel fuel, %**



Refining depth and share of light products among Russian oil companies in 2015



INCREASING THE QUALITY OF PETROLEUM PRODUCTS. REFINERY UPGRADE PROGRAMME

We upgrade our refining complex on a regular and systematic basis to increase refining efficiency and improve product quality.

In 2015, two large-scale refinery upgrade projects were completed.

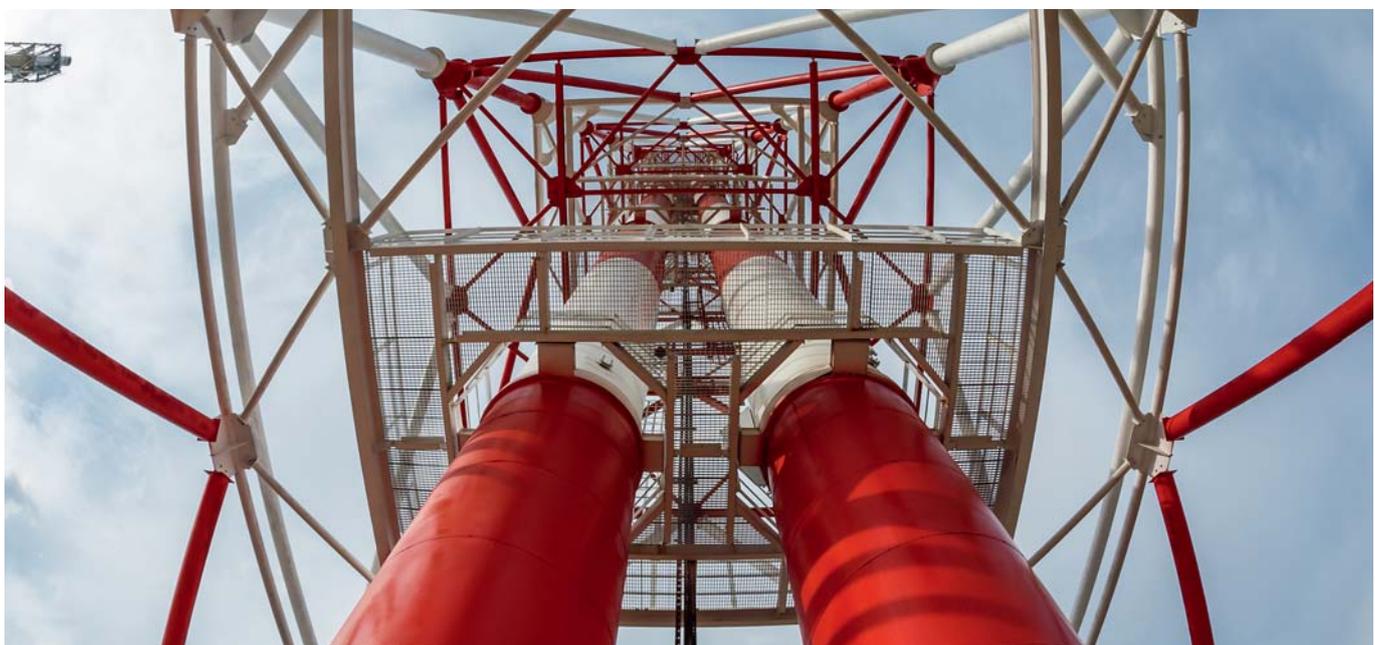
In June 2015, an additional fifth process line of the elemental sulphur production unit was put into operation at the Bash-

neft-Ufaneftekhim Branch. This will help reduce the negative environmental impact of production operations by utilizing sulphurous gas, with no less than 98% of hydrogen sulphide being converted into sulphur.

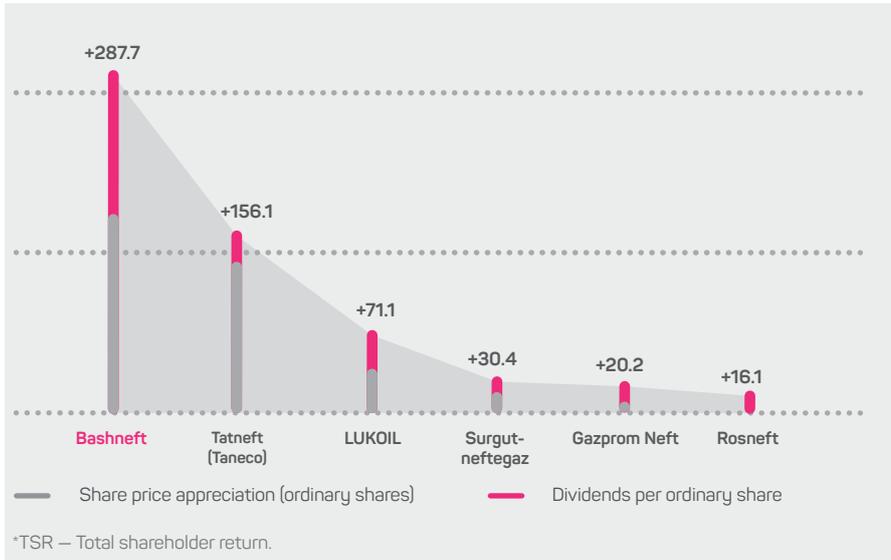
Besides, in June 2015 the construction of a treated recycled water cooling plant for the catalytic cracking complex was completed. The unit made it possible

to increase the throughput of the catalytic cracking complex to the design level by improving the process stream cooling efficiency using lithium-bromide absorption refrigerators.

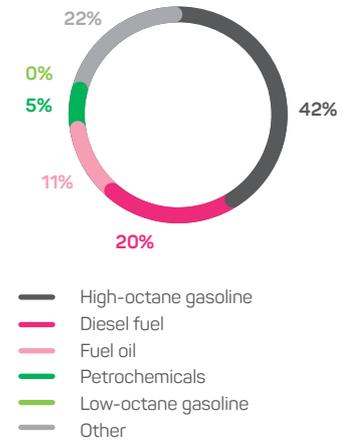
An increase in hydrogen-containing gas processing helped increase the output of desired products such as diesel fuel, light catalytic gas oil, propane-propylene and butane-butylene mixtures.



TSR\* of Russian oil companies for the period from 2010 through 2015, %



Breakdown of Bashneft's domestic sales of petroleum products and petrochemicals in 2015, %



Financial performance was strong, despite adverse macroeconomic conditions, thanks to effective actions of the Group's management team and its cost-effective assets.

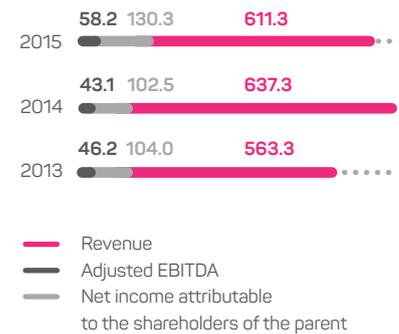
Bashneft is an industry leader in terms of such financial indicators as profitability and cash flow generation. Return on average capital employed (ROACE) amounted to 28%, which is one of the best values in the industry.

In 2015 Bashneft's net income attributable to the shareholders of the parent company grew by 34.8% compared to 2014 and reached a record high of 58.2 billion roubles.

The Adjusted Net Debt / EBITDA ratio decreased to 0.8, thus increasing the Group's stability amid uncertainty in capital markets.

The key aim of Bashneft's business is to increase the Group's shareholder value. Between 2010 and 2015 the Group reported the highest TSR among Russian oil companies.

Revenue and Income, billion roubles



# EXPLORATION AND PRODUCTION IN THE REPUBLIC OF BASHKORTOSTAN

## Essence of the project



Maintaining and increasing production at mature fields in the Republic of Bashkortostan through cost-effective geological and engineering operations.

## Result

Despite a long history of oil production, the Republic of Bashkortostan is geologically underexplored. In 2015 the Group continued to implement a programme aimed at replenishing the mineral resource base by conducting geological exploration in the areas of the Republic of Bashkortostan which have not been thoroughly explored yet, and at exploring unconventional reservoirs. In 2015 seismic surveys covering 1,194 sq. km were conducted in the underexplored areas in the east of Bashkortostan.

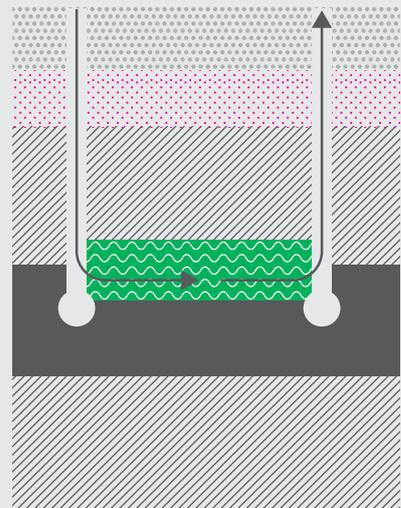
Production growth at mature fields has been achieved for the sixth consecutive year thanks to highly efficient geological and engineering operations. In 2015 production gained 2.5%.

## Techniques

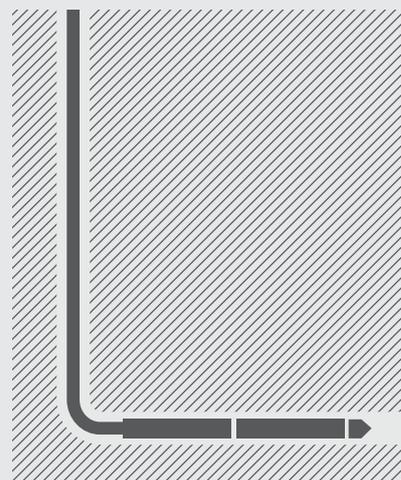
When selecting interventions, the Group intends to gradually abandon hydraulic fracturing and switch over to cleaner and less damaging enhanced oil recovery techniques.

- Simultaneous water-alternating-gas (SWAG) process. The project to inject a mixture of water and gas enables enhanced oil recovery and reduction in the amount of time needed to maximize the oil recovery factor; it also enables associated gas utilization.
- Application of new well drilling techniques. Drilling of horizontal sections that are more than 800 m long has been made possible by the use of rotary steerable systems developed by the world's leading oilfield service companies.

### Simultaneous water-alternating-gas (SWAG) process

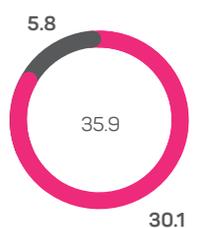


### Horizontal drilling



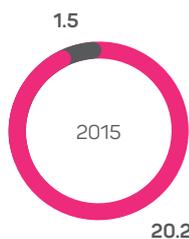
## Cooperation with local communities

Geographical distribution of Bashneft's workforce, thousand people



— Bashkortostan  
— Other regions

Types of economic impact



— Taxes paid in the Republic of Bashkortostan, billion roubles  
— Expenditure on charitable programmes in the Republic of Bashkortostan, billion roubles

> 80%

The region's share in the Group's total production in 2015. Crude oil has been produced in the region for more than 80 years (since 1932). During this time, more than 17 billion tonnes of oil were produced.



Bashneft takes measures to maintain production at mature fields, conducts highly efficient geological and engineering operations and applies modern production techniques.



As a responsible subsoil user, the Group seeks to use subsoil resources to their full potential; to do so, it conducts additional geological exploration in areas that are underexplored geologically.



In 2015 seismic surveys covering 1,194 sq. km. were conducted in the underexplored areas in the east of Bashkortostan.

> 9 billion roubles

amount of social investment between 2009 and 2015



Bashneft takes measures to increase associated gas utilization in order to reduce the negative impact on the environment

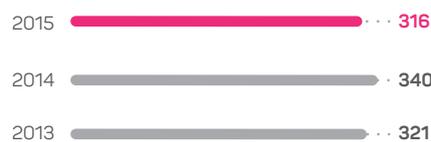
## Controlled environmental impact

### ELIMINATION OF SLUDGE PITS

Elimination of sludge pits is a large-scale initiative aimed at repairing the damage caused by more than 80 years of oil production in the region.

PJSOC Bashneft signed a contract with KMT International for the design and supply of equipment for an oil sludge processing unit. The Group plans to put the unit into operation in 2017 at the site of the Bashneft-Ufaneftekhim Branch. The use of the unit will enable Bashneft to eliminate all accumulated oil sludge in the future.

Volume of accumulated oil sludge, thousand tonnes



### RESTORATION OF SOURCES OF DRINKING WATER FOR THE LOCAL POPULATION

As part of the programme aimed at supplying certain areas of the Republic of Bashkortostan with high-quality drinking water, from 2011 through 2015 PJSOC Bashneft provided financial assistance for the restoration of dozens of springs in areas of the Republic facing problems with water supply, as well as for construction of many kilometres of water pipelines, repairs of water supply networks and other projects.

### CONTROL OF ATMOSPHERIC EMISSIONS: INCREASE IN ASSOCIATED GAS UTILIZATION

We take measures to increase associated gas utilization in order to reduce the negative impact on the environment and to increase energy efficiency and economic efficiency of the Group's operations. Associated gas is a valuable resource; we use it as a raw material for petrochemical production. Associated gas is also used as fuel for power generation and is pumped back into a formation to maintain formation pressure. In 2015 the associated gas utilization rate at mature fields in Bashkortostan increased to 84.5%.



For details, see the section 'Charitable programmes and participation in the development of operating regions'.

# RISK MANAGEMENT AND MARKET FACTORS G4-2



‘To be able to work in any conditions: this is what the art of management is about.’

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

Bashneft does business on the crude oil and petroleum product market, which is characterized by the global scale, a high degree of price uncertainty and the fact that existing market factors are beyond direct or indirect control of industry players.

Key factors affecting the Group's operating performance are as follows:

- international and domestic market prices for crude oil and petroleum products;
- the rouble exchange rate and inflation rate;
- taxation and government regulation of tariffs in the field of natural monopolies.

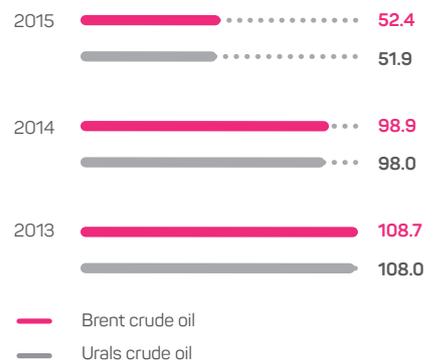
In 2015 the trends that had characterized the previous year continued. There were high levels of market volatility and downward price movements. Supply on the oil market continued to exceed demand. Brent oil price fell by 47% during the year and by the end of the year totalled about \$52 per barrel. The annual average price of Russian Urals blend at year-end 2015 amounted to \$52 per barrel, down by 47% compared to the previous year.

The Group has developed and implemented an effective risk management system.

Bashneft regularly monitors potential risk events and takes measures to prevent them. When these events are inevitable, the Group takes all necessary measures to reduce their negative impact.

Risks related to geological exploration and the risk of a fall in prices for crude oil and petroleum products have a critical impact on the Group's performance.

## Annual average oil prices in global markets, US\$ per barrel



Source: Platts



For more details on risk management, see the Annual Report of PJSC Bashneft for 2015.



For more information on macroeconomic factors affecting the Group's performance, see the Annual Report of PJSC Bashneft for 2015.

# SUPPLY CHAIN G4-12, G4-EN1, G4-EN2

To maintain refinery throughput at an optimal level and optimize its product mix, Bashneft uses its own oil and purchases West Siberian oil and gas condensate from external suppliers.

In 2015 the volume of purchases of West Siberian oil and gas condensate amounted to 8.7 million tonnes. In 2015 the total cost of purchased crude oil, gas and petroleum products amounted to 129.4 billion roubles. Suppliers include LUKOIL and Shell Trading Russia B.V.

During the reporting year we processed 10.5 million tonnes of our own oil at our

refineries. Oil is produced by the Group's subsidiaries:

- LLC Bashneft-Dobycha produces oil at oilfields in the Republic of Bashkortostan, in the Khanty-Mansi Autonomous District and in the Orenburg Region;
- in the Khanty-Mansi Autonomous District, oil is also produced by LLC Burneftegaz, a company acquired in 2014 which owns the rights to exploration and development of the Sorovskoye field via its wholly owned subsidiary;
- in the Nenets Autonomous District, oil is produced by LLC Bashneft-Polyus

(a joint venture of PJSC Bashneft (74.9%) and PJSC Lukoil (25.1%)), which conducts exploration and develops the R. Trebs and A. Titov fields.

In addition, the Group purchases raw and other materials, goods, works and services. We purchase pipe products, chemicals, inhibitors, catalysts and equipment, as well as services and work from suppliers and contractors.



# SUPPLY CHAIN



Own oil



Purchased oil



Pipe products



Chemicals, inhibitors,  
catalysts



Equipment (oilfield, electrical,  
power generating,  
submersible and other)



Other materials  
and equipment



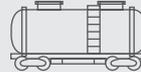
Services and work (oilfield services,  
transportation and logistics,  
construction and installation,  
front-end engineering and design,  
R&D, other services and work)



Motor gasoline



Diesel fuel



Fuel oil



Niche products  
and by-products



Vacuum gas oil



Petrochemicals



Other products



Crude oil

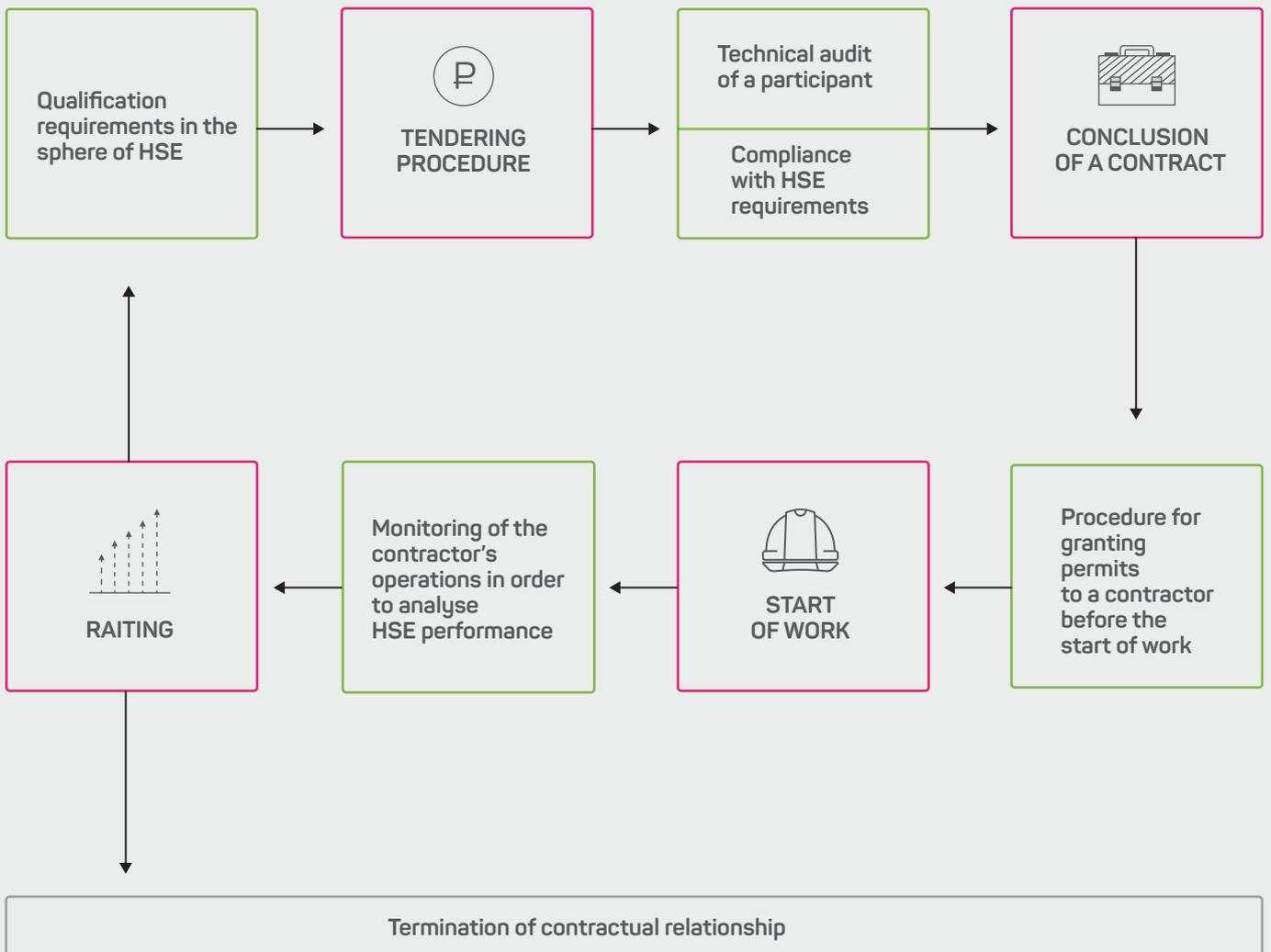
Bashneft seeks to diversify suppliers and organizes competitive tendering. Suppliers and contractors must comply with the Group's standards and norms in health, safety and environment; this is one of the obligatory criteria for allowing them to participate in bidding. If necessary, Bashneft carries out on-site inspections (technical audit) to assess compliance with these criteria; in some cases, we organize training in occupational and process safety for our partners' employees. [G4-EC8](#)

Based on the outcome of our cooperation with suppliers and contractors, we regularly update the ratings of our partners and counterparties to enable continuous monitoring of our suppliers and contractors.

**Share of major suppliers in the total supply of materials and equipment in 2015 (excluding supply of oil, gas and petroleum products)**

Supplier	Share in the total supply of materials and equipment used in 2015 (% of the amount in monetary terms)
Pipe products supplier 1	9.89%
Chemicals supplier 1	4.78%
Pipe products supplier 2	4.16%
Oilfield equipment supplier 1	3.98%
Electrical equipment supplier 1	2.45%

**HSE requirements during the tendering process**





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# SAFE DEVELOPMENT AND ENVIRONMENTAL PROTECTION



'I believe that health, safety and environment issues in the Group have been taken to a new level. Nowadays, they form an integral part of our day-to-day operations and all of our business processes.'

Roman Gavrilov,  
Director of the Health, Safety  
and Environment Department



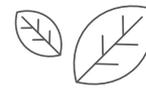
**PROGRESS IN STRATEGY  
IMPLEMENTATION IN 2015:**

- The LTIF rate was reduced by 10%;
- The annual safety training plan was implemented; the amount of training in occupational and process safety provided to employees exceeded 4,800 person-courses;
- The traffic accident rate was reduced by 33%;
- The share of incidents caused by contractors decreased by 6%;
- The stage of construction of biological treatment facilities (BTF) scheduled for the year was completed;
- Nine sludge pits were eliminated; 68 thousand tonnes of drilling waste were processed;
- Harmful atmospheric emissions were reduced as installation of floating roofs and gas line hook-up was completed at oil storage facilities;
- Associated gas utilization rate within the group of payers using subsoil resources increased to 85.8%;
- The number of pipeline failures was reduced by 5%;
- The HSE management system once again underwent a compliance audit to assess its conformity with the OHSAS 18001 standard. Three companies forming part of the Group underwent additional certification.



**THE GROUP'S STRATEGIC GOALS  
IN THE SPHERE OF HEALTH,  
SAFETY AND ENVIRONMENT:**

- To reduce the lost time injury frequency rate by 10% per year;
- To ensure that there are no fatal workplace accidents;
- To reduce the traffic accident rate by 50% by 2020;
- To reduce the volume of accumulated oil sludge by 10% per year as from 2018 and to ensure that no oil sludge is accumulated as from 2026;
- To increase the associated gas utilization rate to 95% by 2018;
- To reduce the amount of pollutants in the wastewater discharged into the Belaya River by 17.5% as from 2017;
- To ensure that there are no major accidents;
- To introduce an integrated corporate HSE management system meeting international standards at all Bashneft's enterprises.



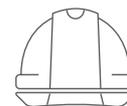
9

sludge pits were eliminated



3

companies forming part of the Group underwent additional certification in 2015 to assess their conformity with the OHSAS 18001 and ISO 14001 standards



10%

annual reduction in the lost time injury frequency rate



**OBJECTIVES FOR 2016 IN THE SPHERE OF HEALTH, SAFETY AND ENVIRONMENT:**

- To ensure that there are no fatal workplace accidents involving the Group's employees;
- To reduce the LTIF rate by 10%;
- To reduce the traffic accident rate by 10%;
- To include a link to achievement of the targets for the fatal accident rate (FAR) and the total recordable injury rate (TRIR) into programmes of management incentives and rewards;
- To reduce the pipeline failure rate by 5%;
- To implement the facility integrity management programme; to increase the transparency of incident registration;
- To standardize and streamline the procedure for HSE training;
- To reduce the negative impact on the atmosphere by increasing the associated gas utilization rate across the group of payers using subsoil resources to 88%;
- To organize greenhouse gas emission accounting and reporting;
- To implement measures aimed at restoring the population of aquatic wildlife (to release young fish);
- To reduce the negative impact on water resources: to continue the construction of BTF in accordance with the plan;
- To reduce the negative impact on land resources: to reduce the amount of accumulated oil sludge and to build an oil sludge processing unit in accordance with the schedule;
- To expand the scope of certification of compliance of the Group's companies with the international OHSAS 18001 and ISO 14001 standards.





As of the end of 2015, eight of Bashneft's enterprises have been issued with certificates of compliance with the international OHSAS 18001 standard, which enables the development of a HSE management system that is integrated into all business processes.

Adoption of best practices and achievement of the best performance in the industry is one of the Group's top priorities and one of its key strategic goals for the period from 2015 through 2020. We define it as achieving the best results in terms of reduction in injury rates, workplace conditions, process safety, condition of equipment (accidents and incidents) and reduction in the negative environmental impact (oil sludge and emissions). We set the relevant tasks individually for each business segment: upstream, refining and petrochemicals, marketing and sales; by accomplishing these tasks, we will be able to reduce

the number of occupational injuries, prevent industrial accidents and disasters and to minimize the number of equipment failures. Besides, Bashneft makes comprehensive efforts to reduce the impact of harmful industrial factors on our employees and on the residents of the Group's operating regions in general.

We are fully aware of a high responsibility imposed by operation of potentially hazardous facilities and technologically complex business.

Since 2013, the Group has been phasing in an integrated corporate HSE



In December 2015, the United Nations Climate Change Conference (COP21) was held in Paris. The conference examined global threats posed by the negative environmental impact. Representatives of about 150 countries participating in the conference signed an environmental agreement aimed at reducing carbon dioxide emissions into the atmosphere.

management system in accordance with international standards and Russian legislative requirements.

60% of the Group's companies have been issued with certificates and confirm their compliance with the health, safety and environment management standards (OHSAS 18001 and ISO 14001) on an annual basis. The scope of certification is expanding every year, and by 2020 all the Group's enterprises should be issued with certificates.

The development of the integrated system allows us to take into account HSE priorities in the course of business, to apply in full a risk-oriented approach, and to attain all of our goals declared in Bashneft's HSE Policy.

In recent years we have been investing heavily in programmes aimed at ensuring occupational safety, improving process safety and reducing the number of workplaces with harmful working conditions, as we consider this as investment in human capital, which is the Group's most valuable asset.

Bashneft is a member of the International Petroleum Industry Environmental Conservation Association (IPIECA) and the International Association of Oil & Gas Producers (IOGP). Membership of these associations formed part of Bashneft's ongoing efforts to improve its corporate governance and approaches to social responsibility and HSE. At the same time, we seek to deal with an immediate global threat posed by environmental pollution. We are fully aware of the necessity of taking response measures to minimize the negative environmental impact and manage environmental aspects of our operations.

Therefore, the Group uses a rational and careful approach to the extraction of natural resources and is committed to maximizing their economic potential. We evaluate and control the environmental impact of our business at all stages of our operations, from an oil well to a petrol tank. Bashneft takes account of the direct environmental impact and analyses the indirect environmental impact of its operations.

The Group has introduced a system for indirect greenhouse gas emission accounting and analysis in accordance with voluntary reporting standards for oil and gas companies. In order to determine the amount of these emissions in accordance with an obligatory methodology approved by the Ministry of Natural Resources and

Environment in 2015, in 2016 the Group intends to compile an inventory of all sources of greenhouse gas emissions at all of its production facilities and to ensure that they are recorded and quantified.

In our work aimed at the minimization of the negative environmental impact, we adhere to the principle of transparency and partnership with the state regulatory bodies. In 2013 the Group and the Government of the Republic of Bashkortostan signed an Agreement on Protecting the Atmosphere, and in early 2016 the Agreement on Cooperation in the Sphere of Environmental Protection and Efficient Use of Natural Resources was signed. The Agreements provide for the implementation of a series of additional measures, enhancement of control and monitoring of air pollutant emissions and the upgrade of production facilities in order to reduce the negative environmental impact; they also stipulate the parties' obligation to exchange information.



#### PRECAUTIONARY PRINCIPLE

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



'We openly cooperate with the government's regulatory and supervisory bodies and maintain a continuous dialogue. All processes related to our efforts are fully visible to our colleagues; we seek to make our efforts the sphere of health, safety and environment totally transparent.'

Roman Gavrilov,  
Director of the Health, Safety  
and Environment Department

# REFINING AND PETROCHEMICAL PRODUCTION IN BASHKORTOSTAN: A HIGH LEVEL OF INTEGRATION OF PRODUCTION FACILITIES

G4-EN27, G4-OG8, G4-MR8

## Result

### PROTECTION OF THE ATMOSPHERE

In recent years, the Group has made significant progress in reducing direct and indirect air pollutant emissions. In 2013 and 2014 Bashneft put a number of process units into operation at the integrated refinery; in 2015 they enabled the Group to ensure that almost all engine fuel that it produces meets the Euro 5 standard in accordance with the requirements of the Technical Regulations. The transition towards production of high-grade environmentally friendly fuel has a direct effect on the negative environmental impact of the use of the Group's products. For example, a switchover from the use of Euro 3 to Euro 5 fuel in a car engine can help reduce emission of carbon monoxide, nitrogen oxides and sulphur dioxide by a factor of 2.3, 2.5 and 15 respectively, and cut down emission of volatile organic compounds and particulate matter. For diesel fuel, an upgrade from Euro 3 to Euro 5 can reduce emission of CO by 28% and cut emission of NOx, sulphur dioxide, HC+NOx and particulate matter by a factor of 2.7, 35, 2.4 and 10 respectively.

In addition, we are using and developing a system for monitoring atmospheric emissions at our refineries. We also make constant efforts to improve operational efficiency and energy efficiency.

Part of associated gas produced in the Republic of Bashkortostan is processed by our gas processing plants forming part of the Group's petrochemical complex: the Shkapovskoye and Tuimazinskoye GPPs.

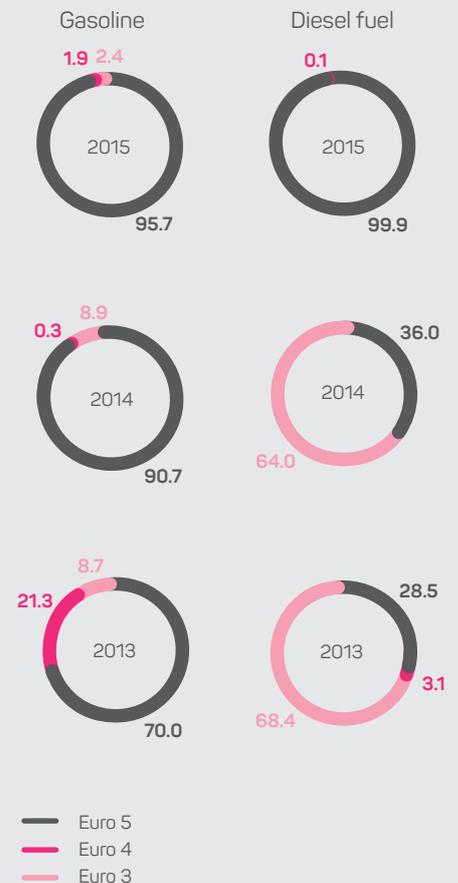
### PROTECTION OF LAND RESOURCES

2015 saw the start of development of designs and specifications; Bashneft concluded a contract for the delivery of equipment for an oil sludge processing unit with KMT International. The unit based on the thermal desorption technology will enable efficient and effective processing of all new oil sludge generated in the course of operations and to eventually eliminate previously accumulated oil sludge.



For information on benzene, lead and sulphur content in fuels and compliance of engine fuels with emission standards, see Appendix 1.

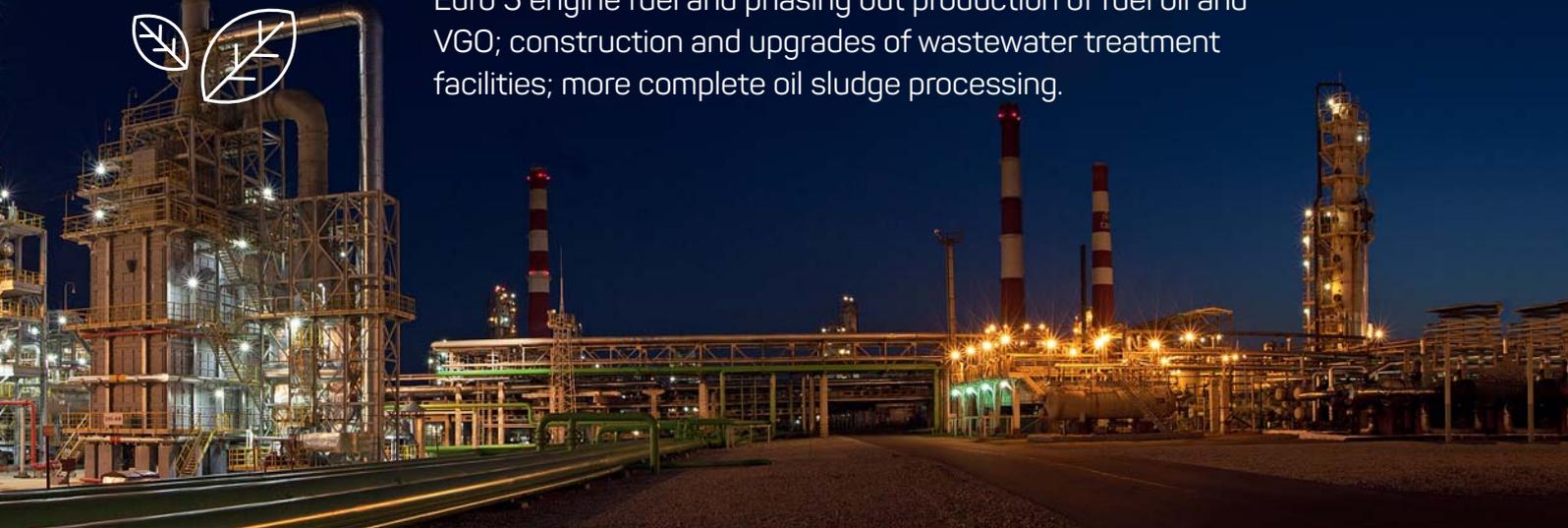
### Engine fuel production by grade, %



## Essence of the project



Reduction in the environmental impact of products manufactured by the Group. Switching over to production of Euro 5 engine fuel and phasing out production of fuel oil and VGO; construction and upgrades of wastewater treatment facilities; more complete oil sludge processing.



by a factor of **2.3**

reduction in carbon monoxide results from transition from Euro 3 to Euro 5



As of the end of 2015, almost all engine fuel produced in the reporting year met the Euro 5 standard

**~9.6**

**thousand people**

were employed in the Group's refining and petrochemical segment in 2015

### PROTECTION OF WATER RESOURCES

To reduce the impact on water bodies, part of treated wastewater is reused in the water recycling system. In addition, we continue to implement a project to upgrade our BTF, which will enable a significant reduction in the amount of pollutants discharged into the Belaya River.



For details on environmental protection, see the section 'Environmental protection'.

### Occupational safety

Our employees are the Group's most valuable asset. Therefore, we take measures to ensure occupational safety and reduce the number of workplaces characterized by harmful working conditions. The Group is implementing a large-scale occupational safety and health protection programme. We aim to reduce the number of occupational injuries and to prevent fatal accidents, including among our partners: contractors and service organizations.

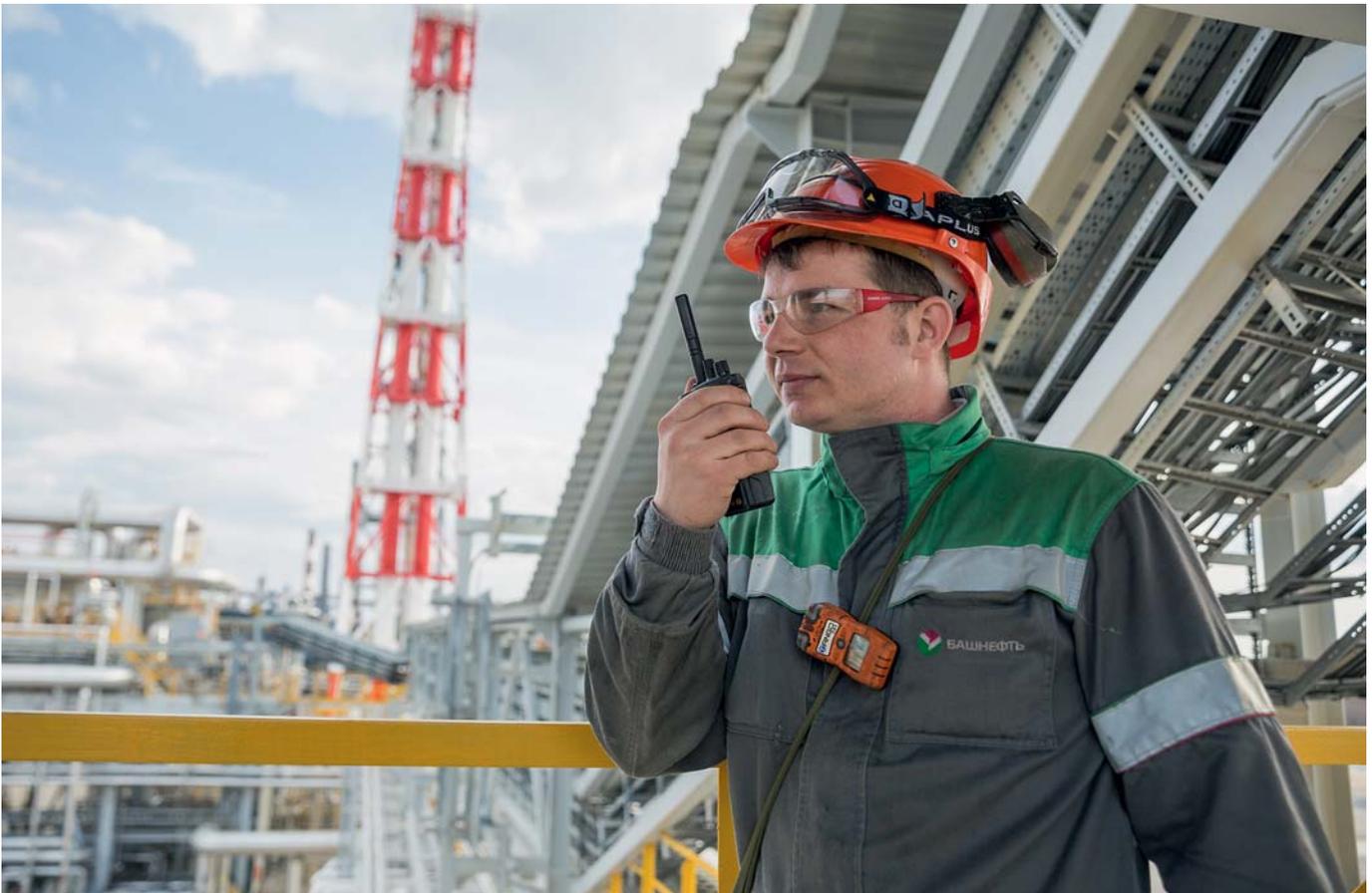
### Cooperation with local communities

Our refineries in Ufa are situated within the boundaries of the city; therefore, our priority is to ensure the safety of the population and our employees. We implement large-scale health and safety programmes and seek to minimize the number of industrial accidents. In the course of this process, we attach great importance to fostering the occupational safety culture.

The integrated refining complex is a large production facility providing a considerable number of jobs for local residents. As of the end of the reporting year, the Group's refining and petrochemical business employed about 9.6 thousand people, most of whom were hired locally.

It is worth noting that we do not violate the rights of local residents: throughout 2015 no violations of this kind were detected.

# PROTECTION OF EMPLOYEES' HEALTH AND OCCUPATIONAL SAFETY



## ACHIEVEMENTS IN 2015

- Reduction of the lost time injury frequency rate (LTIFR) by 10%
- Reduction of the traffic accident rate by 33%
- Reduction of the share of incidents involving contractors by 6%
- Over 4,800 person-courses: the amount of training in occupational and process safety

Occupational health and safety is a priority for Bashneft. Throughout the history of its operation, the Group has accumulated a wealth of experience in responsible conduct of business, and it has implemented appropriate procedures and practices.

We strive to become a leader in this field among Russian oil companies and adhere to the best internationally accepted rules and standards. We consider funding for occupational safety programmes not as expenditure but as investment in the health and well-being of our employees.

**Our activities in the sphere of occupational health and safety are based on the following principles:**

- recognizing constitutional human rights, including the right for safe working conditions;
- complying with the main requirements and areas of state policy in the sphere of occupational health and safety;
- strict compliance with the Russian legislation;
- conformity with international standards in the relevant area;
- ensuring industrial and environmental control over all kinds of operations;
- using a risk-based approach to HSE management;
- giving priority to preventive measures aimed at reducing the number of injuries and the industrial accident rate;
- continuous improvement of the corporate integrated occupational and industrial safety management system;
- improving the safety culture;
- transparency and availability of information;
- receiving effective feedback from all stakeholders.

**Bashneft has developed and adopted a number of internal documents regulating the Group's activities in the sphere of HSE:**

- The Policy of PJSOC Bashneft on Health, Safety and Environment, which declares the Group's principal goals and objectives in the sphere of health, safety and environment;
- The Long-Term Development Programme. The Strategy of PJSOC Bashneft. (Section 5. Business support segment: strategic goals, objectives and a programme of measures. Subsection 5.1. Health, safety and environment (HSE);
- The Action Plan of PJSOC Bashneft in the Sphere of Health, Safety, Environment and Social Responsibility;
- The Regulations on the Corporate HSE Management System, which define the main areas of work in the sphere of health, safety and environment: the organizational structure, planning of measures, responsibility, resources required to achieve the goals and procedures for evaluating and improving the performance of the management system and its interrelationship with other business processes in the Group;
- The risk assessment and management standard, which outlines the areas and rules for implementation of the risk-based approach to the Group's operations;
- Standards and regulations reflecting requirements of the international OHSAS 18001 and ISO 14001 standards and aimed at forming an effective system for managing HSE processes in the Group.

Funding for measures in the sphere of occupational and process safety, civil defence and emergency measures remained substantial: in 2015 it totalled about 2.5 billion roubles as against 2.2 billion roubles a year earlier. The increase in expenditure on occupational safety was due to implementation of comprehensive employee incentive programmes, health protection programmes and programmes to develop employees' competencies. The reporting year saw an increase in targeted funding for measures implemented in addition to those required by law.

**OCCUPATIONAL SAFETY**

We believe that the life and health of the Group's employees are one of the most important corporate values. Our strategic goal in occupational safety is to reduce the occupational injury rate and to prevent fatal accidents in the workplace.

To achieve this goal, we monitor working conditions in the workplace; we analyse system-related causes of industrial accidents and develop measures to eliminate them. In order to develop employees' competences, we provide them with training in occupational safety and introduce methods of assessing the employees' knowledge and skills.

As part of our approach to ensuring occupational safety, we apply our health and safety rules and policies to absolutely all employees working for the Group: both the Group's personnel and employees of contractor organizations. We keep records of all accidents in the Group's divisions and on its sites; we analyse system-related causes of accidents and develop corrective measures based on the findings of investigations.

In 2015, as part of a pilot project to implement an automated information and control system (AICS) in the sphere of health, safety and environment, we started pilot operation of two modules for accident investigation and environmental protection at LLC Bashneft-Dobycha. In 2016 we plan to start full-scale operation of the AICS, to improve the system based on received criticisms and to roll it out in the Group's branches and subsidiaries.

In 2015 Bashneft approved a programme to develop the competences and enhance the involvement of line managers in the sphere of HSE; the programme involves making improvements to about 600 sanitary facilities and amenities in the branches and subsidiaries between 2016 and 2018. The budget of the programme exceeds 640 million roubles. Implementation of the programme not only has a direct positive impact on occupational safety performance but also reflects attention to the well-being of employees on the part of the employer.

Bashneft has concluded accident insurance contracts for its employees with VSK Insurance Group, one of the largest universal insurers in Russia. Under the contracts, insurance covers over 30 thousand employees of the Company. The contracts provide for standard insurance cover against a variety of risks, including risks of death, disability, temporary disability caused by an accident and disability resulting from occupational disease; the insurance applies 24 hours a day worldwide.



'One of the key tasks facing the Group is to ensure that our employees return home healthy and safe at the end of each work day.'

Alexander Korsik,  
President, Chairman of  
the Management Board

**Financing of occupational and process safety and civil defence and emergency measures, billion roubles**



### Expenditure on occupational health and safety

In 2015 actual expenditure on occupational health and safety increased by almost 50% to 1.2 billion roubles as against 0.8 billion roubles a year earlier. This amount includes not only expenditure on measures required by law but also expenditure on target corporate programmes aimed at reducing the number of injuries.

In 2016 the amount of funding will reach 2.6 billion roubles due to the implementation of measures to reduce high-priority risks.

### Reduction in the number of occupational injuries G4-LA6

Bashneft continues to make focused efforts to reduce the lost time injury frequency rate (LTIFR), one of the Group's key performance indicators in the field of occupational safety.

The Group has adopted and is implementing a long-term plan aimed at reducing the number of occupational injuries; the plan covers all of the Group's business units. In 2015 we continued to work towards our strategic goal of achieving a steady reduction in the lost time injury frequency rate by 10% per year.

We continue to work towards transparent registration of absolutely all incidents, including instances of provision of first aid and medical treatment, as well as registration of factors behind the incidents. In 2015 the total number of incidents increased by 45% as instances of provision of medical treatment are now registered more frequently. Improvement of the incident registration system makes it possible to address more efficiently the causes of injuries and factors leading to incidents. This enables Bashneft to develop a system for proactive management of injury rates and to reduce the number of serious injuries and major accidents.

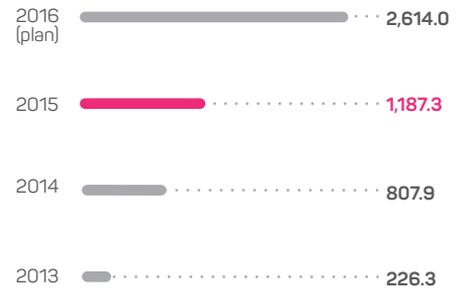
In 2015 there were six fatalities, including four employees of contractor organizations; this has necessitated applying stricter requirements for contractors when contracts are being concluded, conducting additional spot checks to assess compliance with HSE requirements and giving large-scale unscheduled briefings for employees. In 2015, 3,761 inspections were conducted; fines imposed based on the findings of the inspections totalled 14.3 million roubles. In 2016 Bashneft plans to provide training to contractors and to develop an automated system for assessing the knowledge of corporate standards in HSE among engineers, technicians and workers.

Implementation of corrective measures developed following the investigation of fatal accidents is supervised by the Company's Management Board. We are fully aware of our responsibility for injuries suffered by our employees; under the Collective Agreement, we have an obligation to provide financial assistance both to employees who have suffered severe injuries in the workplace and to families of employees killed in accidents.

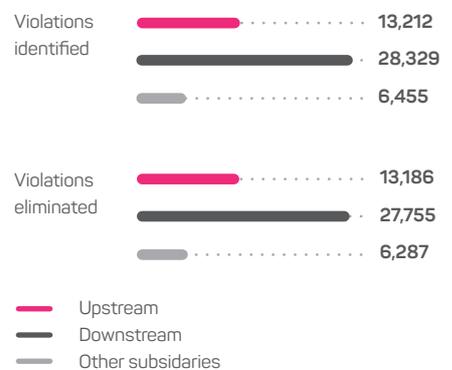
The Group has been continuously analysing the main causes of industrial injuries. After the causes are identified, response measures are implemented to address them. Thus, in 2015 the main causes of accidents included falling and stumbling, as well as traffic accidents. An increase in the number of workplace accidents was related to expansion of the scope of the Group's business (through inclusion of PJSC Ufaorgsintez, LLC Tuimazinskoye GPP, LLC Shkapovskoye GPP and LLC Bashneft-Stroy). Another factor behind the increase consisted in a larger number of persons injured in road accidents (through the fault of third-party drivers).

In accordance with an action plan to ensure occupational safety and reduce the number of occupational injuries, in 2015 we continued implementing administrative and

### Funding for occupational health and safety measures, million roubles



### Outcome of occupational safety inspections in 2015



For a detailed breakdown of expenditure on occupational health and safety, see Appendix 1. Social policy and human resource development.



### KEY AREAS OF OUR WORK IN THE SPHERE OF OCCUPATIONAL HEALTH AND SAFETY IN 2016:

- Registration and management of factors causing accidents: further implementation of a programme of preventive measures;
- Implementation of measures for managing high-priority HSE risks;
- Implementation of a set of measures to prevent injuries among workers performing hazardous operations;
- Implementation of the School of Masters programme: training for line managers;
- Incentive programmes;
- Health protection programmes;
- Online briefings/training at individual industrial sites;
- Implementation of an accident investigation module and an environmental protection module of the AICS in the sphere of HSE.

**Lost time injury frequency rate  
(the Group's employees and Bashneft's contractors)**

	2013	2014	2015
Lost time injury frequency rate	0.45	0.33	0.3

engineering measures aimed at improving safety in the workplace.

Employee incentive programmes entitled the Programme to Incentivize HSE Performance of Low-Level Employees and the Incentive to Ensure Safety Programme are implemented in the Group's branches and subsidiaries. Over 5,000 employees were awarded bonuses for maintaining workplace safety.

In 2015 the Group attached special importance to risk assessment: it updated High-Priority Risk Maps based on the findings of accident investigation; it also identified and implemented risk management measures. In 2016 Bashneft plans to allocate over 1.2 billion roubles for technical measures aimed at reducing high-priority risks.

**Reducing the number of workplaces characterized by harmful working conditions** G4-LA7

In 2015 the percentage of workplaces characterized by harmful working conditions across the Group totalled 13.7%. A year-on-year reduction by 2.6 p.p. was enabled by the implementation of measures aimed at improving working conditions and changes in the legislation concerning the criteria for assessment of harmful factors.

In 2015 Bashneft established a uniform procedure for providing guarantees and compensation for work in harmful working conditions (amendments were made to the Collective Agreement of PJSOC Bashneft and its subsidiaries, and temporary regulations were approved in branches and subsidiaries).

An audit was conducted to assess the condition of amenities in the Group's companies, and measures were developed to improve them. The budget of the initiatives totals 324 million roubles.

**Protection of employees' health**

In 2015 health protection measures implemented by the Group included health resort treatment, preventive and treatment measures for employees working in

harmful conditions, provision of medical care by first aid stations and primary care physicians on the shop floor, as well as purchase of first-aid kits; in addition, Bashneft implemented programmes to promote a healthy lifestyle.

Our efforts in the sphere of health protection are focused on high-priority areas. Most instances of disease and death are caused by cardiovascular diseases and cancer, which is generally consistent with the overall situation in the country.

In accordance with the Standard on Prevention of Cardiovascular Diseases, in 2015 more than 9,000 of the Group's employees underwent medical examination, which helped reduce the number of deaths in the workplace and at home from this disease by 24%. The budget of the initiative totalled about 23 million roubles.

Health risk groups were identified, and a target programme was developed to deal with the high-risk group.

The Group has developed and put into practice the Standard on Organization of Emergency and Scheduled Medical Care for Employees as part of the HSE Policy Aimed at Protection of Employees' Health and Prevention of Work-Related Fatalities. Emergency Medical Response Plans have been developed and implemented at all production facilities. In 2015 over 100 training sessions were conducted in order

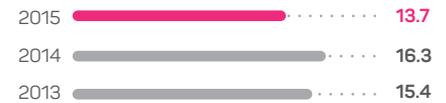


**INNOVATIONS INTRODUCED AS PART OF A COMPREHENSIVE HSE PROGRAMME**

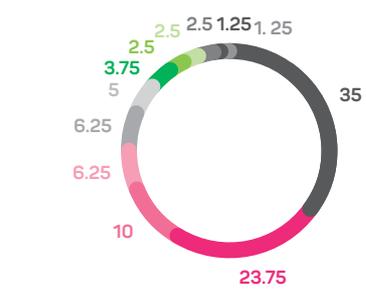
In the reporting year, the Lockout-Tagout shutdown system (for shutting down and locking power sources before maintenance work is started) was introduced at the facilities of the Bashneft-Novoil Branch. In 2016 the system is expected to be rolled out at other facilities of Bashneft Group.

To identify and address hazardous working conditions in order to prevent accidents, the Hazard Label programme was developed and implemented at the sites of the Bashneft-Ufaneftekhim Branch.

**Share of workplaces characterized by harmful conditions, %**



**Breakdown of incidents in 2015 by category, %**



- Slipping, stumbling, falling (at the same height)
- Contusions (bruises)
- Cuts, scratches
- Becoming wedged
- Other
- Combustion/burns
- Chemical or biological impact, noise, vibration
- Falling from height
- Incidents during operation of high-pressure equipment
- Deliberate infliction of bodily harm or acts of violence
- Confined space
- Electric shock



In the reporting year, the LTIF rate was reduced by 10%.



to exercise practical skills; they were attended by representatives of all functions involved. Employees undergo first-aid training based on international best practice. An audit was conducted at 12 first aid stations, and corrective measures were subsequently developed.

Overall, in 2015 the number of employees who attended health protection courses and lectures increased several times over. The number of employees vaccinated against influenza and pneumonia doubled.

We believe that it is vital to focus our efforts on preventive measures. In 2015 Bashneft conducted six corporate health days, including the No Smoking Day, the Cardiovascular Disease Prevention Day, the Stress Prevention Day, etc. The events were attended by over 2,000 employees. [G4-LA6](#)

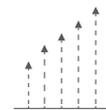
**Training in occupational and industrial safety**

In order to develop employees' competences, we provide them with training in occupational safety and introduce meth-

ods of assessing the employees' knowledge and skills.

Since 2012 the Group has been implementing a corporate Training Programme in Occupational and Industrial Safety, which has been developed in addition to obligatory training programmes required by law. In 2015 the total amount of training in major courses as part of special corporate programmes in the sphere of occupational and industrial safety (measured as the number of courses multiplied by the number of recipients) exceeded 4.8 thousand person-courses. In 2015 the amount of training in one of the most important courses on occupational safety, Rules of Keeping Alive, totalled 1.8 thousand person-courses. A reduction in the amount of training was related to the fact that the programmes are targeted at newly hired employees, whereas most of the Group's employees had already undergone training in 2013 and 2014.

We seek to organize a targeted training process. Geographically remote divisions of our Group widely use online training courses. The practice of in-house coaching has been introduced and is used success-



In 2016 the Group will continue to implement preventive measures and to promote a healthy lifestyle among its employees.

**Frequency of fatalities caused by diseases**

	2014	2015
Number of fatalities caused by diseases at the Company's facilities	6	4
Total number of man-hours, million	91.7	122.5
Frequency of fatalities caused by diseases*	0.06	0.03

\*Work-related fatalities caused by diseases x 1,000,000 hours/ number of man-hours per year.

**Corporate training programme in occupational and industrial safety, person-courses**

	2013	2014	2015
Rules of Keeping Alive	25,092	4,144	1,808
Accident Investigation	2,172	346	601
Managers' Leadership and Behavioural Audit	1,340	1,508	692
Defensive Driving	812	1,038	126
Risk Assessment	1,801	1,119	609
Use of Personal Protective Equipment	1,168	19,582	697
OGP Reporting	37	26	0
Integrated Management Systems	0	172	245
Training of Trainers for HSE Divisions	0	59	47
Process Safety (HAZOP)	0	11	0
<b>Total</b>	<b>32,422</b>	<b>28,005</b>	<b>4,825</b>

fully, making it possible to provide training to all employees who require it. As part of the development of this programme, in 2016 Bashneft plans to develop an automated knowledge assessment system for employees of contractor organizations, to update the training matrix and to use a practice-oriented approach.

**Developing the corporate culture and leadership in the area of occupational safety**

Experience suggests that 90% of incidents are caused by human error. Apart from improving safety systems and technologies, it is necessary to use an integrated approach to developing safe working skills among employees, to develop a shared safety culture and to engage absolutely all employees of the Group, from the President to a shop-floor worker, in the process.

The Group's strategic goals can be achieved only if the overall level of process safety culture is improved, employees' competencies are developed and employees are incentivized to adhere to occupational safety rules. The Group has introduced the Standard on Safety Culture and HSE Leadership outlining the main areas for development.

Engagement and incentive programmes are being developed taking into account special features of target groups and are cascaded to all employees of Bashneft. The set of KPIs for the Group's managers and employees includes indicators related to industrial and occupational safety. Employees' bonuses are linked, among other things, to the achievement of tar-

gets for maintaining a zero accident rate and reduction in the number of injuries.

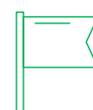
A key prerequisite for forming a corporate culture is the commitment of senior management to the principles of occupational safety and their implementation in practice. In 2015 the Company's Board of Directors approved a leadership indicator in this sphere for the Group's senior executives.

The Group's leaders demonstrate the importance of safety culture by personal example. They actively participate in the command and staff training, special tactical training and tactical firefighting exercises.

We see line managers of production sites as our key target audience as we believe that they play a major role in ensuring the observance of safety principles and development of skills required for safe work. In 2015 heads of various business areas participated in a number of programmes and activities, including HEAT audits comprising elements of behavioural safety audit.

In 2015 we adopted a special programme to develop competencies and increase involvement of line managers in HSE issues, which includes a number of educational and motivational activities. As part of the Incentive to Ensure Safety project, in 2015, over 5,000 employees received bonuses (the total amount of the bonuses exceeded 100 million roubles).

As part of the Master Day, we facilitated the sharing of experience among the line managers of various subsidiaries. In 2015 the Upstream Unit organized visits of the best workers to the production facilities of Salyem Petroleum. This makes it possi-



**LEADERSHIP  
IN PROMOTING  
A HEALTH AND SAFETY  
CULTURE**

We believe that top executives should set an example for their subordinates in terms of observance of safety rules; they should promote and actively advocate safety values. In 2015, for the second time in the history of Bashneft, we held a HSE Forum attended by all top executives, where we discussed details of major incidents, tried to understand their system-related causes and developed management decisions. We introduced the practice of top executives' visits to production facilities; meetings with employees over HSE issues; audits; discussion of safety issues in all operational meetings.

## Traffic Rules Day



As part of a one-month campaign focused on traffic safety at PJSC Ufaorgsintez and a large-scale municipal campaign titled 'Attention: Children!', in November 2015 employees of the plant and the State Traffic Safety Inspectorate of Ufa held a preventive event 'Get Spotted' in the Municipal Welfare Centre for Children and Teenagers. The main goal of this event was to form a responsible attitude to observing the traffic rules among young pedestrians, to prevent road accidents involving pedestrians during low-light hours and to encourage the use of reflective elements.

ble to get acquainted with best practices and receive feedback.

Bashneft holds meetings with employees of contractors regarding the occupational safety culture. The meetings are attended by the Group's top executives.

As part of the development of a safety culture, special importance is attached to the prevention of traffic accidents. In 2015 we held over 200 meetings on accident prevention with drivers. Over 100 employees received reduced bonuses and nearly 200 drivers got warnings for violations. Over 900 drivers received training in safe driving techniques (as part of the Defensive Driving and Winter Driving courses).

The Group uses the 'Stop Work' procedure, under which any employee may stop working if there is a danger to the life and health of employees. Overall, in the reporting year there were over 600 shutdowns; almost 98% of them occurred in the course of operations performed by contractors.

### INDUSTRIAL SAFETY

**Measures aimed at ensuring industrial safety at hazardous production facilities in the Group fall into several major categories. The following actions are carried out at all potentially hazardous production facilities:**

- systematic supervision to ensure that necessary tests and examinations of equipment are conducted on time;

- timely repairs and tests of control measuring devices;

- strict observance of technological discipline;

- full compliance with industrial safety requirements imposed by federal laws and regulations.

In 2015 the Group spent 1.2 billion roubles on the full range of measures to ensure process safety<sup>1</sup>.

The Group gave priority to the implementation of programmes to ensure compliance of hazardous production facilities with process safety rules. In 2015 funding for these programmes totalled 0.7 billion roubles.

Bashneft has developed and uses a multi-level system of industrial control at hazardous production facilities as one of the key mechanisms to ensure process safety. In 2015 industrial control departments of the Company's branches and subsidiaries carried out 7.9 thousand inspections, including 3.32 thousand inspections of contractors. The inspections revealed 68.8 thousand violations, 98.9% of which have been remedied, while the rest are being remedied.



### MAIN ELEMENTS OF THE PROGRAMME TO ENHANCE THE SAFETY CULTURE:

- leadership development: senior management's commitment to the principles of occupational safety and their implementation in practice;
- more active involvement of employees: changing their mentality and overcoming their inertial reluctance to change;
- motivation: development of employee incentive programmes, including those based on non-financial incentives;
- effective feedback.

1. Excluding expenditure on measures for improving the reliability of pipelines.

## Progress in improving process safety in 2015

# 963

measures aimed at reducing the accident rate were implemented in 2015

In the reporting year, we conducted four HAZOP studies at production facilities forming part of Bashneft's integrated refining complex; we also performed safety analysis and identified risks related to the design of the elemental sulphur production unit at the Bashneft-Ufaneftekhim Branch taking into account HSE requirements.

In 2015 we developed 1,085 measures aimed at reducing the accident rate, out of which 963 measures have been implemented, while another 122 are underway. We compiled a register of measures aimed at ensuring compliance of facilities forming part of the integrated refining complex with safety rules.



We set up a department responsible for equipment integrity in the Downstream Unit.

### PROTECTING EMPLOYEES IN EMERGENCY SITUATIONS

Bashneft has in place an emergency prevention and response system. In 2015, in order to maintain this system in constant readiness, we conducted 661 events including a variety of exercises and trainings, including in oil spill response, firefighting operations and accident containment. The exercises and trainings were attended by almost 10,000 employees, which is 18% more than in 2014.

To conduct rescue operations and other emergency response activities, the Group has formed four emergency response teams comprising a total of 192 employees. There are also 15 volunteer emergency response teams totalling 784 persons and 171 volunteer teams for supporting civil defence measures (1,528 persons), who are provided with special equipment and vehicles.

In 2015 Bashneft spent 26.9 million roubles on emergency prevention measures; the largest part of these funds was allocated for maintaining the readiness of employees and equipment for emergency response and civil defence.

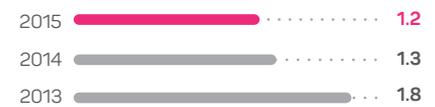
**In addition, as part of our efforts to provide a higher degree of protection, we implement two programmes:**

- Maintaining all of Bashneft's shelters in constant readiness. In the reporting year, measures for maintaining the

shelters in constant readiness included only ongoing maintenance; major repairs of the shelters were completed in 2012 and 2013.

- Integrating 3D modelling of potentially hazardous facilities into management procedures in order to enable real-time management decisions on the safe operation of facilities and accident containment. In 2015, 3D models of potentially hazardous facilities situated in the Khanty-Mansi Autonomous District (facilities of LLC Bashneft-Dobycha in Nizhnevartovsk) were finalized in addition to a similar 3D model of potentially hazardous facilities in the Republic of Bashkortostan developed in 2014.

### Expenditure on process safety, billion roubles



# 26.9 million roubles

Spending on emergency prevention measures in 2015



For more information on expenditure on process safety by area, see Appendix 1.

# ENVIRONMENTAL PROTECTION

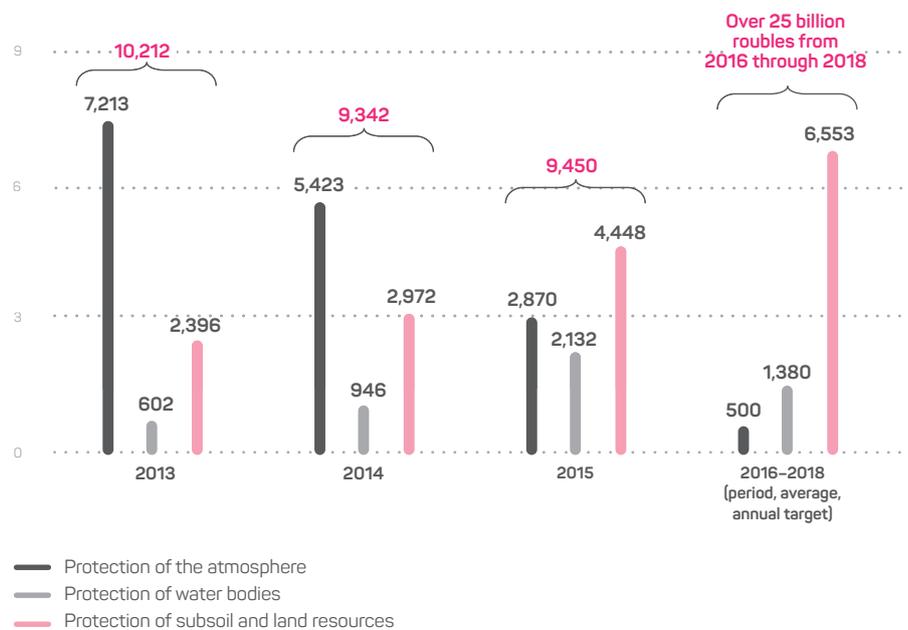


Bashneft uses a comprehensive approach to minimizing direct and indirect negative impact on environment, which addresses all aspects of the potential impact, including:

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

The Group invests heavily in this sphere. In 2015 the Group spent a total of 9.45 billion roubles on environmental protection measures. From 2016 through 2018 Bashneft plans to allocate more than 25 billion roubles for this purpose.

Expenditure on environmental protection by area, million roubles G4-EN31



## PROTECTION OF THE ATMOSPHERE AND MONITORING OF EMISSIONS

The Group's priorities in the sphere of protection of the atmosphere and monitoring of emissions include the following:

- To upgrade production facilities to reduce direct and indirect air pollution;
- To improve associated gas utilization in production;
- To produce high grade environmentally friendly engine fuel;
- To monitor and control hazardous atmospheric emissions.

We adhere to the Agreement on Cooperation in Protecting the Atmosphere signed by the Company and the Government of the Republic of Bashkortostan. Under the Agreement, the Company has assumed an obligation to implement a series of additional measures, enhance control and monitoring of air pollutant emissions and upgrade its production facilities in order

to reduce the negative environmental impact.

Under the Agreement on Cooperation in Protecting the Atmosphere, in 2015 Bashneft implemented the following measures:

- an additional process line of the elemental sulphur production unit was put into operation in the Bashneft-Ufaneftekhim Branch;
- installation of floating roofs and gas line hook-up was completed at oil storage facilities in the Bashneft-Ufaneftekhim and Bashneft-Novoil Branches;
- upgrades of the sulphur production unit continued in the Bashneft-UNPZ Branch.

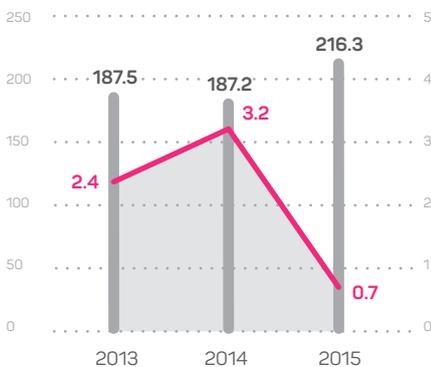
In 2015 Bashneft spent about 1.7 billion roubles on measures stipulated in the Agreement. The main environmental impact of refinery upgrades consisted in utilization of sulphurous gas using technology that helps achieve a high level of conversion of hydrogen sulphide into elemental sulphur and reduce the negative impact on the atmosphere.



'Measures implemented by the Group jointly with the Ministry of Environment have enabled a significant environmental improvement.'

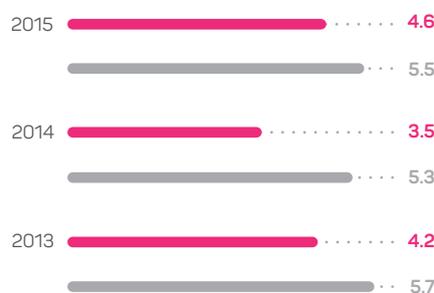
Rustem Mardanov,  
Prime Minister of the Government  
of the Republic of Bashkortostan

### Volume of harmful atmospheric emissions



- Volume of harmful atmospheric emissions, thousand tonnes
- Impact of emission reduction measures, thousand tonnes

### Emissions per tonne of oil



- Emissions per tonne of oil produced (in the Upstream Unit), kg
- Emissions per tonne of oil processed (in the Downstream Unit), kg



### MOBILE ENVIRONMENTAL UNIT

Bashneft operates a mobile environmental unit. It is a vehicle provided with special equipment, which includes a gas analyser, a chromatograph, air samplers, meteorological equipment, a satellite navigation system and a software package for processing measurement results. The monitoring process is fully automated. This not only eliminates the need for

performing routine operations but also helps make the measurements more accurate due to the absence of human error. Gas analysis equipment supplied by leading producers enables monitoring across a wide range of pollutants, including hydrogen nitride, sulphur dioxide, nitrogen and carbon oxides, hydrogen sulphide, etc.



For more information, see the 'Refinery upgrades' section

**Expenditure on measures stipulated  
in the Atmosphere Protection Agreement,  
billion roubles**



In 2015 the total volume of harmful atmospheric emissions increased year on year. This was caused by a significant year-on-year increase in oil production in the reporting year, which totalled 11.9%. The amount of emissions per tonne of oil produced increased due to active implementation of the project to develop the R. Trebs and A. Titov fields, where infrastructure that will enable associated gas utilization has not reached the design capacity yet. Scheduled commissioning of infrastructure required for associated gas utilization at the fields of LLC Bashneft-Polyus in 2017 will help increase associated gas utilization to 95%.

At the same time, in the Downstream Unit in 2015 the total volume of harmful atmospheric emissions decreased by 4.7% to 125.2 thousand tonnes as against 131.4 thousand tonnes in 2014.

**Monitoring and control of  
atmospheric emissions**

Main sources of atmospheric emissions within Bashneft’s refining complex are equipped with automated air pollution sensors. Data from the sensors are transmitted in real time.

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

**Refinery upgrades**

We are implementing a comprehensive programme to upgrade production facilities, which involves reducing direct and indirect negative impact on the atmosphere. The programme is implemented in accordance with the Plan of Upgrading Production Facilities and Introducing Modern Technologies to Reduce Negative Impact on the Atmosphere, which has been adopted in accordance with the Agreement between Bashneft and the Government of the Republic of Bashkortostan.

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

**Key 2015 projects with the highest environmental impact include the following:**

- Commissioning of the fifth additional process line of the elemental sulphur production unit in the Bashneft-Ufaneftekhim Branch in order to utilize sulphurous gas and reduce the negative impact on the atmosphere. The technology used by the Company helps achieve a high level of conversion of hydrogen sulphide into elemental sulphur, which is used in the chemical and metals industries. The new process line makes it possible to create the necessary spare capacity at the elemental sulphur production unit, given that in recent years an increase in the efficiency of hydrotreatment processes as a result of upgrades aimed at switching over to production of Euro 5 fuel has led to a considerable increase in the amount of gas containing hydrogen sulphide; consequently, the four existing process lines of the elemental sulphur production unit at the Bashneft-Ufaneftekhim Branch are operating almost at full capacity;
- Installation of floating roofs and gas line hook-up at oil storage facilities in the Bashneft-Ufaneftekhim and Bashneft-Novoil Branches. This has helped reduce petroleum product losses caused by natural evaporation and thus has enabled a reduction in atmospheric emissions.

Bashneft’s refineries produce a broad range of petroleum products, with gasoline and diesel fuel being the most important of the Company’s products sold in the consumer market. Almost all engine fuel produced by Bashneft in 2015 met the Euro 5 standard: the share of Euro 5 gasoline totalled 95.7%, while Euro 5 diesel fuel accounted for 99% of the total output.



‘The Group makes efforts to reduce the negative environmental impact of its operations by implementing a number of special projects. These include the commissioning of additional process lines of the elemental sulphur production units, which make it possible to utilize sulphurous gas produced in the course of refining of petroleum products, and construction of biological treatment facilities and an oil sludge processing unit.’

Denis Stankevich,  
First Vice President for Refining  
and Commerce

## Improvement in the efficiency of associated gas utilization



The Group seeks to effectively utilize associated gas, which is a valuable energy source and serves as feedstock for petrochemical production. In the reporting year, we continued to build and commission facilities required for using associated gas to meet the Group's needs.

In 2015 we completed the construction of two compressor stations with a throughput of 80 million cubic metres per year at LLC Bashneft-Dobycha; three more stations with a throughput of 70 million cubic

metres per year are in the final stage of testing and adjustments. The use of compressor stations will help increase associated gas utilization by supplying gas to third parties and using it for the Group's internal operational needs.

In the reporting year we completed testing and adjustments of a modular compressor station with a capacity of 3 MW; after it has been put into operation, it will help reduce the cost of purchased electricity.

### Associated gas utilization

To ensure compliance with applicable Russian legislation and reduce atmospheric pollution, the Group has developed and implements the Target Gas Programme (TGP). The Programme is aimed at improving the associated gas utilization rate. The Programme is scheduled for the period from 2012 through 2016; its budget exceeds 4 billion roubles. In 2015 expenditure on the Programme exceeded 0.8 billion roubles.

Despite significant growth of the Group's oil production and an increase in the production of associated gas at an even faster rate, in 2015 measures implemented by the Group as part of the Programme

enabled it to maintain associated gas utilization across the Group at the level reached in 2014 (74.8%). The associated gas utilization rate at brownfields increased to 84.5%. Beneficial use of associated gas totalled 594.5 million cubic metres, which is 73 million cubic metres more than in 2014.

We expect an increase in associated gas utilization at the R. Trebs and A. Titov fields in the near future due to implementation of water-alternating-gas technology for formation pressure maintenance involving associated gas utilization.

Oil-producing assets of LLC Burneftegaz report a high associated gas utilization rate meeting the regulatory target (95.33%).

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

- supply of gas to LLC Bashkir Power Generation Company, LLC Gazprom Mezhringgaz Ufa and other consumers;
- internal needs (process furnaces, boiler houses, etc.), including development of power generation at a number of fields;
- processing at the Shkapovskoye and Tuimazinskoye gas processing plants;
- injection of associated gas into formations to maintain reservoir pressure at oilfields.

### Associated gas production and utilization by Bashneft

	2013	2014	2015
Associated gas production. million cubic metres	605.0	6976	795.2
Associated gas utilization. million cubic metres	439.9	5216	594.5
Gas injected into formations. million cubic metres	97.7	98.2	86.0
Internal operational needs. million cubic metres	155.7	204.4	266.6
Sales to subsidiaries. million cubic metres	25.0	21.8	23.8
Sales to oilfield service companies and third-party organizations. million cubic metres	56.3	91.1	104.8
Gas supplied to gas processing plants. million cubic metres	92.4	99.8	108.6
Process losses. million cubic metres	12.9	6.2	4.7
Associated gas flaring. million cubic metres	165.0	176.0	200.7
Associated gas utilization rate. %, including:	72.7	74.8	74.8
LLC Bashneft-Dobycha (brownfields)	75.4	82.1	84.5
LLC Bashneft-Polyus*	41.7	40.7	39.8
LLC Burneftegaz	-	96.1	95.3

\* A reduction in associated gas utilization at LLC Bashneft-Polyus is related to an increase in associated gas production with gas consumption remaining unchanged.

Water withdrawal by Bashneft in 2015, million cubic metres G4-EN10

	Upstream	Downstream	Across the Group
From municipal networks or third-party water supply networks	0.1	0.5	0.6
From underground water reservoirs	19.7	0.4	20.1
From surface water bodies	6.3	21.1	27.4
<b>Total</b>	<b>26.2</b>	<b>21.9</b>	<b>48.1</b>

Total water discharge by Bashneft in 2015, million cubic metres G4-EN22

	Upstream	Downstream	Across the Group
Via third-party organizations	0.0	0.1	0.1
Onto the ground	0.0	-	0.0
Into formations	18.0	-	18.0
Into surface water bodies	0.0	12.3	12.3
<b>Total</b>	<b>18.0</b>	<b>12.4</b>	<b>30.4</b>

PROTECTION OF WATER  
RESOURCES

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

Water withdrawal  
and discharge G4-EN8

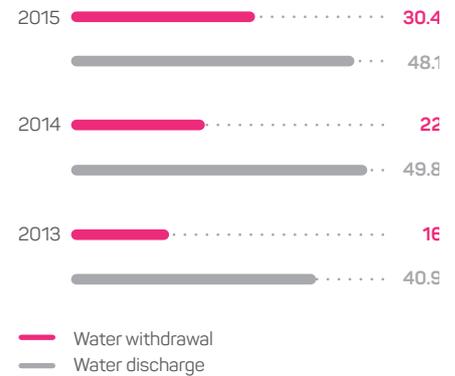
Main sources of water withdrawal are surface (57%) and underground (42%) bodies

of water. The Upstream Unit accounts for 54% of the Group's total water withdrawal, while the Downstream Unit represents 46% of total water consumption.

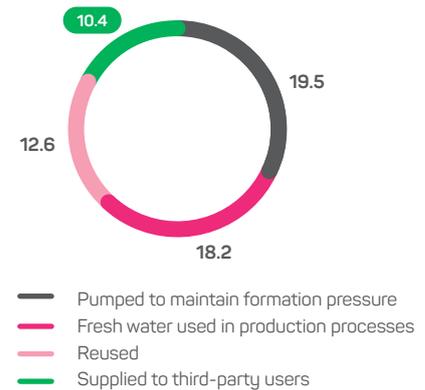
In 2015 Bashneft's water consumption for its own needs totalled 50.3 million cubic meters. The difference between the amount of water withdrawal and consumption is related to reuse of treated industrial wastewater in the Downstream Unit; its share amounts to 52%.

In the Downstream Unit, water from surface water bodies and underground reservoirs is used primarily for supply to third parties, for instance to combined heat and power plants for steam generation, while in the Upstream Unit it is used for maintaining formation pressure.

Water withdrawal and discharge volumes  
at Bashneft, million cubic metres



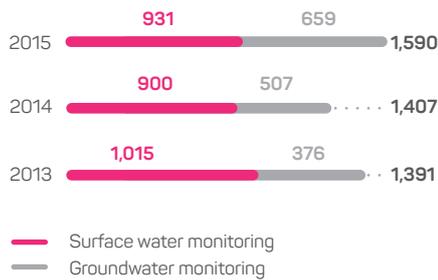
Volumes and areas of use of water from  
water bodies, million cubic metres



Volumes and areas of water utilization by Bashneft in 2015, million cubic metres

	Upstream	Downstream	Across the Group
Pumped to maintain formation pressure	160.5	-	160.5
From surface and underground water bodies	19.5	-	19.5
Use of produced water	141.0	-	141.0
Surface water and groundwater used in production processes (other than recycled water and water reused after treatment)	6.7	11.6	18.2
Reused treated industrial wastewater	-	12.6	12.6
Recycled water	-	672.1	672.1
Supplied to third-party users	0.1	10.4	10.4
<b>Total use of surface water and groundwater for own needs, including treated industrial wastewater</b>	<b>26.2</b>	<b>24.2</b>	<b>50.3</b>

### Number of monitoring wells



In 2015 the total volume of water discharge across the Group amounted to 30.4 million cubic metres. The major part (about 59%) of wastewater was discharged into formations.

To reduce water consumption, water reuse and recycling systems are widely used in the Upstream Unit. Bashneft disposes of industrial wastewater by pumping it into pay or (less frequently) thief zones. In 2015 the use of produced water (separated from crude oil emulsion) totalled 141.0 cubic metres. If necessary, water is treated with antiseptics before pumping it into formations; this is done in order to prevent its contamination with sulphate-reducing bacteria which produce hydrogen sulphide in oil and water. After produced water has been separated from emulsion and its compliance with technical standards has been achieved, treated water is normally pumped into formations in order to maintain formation pressure. [G4-0G5](#)

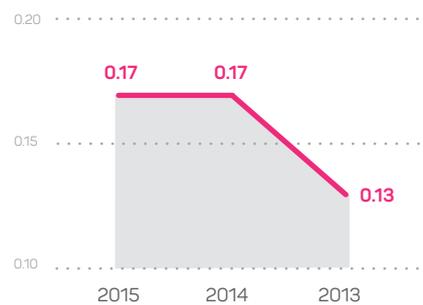
### Water conservation

Withdrawal of water by the Group seriously affects surface water bodies in its operating regions, including the Belaya River, a tributary of the Kama River, which is located in the Republic of Bashkortostan and classified as a Grade 1 fishery. [G4-EN9](#)

The Group pays particular attention to environmental monitoring of natural water bodies. The water quality monitoring network comprises almost 1.6 thousand monitoring wells, nearly 42% of which are used for monitoring fresh groundwater.

To reduce environmental hazards of industrial wastewater, the Group's refineries use specialized treatment facilities, which are undergoing radical upgrades to ensure that the quality of treated wastewater complies with applicable standards for fisheries.

### Contamination of industrial wastewater with petroleum products, mg/l



Moreover, we actively reuse water to reduce discharge into natural water bodies.

We use biological treatment facilities (BTF) of the Bashneft-Ufaneftekhim Branch for biological treatment of industrial wastewater generated by the integrated refining complex. At present, a project to upgrade all of the Group's biological treatment facilities is underway. It will involve the use of the best wastewater treatment technologies. Implementation of the upgrade project will prevent discharges of pollutants in excess of permitted levels, enable wastewater treatment to the standard established for fisheries, reduce the surface area of treatment plants and minimize water withdrawal through reuse of treated water in production processes. The budget of the project totals 8.4 billion roubles, and the project is scheduled to be completed in early 2017. Our technology partner in the project is General Electric. [G4-EN22](#)

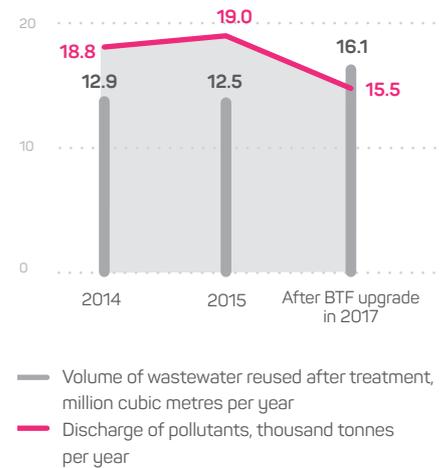
In 2015 construction and installation works were performed as part of the project; by year end, 59% of the work was completed.

### SOIL CONSERVATION

We seek to minimize the negative impressive impact on soil by managing waste generated in the course of oil production and refining, in particular oil sludge. The Group takes measures to remediate contaminated soil at abandoned production sites. Bashneft makes constant efforts to improve the reliability of its pipelines and field facilities in order to prevent accidents and reduce the number of pipeline failures.

In 2015 expenditure on protection of sub-soil resources and land remediation totalled almost 4.5 billion roubles. Like in 2014, the main cost item was the funding of measures to reduce the flowline failure rate.

### Impact on the Belaya River





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

### Waste processing

The reporting year saw a significant increase in waste treatment and processing to 121 thousand tonnes. As a result, by year end the volume of accumulated waste decreased to 316 thousand tonnes.

Oil sludge is the main type of waste generated in the course of oil production and refining, which makes up a large portion of the total amount of waste. Reduction in the volume of accumulated oil sludge is a strategic goal set out in the Action Plan of PJSOC Bashneft in the Sphere of Health, Safety, Environment and Social Responsibility.

### In 2015 Bashneft continued its effort aimed at sludge processing and elimination of sludge pits:

- the Alfa Laval sludge processing unit processed 28.2 thousand cubic metres of oil sludge;
- the UZG 1M unit operated by the Tuzimazaneft OGPD processed 2.3 thousand tonnes of sludge using a thermal process;
- specialized enterprises removed and processed 41 thousand tonnes of oil sludge;
- almost 4 thousand tonnes of liquid sludge were processed in the delayed coker

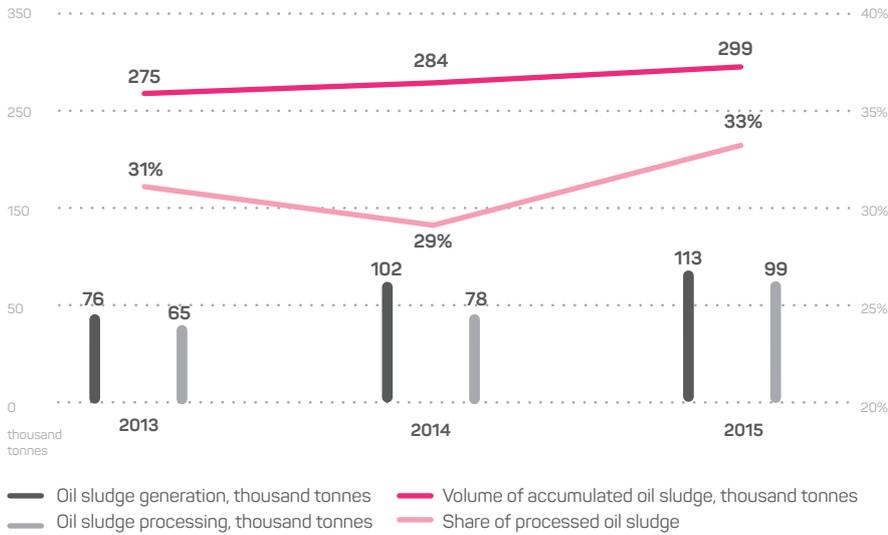
operated by the Bashneft-Ufaneftekhim Branch.

The Group's refineries apply centrifugal dewatering to reduce the volume of sludge produced.

As part of development of the A. Titov field, the Group started the construction of a solid waste landfill. Bashneft continued to cooperate with the Ministry of Natural Resources and Environment of Bashkortostan on the development of a standard on acceptable residual oil content in the soil in the region.

Amount of drilling waste and its processing

G4-0G7



Improving the reliability of pipelines

Land and soil conservation through improvements in the reliability of pipelines is an important focus of Bashneft's efforts to improve process safety. This helps achieve an additional reduction in product losses by reducing the number of equipment failures and the pipeline accident rate.

Bashneft continuously monitors the condition of pipelines, repairs and replaces deteriorated pipelines as part of its Programme to Improve Pipeline Safety for the period from 2013 through 2018. In the

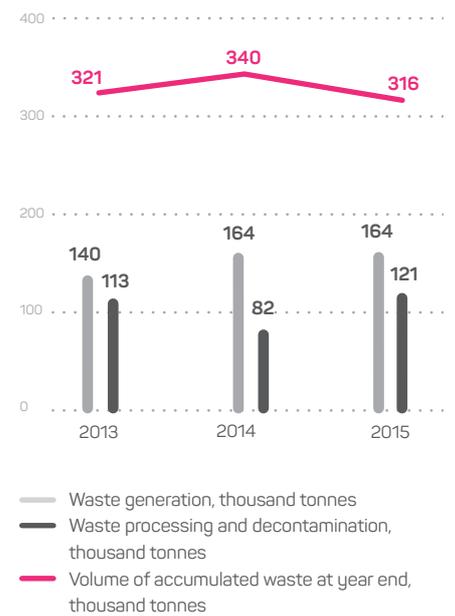
reporting year, expenditure on measures to improve the reliability of pipelines as part of the Programme totalled about 3.0 billion roubles. G4-0G13

In addition, the Group took measures to protect pipelines against corrosion using corrosion inhibitors; over 3,400 kilometres of pipelines were coated.

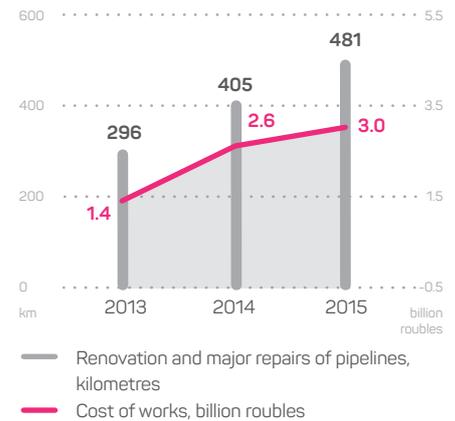
In the reporting year, the Group arranged an industrial safety inspection covering 3.75 thousand kilometres of pipelines in order to obtain an independent assessment of the potential for extending the safe operation of pipelines.

Waste processing

G4-EN23



Renovation and major repairs of pipelines



CONSTRUCTION OF A THERMAL DESORPTION UNIT AIMED AT ELIMINATING SLUDGE PITS

The Group has launched a project to build a unit for thermal processing (decontamination) of oil sludge at the Bashneft-Ufaneftekhim Branch. This is an important environmental project that will eventually help eliminate sludge pits in the northern industrial area of Ufa.

The unit with a rated capacity of 75 thousand tonnes per year will make it possible to process all newly produced oil sludge and to eliminate all accumulated oil-containing waste and to vacate part of the occupied land after land restoration is completed.

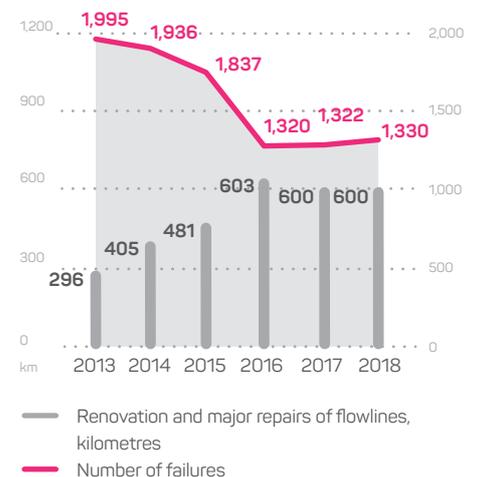
Following a study of Russian and international experience, the Company has selected the thermal desorption technology developed by

KMT International, which involves high-temperature cracking of heavy hydrocarbons and their subsequent use, which helps to minimize harmful atmospheric emissions. In 2015 Bashneft signed a contract with KMT International for the design and supply of equipment.

In 2015 engineering designs were finalized, and public consultations on EIA findings were held by the administration of Ufa. At present, the documents are undergoing state environmental assessment.

Planned capital investment in the project is estimated at 3 billion roubles. The thermal desorption unit is expected to be put into operation in 2018.

Renovation and major repairs of flowlines



# SUPPORT OF BIODIVERSITY



Large-scale development of the R. Trebs and A. Titov fields in the Nenets Autonomous District may have a negative impact on biodiversity of local fauna. To assess its impact on the size and density of population of local fauna, we perform a regular fauna assessment. The Group is ready to take corrective measures if negative trends are revealed.

In 2015 we performed yet another comprehensive fauna assessment of the area covered by the said oilfields. Our survey identified key wildlife habitats in the assessed areas and provided insights into the current size and density of animal population within the oilfield territory and information on rare animal and bird species listed in the Red Book of Threatened Species of the Nenets Autonomous District.

The most widespread species of game birds include ptarmigan, geese, black geese, dabbling and diving ducks, as well as certain species of waders. The most frequently hunted birds are geese (during seasonal

migration) and ptarmigan. Information on changes in population density of game birds is provided in Appendix 1 (average data on all types of habitat).

Among mammals, the main huntable species of commercial importance include the Arctic fox, the muskrat, the European water vole, the fox, the stoat, the wolf, the least weasel, the wolverine, the tundra hare, the elk and the brown bear. Data on the long-term annual average density of population of main huntable species of mammals are presented in Appendix 1.

The areas of the two fields are populated by approximately 110 terrestrial vertebrate species, including 27 mammal species, 86 bird species, 2 amphibian species and 1 reptile species. [G4-EN14](#)

Several rare animal species, mainly birds, included in the Red Books of Russia and of the Nenets Autonomous District occur at the Trebs and Titov fields. The findings of the survey show that in the reporting year

population density of rare animal species remained at the level reached in 2014.

Starting from 2013, Bashneft releases young whitefish into the Sula River in the Nenets Autonomous District in order to repair damage to aquatic wildlife and their habitat caused by the implementation of capital construction projects at the R. Trebs and A. Titov fields. During two years, over 48.5 thousand young fish were released. In 2016 the Group plans to release about 130 thousand young whitefish into the basin of the Sula River and about 200 thousand young sterlets, common carp and pike into the Belaya and Kama Rivers in Bashkortostan. [G4-EN13](#)



Rare bird species which occur in the operating areas

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

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

# EXPLORATION AND PRODUCTION IN NEW REGIONS OF THE NENETS AUTONOMOUS DISTRICT AND THE KHANTY-MANSI AUTONOMOUS DISTRICT



## Result

In 2015 production growth totalled about 70% at the R. Trebs and A. Titov fields and exceeded 170% at the fields of Burneftegaz Group. Overall, in 2015 production in the Nenets Autonomous District and the Khanty-Mansi Autonomous District totalled 1.4 million tonnes and 2.0 million tonnes respectively. In 2015 the regions' share in the Group's total oil production totalled about 17%.

In the reporting year, oil production growth at the assets in the Nenets Autonomous District and the Khanty-Mansi Autonomous District was driven by an increase in drilling and commissioning of new wells. Oil production at new wells in the Nenets Autonomous District increased by a factor of 1.6, while in the Khanty-Mansi Autonomous District it increased by a factor of 2.8.

## Cooperation with local communities

As a socially responsible company, Bashneft addresses the needs of indigenous peoples by actively participating in the economic and cultural development of the Nenets Autonomous District and the Khanty-Mansi Autonomous District and protecting the environment for the benefit of future generations. In 2015, 42 million roubles were allocated for charity.

In the Nenets Autonomous District, the Group cooperates closely with a job centre to provide employment for local residents.

The number of violations of the rights of local communities amounted to zero.

## Controlled environmental impact

Control of atmospheric emissions: increase in associated gas utilization.

We take measures to increase associated gas utilization in order to reduce the negative environmental impact and to increase economic efficiency of our operations. In 2015 associated gas utilization at the fields in the Nenets Autonomous District and the Khanty-Mansi Autonomous District totalled 39.8% and 95.3% respectively. The low associated gas utilization rate at the R. Trebs and A. Titov fields is related to the fact that the fields are at an early stage of production and the existing infrastructure necessary for associated gas utilization is not sufficient. At the same time, we plan to increase the associated gas utilization rate at these fields to the target level of 95% by the end of 2017.

## Work with suppliers and contractors

We actively cooperate with suppliers and contractors in the course of our business. Given the scale of our business, we purchase a large amount of materials, goods, work and services. When doing so, we give priority to local contractors, as this generates additional

### Production from new wells

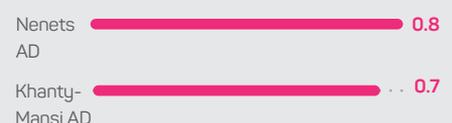


Production growth in the Nenets Autonomous District



Production growth in the Khanty-Mansi Autonomous District

### Jobs created by Bashneft in the Nenets Autonomous District and the Khanty-Mansi Autonomous District in 2015, thousand people



## Essence of projects



Development of new promising oilfields in the Nenets Autonomous District and the Khanty-Mansi Autonomous District in order to diversify production regions.



We have an optimistic view of the potential of the licence areas to be developed in the Nenets Autonomous District and the Khanty-Mansi Autonomous District.

tax revenue for regional and local budgets. Thus, in the Nenets Autonomous District, out of 42 contractors engaged by Bashneft, 41 organizations are registered in this region.

### Careful and rational approach to the development of new areas

We regularly hold public consultations before constructing new oil production facilities. When doing so, we always discuss issues related to safety and control over the environmental impact.

Construction of a prospecting well at the Yangareyskaya formation, public consultation on which was held in 2015, can be cited as an example of nature conservation. The project to construct well No. 513 prepared by the Group and presented during the public consultations provides for a comprehensive approach to ensuring environmental safety during well construction and subsequent operation.

#### KEY MEASURES FOR ENVIRONMENTAL PROTECTION TO BE IMPLEMENTED DURING THE CONSTRUCTION OF THIS WELL:

**Protection of the atmosphere.** This includes both technical measures for reducing emissions and their ground-level concentration and measures that will help prevent equipment failures.

**Wastewater treatment and prevention of emergency wastewater discharge; decontaminated waste disposal.** The project involves wastewater treatment and its subsequent use for process purposes (drilling equipment preparation).

**Use of recycled water.** Wastewater and sewage is treated at integrated biological treatment facilities of a specific type and is subsequently used for process purposes.

**Conservation and efficient use of land and soil, including remediation of disturbed or contaminated land and soil.** Land conservation during well construction involves a set of measures for minimizing the area of requisitioned and disturbed land, as well as measures for preventing chemical contamination of soil.

In accordance with the terms of lease of land plots and taking into account local climatic and environmental conditions, the project provides for **a set of measures for remediation of land disturbed during construction of facilities being designed.**

**Collection, use, treatment, transportation and disposal of hazardous waste.** The project provides for appropriate environmental protection measures related to waste management: waste produced in the course of operations is collected separately in accordance with its type and hazard class to enable its use as secondary raw material, recycling and subsequent disposal; conditions are created in which waste temporarily accumulated at a drilling site does not have a negative impact on the environment or on people's health.

**Protection of subsoil resources.** Measures for protection of subsoil resources include minimizing the impact on geological environment and preventing (restricting) the development of dangerous geological processes and phenomena. Protection of subsoil resources during well drilling includes ensuring the reliability of a wellbore, preventing crossflow and annular gas flows causing gas leaks into the atmosphere and leaks of oil and mineralized water into formations situated above pay zones; preventing oil well blowouts and cratering, wellhead sag and casing collapse.

Besides, the well construction project provides for a wide range of measures for protecting plants, animals and their habitat, as well as measures for preventing and responding to potential accidents.

# IMPROVING ENERGY EFFICIENCY



Ongoing measures to increase energy efficiency are an integral part of Bashneft's efforts to protect the environment and enhance operational efficiency.

Key priorities of the Group's energy strategy include the upgrade of production equipment, implementation of energy efficient technologies, optimization of heat generation and consumption, and development of own power sources, including the use of associated gas. The Group does not generate renewable energy or invest in renewable energy generation.

In 2015 Bashneft Group adopted an Energy Policy. Its principal objectives include ensuring reliable power supply to all production facilities of Bashneft and safe operation of power-generating facilities; efficient use of fuel and energy; minimization of fuel and energy costs.

## ENERGY CONSUMPTION WITHIN THE GROUP G4-EN3

The Group consumes electricity, heat, natural gas, associated gas and refinery gas in the course of its operations. It may use boiler and furnace fuel, which is less environmentally friendly, as a backup; however, its share in the total fuel and energy consumption is minimal, and it does

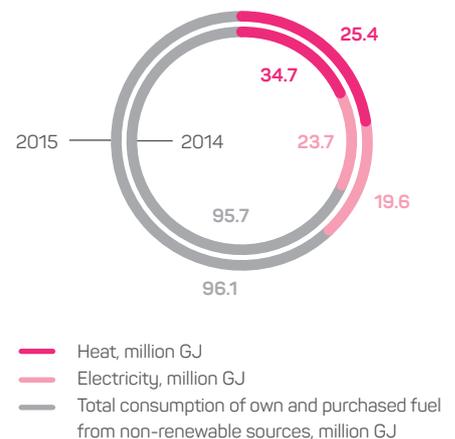
not have a significant impact on Bashneft's fuel mix.

In the reporting year, electricity consumption totalled 23.74 million GJ, while heat consumption totalled 34.72 million GJ, up by 21% and 37% respectively compared to 2014. In 2015 direct energy consumption remained at the level reached in the previous year and totalled 95.71 million GJ. Energy consumption is divided between the Upstream and Downstream Units.

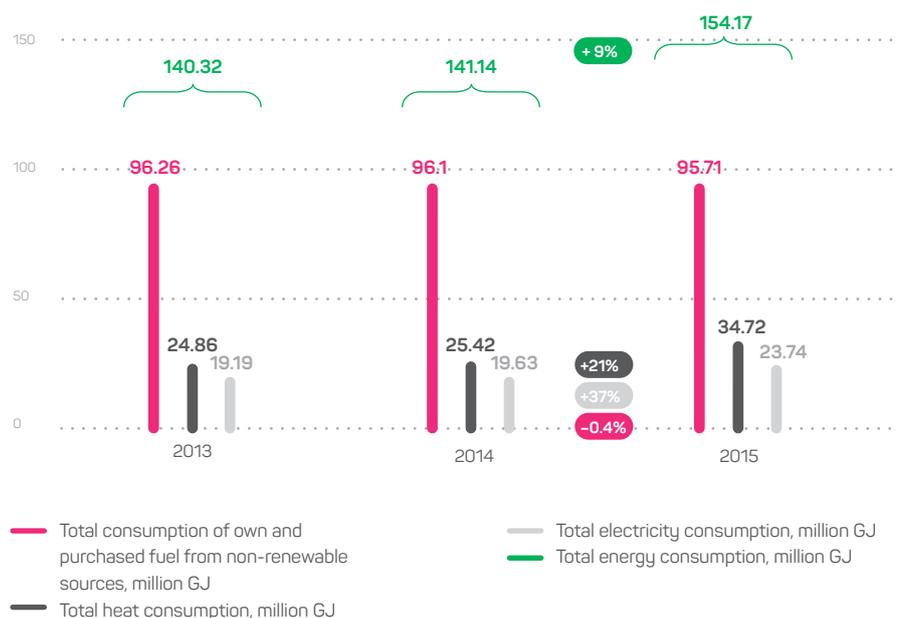
An increase in fuel and energy consumption by the Group in 2015 was driven by the inclusion of petrochemical assets (PJSC Ufaorgsintez) in the Group, introduction of new process units in the refining segment and an increase in oil production.

PJSOC Bashneft and LLC Bashkir Generation Company, which forms part of Inter RAO Group, renewed the Agreement on Obligations Related to Mutual Supply of Associated Gas and Heat until 2021; the Agreement provides for heat supply to the Group's refining and petrochemical enterprises. As part of the programme, between 2013 and 2015 the Group constructed and commissioned gas pipelines with a total length of about 170 kilometres and compressor stations making it possible to supply an additional amount of associated gas exceeding 40 million cubic metres per

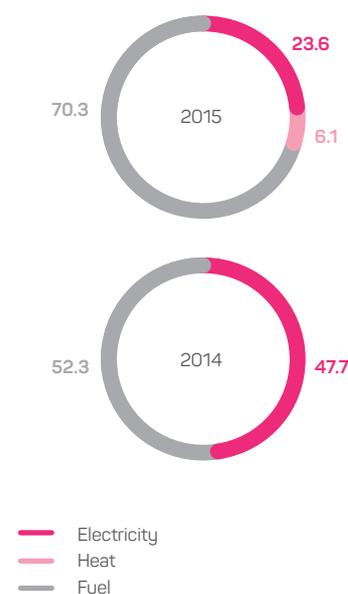
## Breakdown of energy consumption in Bashneft



### Fuel and energy consumption by Bashneft Group\*



### Breakdown of energy savings, %



\* These data are unaudited and are based on internal analytical accounting data. Electricity and heat consumption includes energy produced by the Group's assets. In 2015 total energy consumption excluding own energy production totalled 141 million GJ.

### Energy savings

Electricity	Heat	Own and purchased fuel	Financial savings
44.2 million kWh	9,842 Gcal	16,225 TOE	226.5 million roubles
159,474 GJ	41,249 GJ	475,552 GJ	

year from the Group's fields in the Republic of Bashkortostan to TPP-4 and the Karmanovskaya TPP. The Agreement enabled Bashneft to increase associated gas supply to LLC Bashkir Generation Company by 30% in 2015.

### IMPROVING ENERGY EFFICIENCY

The Group makes constant efforts to improve its energy efficiency and introduces energy saving technology. Energy costs make up a large portion of operating costs of oil-producing enterprises. Therefore, efficient use of energy and cost optimization are the Group's priority.

In 2015 we updated our goals and objectives in the sphere of energy conservation to align them with Bashneft's long-term development programme (the 2015-2020 Strategy); we also developed the Programme for Energy Conservation and Improvement of Energy Efficiency at PJSOC

Bashneft for the period from 2016 through 2020. As part of the programme, the Group plans to achieve fuel and energy savings of 14.6 million GJ during the five-year period.

During the reporting year, a number of local regulations were prepared in order to tackle tasks related to efficient use of energy resources. For instance, we developed methodological guidelines for calculation of energy savings in the course of organizational and technical measures at oil-producing and oil treatment facilities; in the reporting year these guidelines were used for performance assessment and target-setting in the sphere of energy efficiency in the Upstream Unit. In 2016 we plan to adopt similar guidelines for calculation of heat savings.

To improve energy efficiency, we plan to use additional opportunities related to investing in energy efficient technology and introduction of state-of-the-art business processes and a KPI system. [G4-EN6](#)

In 2015 measures aimed at energy conservation and improvement of energy efficiency in the Upstream and Downstream Units helped achieve energy savings totalling 676,275 GJ.

In the reporting year, measures aimed at reducing energy consumption were focused primarily on reducing fuel consumption. These measures accounted for 70.3% of the total reduction in energy consumption.



**UPSTREAM UNIT** G4-EN5, G4-EN7

The key energy efficiency indicator in the unit is the electricity consumption rate per tonne of production fluid. In 2015 this figure increased by 3.6% due to the start of commercial operation at oilfields in the Nenets Autonomous District (LLC Bashneft-Polyus) and the Khanty-Mansi Autonomous District (LLC Burneftegaz). This is related to the fact that oil-bearing formations at new assets are situated at a greater depth, which results in higher energy consumption in the course of oil production.

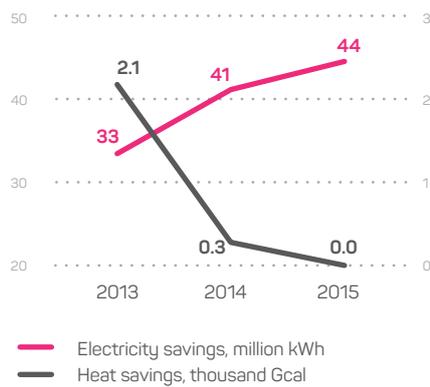
**In 2015 the Group implemented 359 measures aimed at improving energy efficiency and conserving energy. The most important measures included the following:**

- shutdown of wells with high water cut and unprofitable wells;
- optimization of the formation pressure maintenance system;
- optimization of downhole and surface equipment.

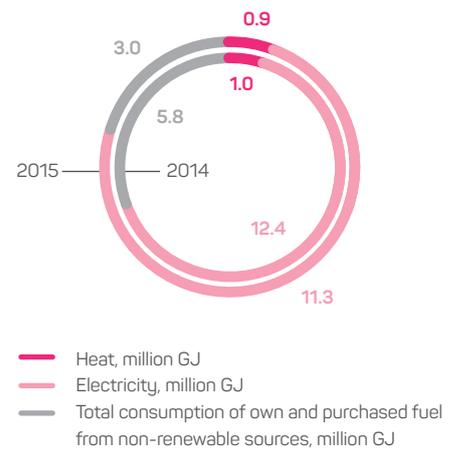
In 2015 implementation of measures to reduce electricity consumption in the Upstream Unit brought economic benefits totalling 102.2 million roubles.

To reduce the cost of purchased electricity, in 2015 Bashneft continued to increase the share of electricity purchased on the wholesale market. As a result, the share of electricity purchased in the Republic of Bashkortostan increased by 30%; by the end of 2015 it reached 85%.

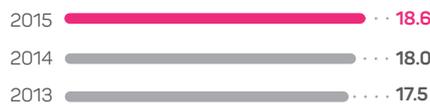
**Energy savings achieved due to measures to reduce energy consumption**



**Breakdown of energy consumption in the Upstream Unit**



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





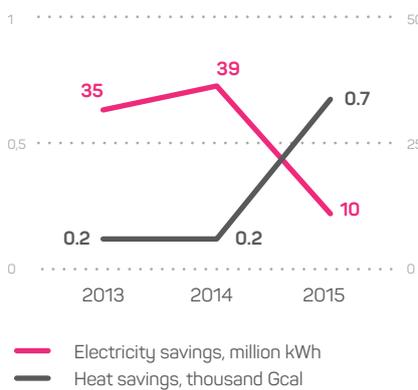
**DOWNSTREAM UNIT** G4-EN5, G4-EN7

In 2015 the electricity consumption rate per tonne of processed oil increased by 15.2%. This was related mainly to a reduction in oil refining and the launch of new secondary refining units.

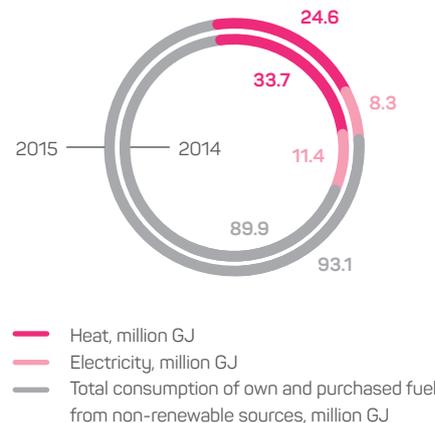
Bashneft constantly monitors energy consumption in the Downstream Unit, develops and implements corrective measures. The Group facilitates continuous search for, assessment and implementation of energy saving initiatives. Various engineering and administrative measures are taken to keep down the level of energy consumption: heat exchange processes at process units are optimized; the output of recyclable materials is increased; energy efficient solutions are used in the design, construction and renovation of process units at refineries.

In 2015 measures aimed at reducing fuel and energy consumption brought economic benefits totalling 123.3 million roubles. The measures were implemented both at the integrated refining complex and at petrochemical facilities. They included energy audit of process units, updating energy consumption targets, re-engineering of techniques for KPI calculation for responsible persons, as well as a large number of engineering measures.

**Energy savings achieved due to measures to reduce energy consumption**



**Breakdown of energy consumption in the Downstream Unit**



**COMPETITION FOCUSED ON IMPROVING ENERGY EFFICIENCY IN REFINING**

In 2015 Bashneft held a competition titled 'The Best Proposal for Improving Energy Efficiency of Oil Refining Processes'. The competition was aimed at identifying the most promising proposals for improving energy efficiency at refineries. 244 projects were entered in the competition; authors of eight projects won prizes. Projects submitted by participants contained technical solutions that are of great interest and have a potential for implementation within the integrated refining complex.

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





# SOCIAL POLICY AND HUMAN RESOURCE DEVELOPMENT

The Group's employees ..... 74  
Bashneft's social policy ..... 78



'We facilitate the development and career advancement of our employees as we believe that human capital is the most valuable asset.'

Vladislav Pozdyshev, Vice President for Organizational Development and Human Resources

Our approach to personnel management is based on creating conditions for high professional achievements of our employees, facilitating the development of their skills and competencies and creating a comfortable environment conducive to effective work. The Group has adopted a Long-term Development

Programme for the Period from 2015 to 2020, which sets a goal for the Organizational Development Unit: to provide and unlock the human resource potential that is adequate to the Group's operational and strategic tasks (in terms of quantity, quality, cost and cooperation efficiency).

---

~36 thousand people

number of employees of Bashneft Group, including over 31 thousand people in the Republic of Bashkortostan

3.6%

staff turnover rate



**PROGRESS IN ACHIEVEMENT  
OF STRATEGIC OBJECTIVES  
IN 2015:**

- The staff turnover rate was reduced to 3.6%
- The number of employees who underwent performance evaluation grew by 19%
- Expenditure on the implementation of social policy exceeded 1.2 billion roubles
- The development of education programmes, including remote learning, was continued
- A project to create the Group's HR asset was launched
- Support of corporate culture development programmes, including sports events and volunteering, was enhanced



**OUR STRATEGIC OBJECTIVES  
IN THE AREA OF PERSONNEL  
MANAGEMENT INCLUDE THE  
FOLLOWING:**

- To develop corporate culture and CSR;
- To improve on the efficiency of cooperation by focusing the development of business processes in the sphere of management;
- To introduce and develop strategic human resource planning;
- To train and develop employees; to develop industry-specific competencies;
- To enhance labour productivity by improving monitoring, remuneration/ incentive and KPI systems;
- To improve the HR function by developing business partnership and automation.

>1.2  
billion  
roubles

have been spent on  
the implementation of  
the social policy

~190  
million  
roubles

funding for training and  
development programmes  
in 2015

**Priority tasks in HR management by business segment:**



**UPSTREAM**

- Developing of geological and engineering competencies;
- developing process management and project management competencies;
- upskilling of junior managers;
- recruitment of young professionals;
- rotation of personnel among assets.



**DOWNSTREAM**

- Developing process management and project management competencies;
- developing competencies related to the operation of new facilities and cost management at oil refineries;
- revision of incentive systems for sales units;
- revision of incentive systems aimed at raising operational availability / efficiency.



**FUNCTIONAL AREAS**

- Developing professional skills;
- developing process management and project management competencies;
- introducing the practice of engaging remote employees for IT units.

## High level of employee engagement is a guarantee of efficient personnel development

Findings of annual surveys conducted by PJSOC Bashneft in cooperation with Hay Group from 2010 through 2015 have revealed that the Group's main competitive advantages include shared goals and confidence in the expertise of the managers and one's own team:

### EMPLOYEES



of employees have a clear understanding of the tasks and objectives of their team;



have a clear understanding of the Group's strategy and goals;



of employees understand how their work is connected with the Group's overall goals and strategy;



of employees express trust and confidence in top management;



of employees have a high opinion of the way the work is organized in their unit.



The main area for performance improvement is the formation of a culture based on dialogue between the management and employees in order to explain the relation between their efforts and the reward.

The survey revealed a connection between events occurring in the Group and their impact on employee engagement. The score reflects the share of respondents who have a positive view of an event.

### BASHNEFT-REGIONAL SALES BRANCH

The Bashneft-Regional Sales Branch launched the Success Rating programme, which provides an opportunity for identifying, rewarding and encouraging the most resourceful employees, who not only fulfil their primary functions but also solve problems relevant for the branch.

75% of employees have a positive view of their level of motivation and remuneration. The branch publishes a monthly newsletter, Regional Sales, and attaches special importance to its Intranet website.

During the survey, 74% of respondents expressed a high opinion of communication within the company.

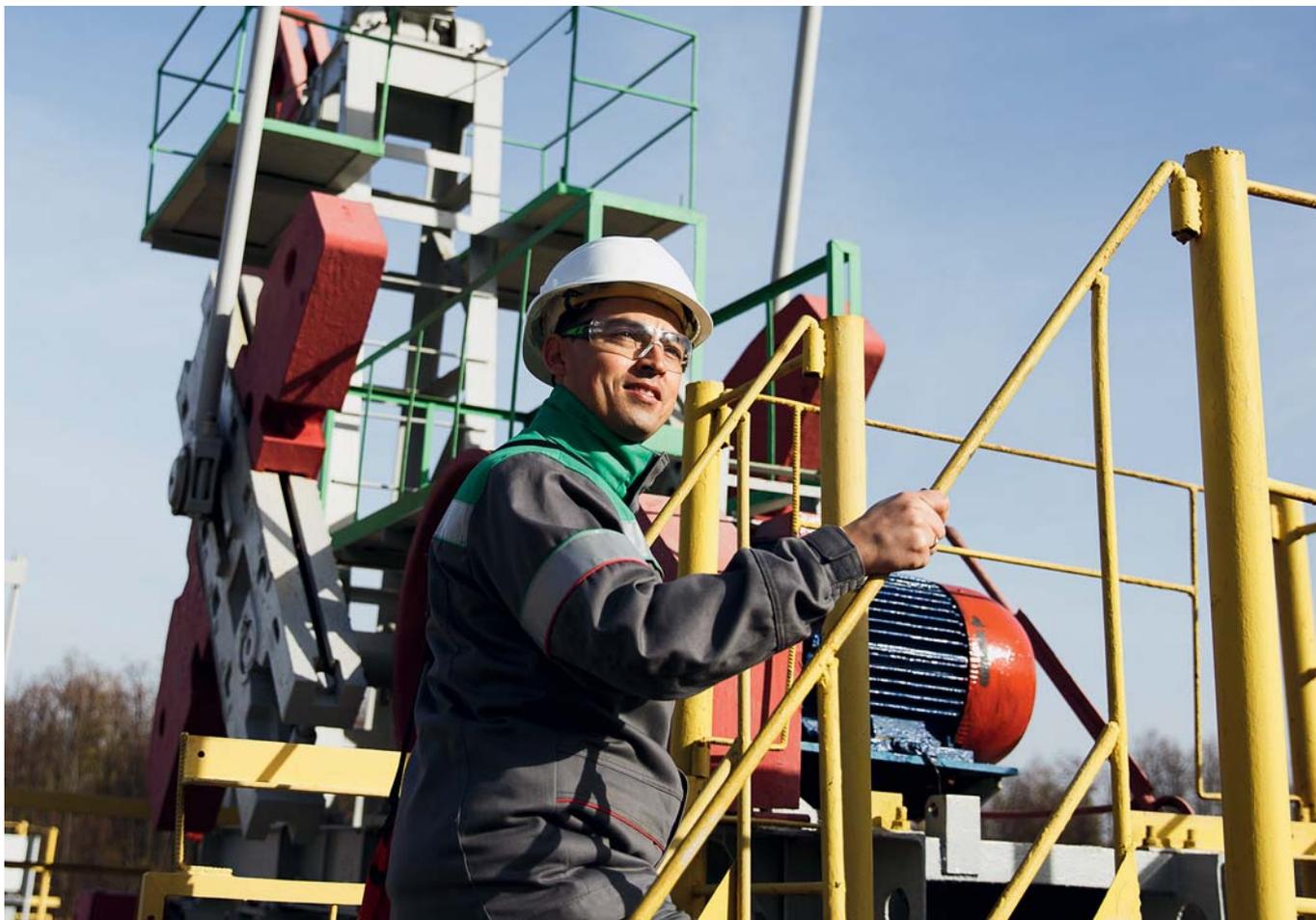
### BURNEFTEGAZ

Burneftegaz aligned its organizational structure with its operational objectives and started to actively engage its employees in Bashneft's corporate life.



of employees of Burneftegaz are satisfied with their remuneration and have a positive view of their level of motivation.

# THE GROUP'S EMPLOYEES



We are convinced that the success of the Group's business entirely depends on its people. This is why performance improvement and measures to ensure greater personal commitment of employees to enabling the Group achieve the best possible results are the main areas of Bashneft's HR policy.

The nature of the oil industry necessitates the use of male workforce on main industrial sites. However, there are no instances of gender discrimination in the Group: female workforce is used in those spheres and on those sites where this is allowed by the employment legislation of the Russian Federation. The share of women among the management is also significant. Across the Group, the gender composition of employees who have received university education is almost even: 51.5% of male employees and 50% of female employees have university degrees. [G4-10](#)

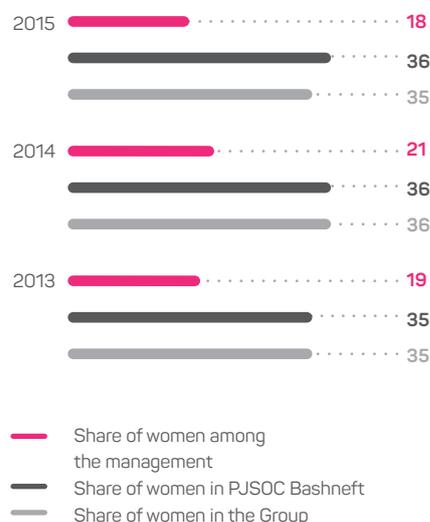
In the reporting year, staff turnover in the Group amounted to 3.6%. This is the lowest level during the last three years. In the Refining and Petrochemicals seg-

ment this figure stood at 1.2%, while in the Production segment it amounted to 1.7%. In spite of the success of Bashneft's HR policy in this area, this figure is still high in a number of segments. We continue to take measures in order to reduce staff turnover. [G4-LA1](#)

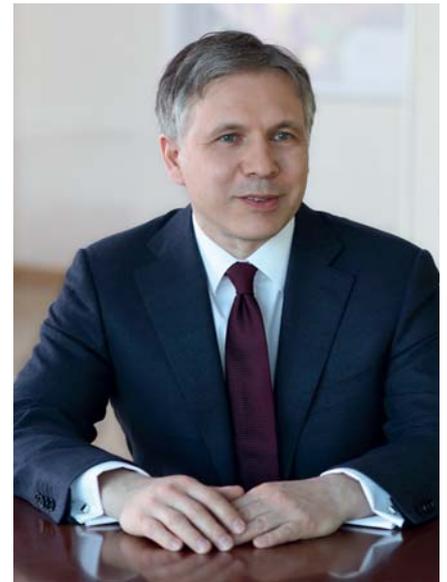
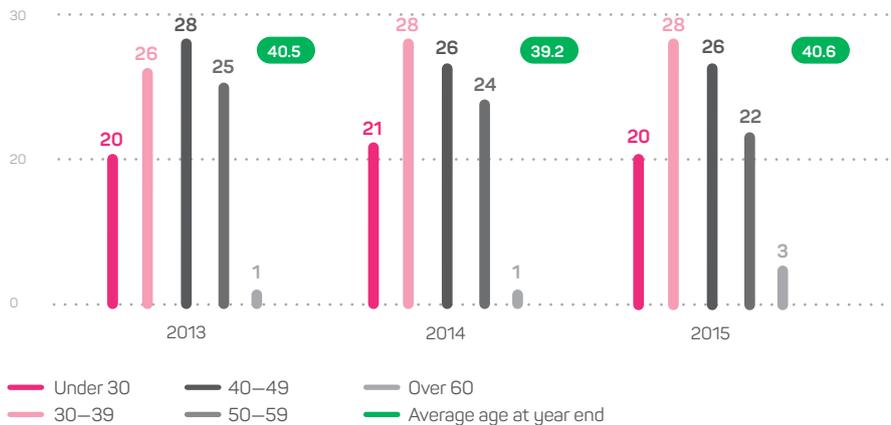
In recent years the personnel structure has been stable and consistent with the nature of the Group's sphere of operations and its goals of boosting oil production, increasing refining depth and developing petroleum product sales. We have achieved an optimal combination of the energy of young employees and the experience of the Group's seasoned veterans.

The Republic of Bashkortostan still remains the main region of the Group's operations. Although in recent years Bashneft's geographical footprint has expanded due to the acquisition of new assets, the principles and approaches to personnel management outlined above apply to employees in all of the Group's operating regions.

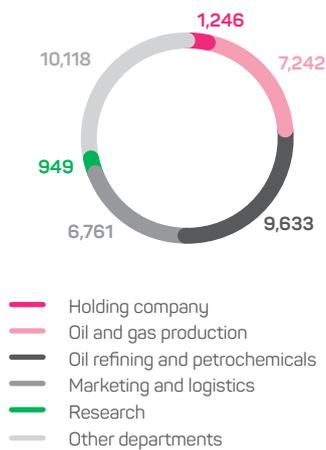
## Share of women in the Group, including the management, %



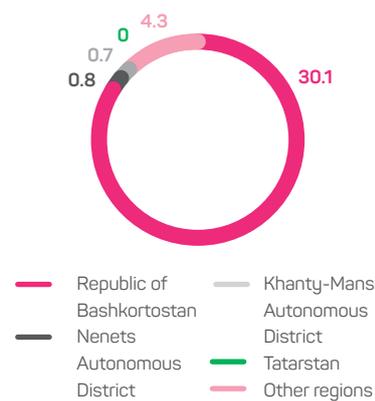
Employee age distribution, %



Headcount by unit



Geographical distribution of Bashneft's employees as of the end of 2015, thousand people



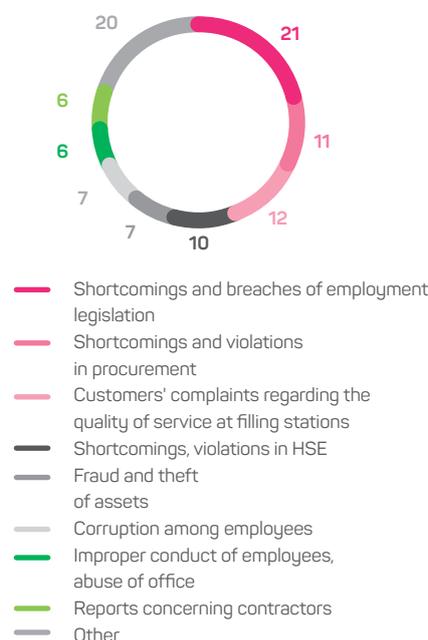
'The core of our team has been formed. Everyone is in their proper place; everyone knows and understands what they will be doing today, tomorrow and in the future. But we will certainly continue to encourage professionals available in the market to join our team; we will thus make use of all the best skills and qualities that they have acquired in other companies.'

Vladislav Pozdyshev, Vice President for Organizational Development and Human Resources

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reports from the Group's employees during 2015. The engagement of employees in the Group's activities, their commitment to improving its performance and image are reflected in their active use of the Hotline.

The Group's Hotline, %



## Best in Profession



In August 2015, Bashneft's subsidiaries organized a professional competition titled Best in Profession. The main goal of the competition was to improve operational efficiency, professional skills and performance of workers and specialists; to improve the production process, to organize work in an efficient and safe way, and to share best practices.

Each competition comprised two stages: solving a practical problem and answering questions on technical and engineering aspects, industrial and environmental safety, occupational safety and economics.

These events helped increase the level of employee engagement and encourage professional development of employees. Besides, the participants actively shared their experience.

## INCENTIVES AND REMUNERATION

The fundamental principle of incentivizing Bashneft's employees consists in improving labour productivity while at the same time ensuring adherence to the Group's values. The focus is on gradual, non-aggressive promotion and integration of the declared values into everyday life. The main goal of these efforts is to form a shared environment for the work and communication of employees (the Long-term Development Programme and the Strategy for the Period from 2015 to 2020).

The Group has developed a sustainable system of incentives for its employees based on a comprehensible and transparent system of key performance indicators (KPIs). In 2015 the system did not undergo any substantial changes. An important requirement for the Group's employees is their professional competence and careful attention to work. In its turn, the Group provides its employees with a guaranteed permanent job, adequate remuneration depending on their personal contribution, social protection, as well as opportunities for professional development and career advancement. In case of promotion to higher positions priority may be given to those employees who started their career in Bashneft in entry-level positions and made a certain progress during their time with the Group. This approach enables the Group to see who

will work with us in the future. Bashneft invites the most experienced and qualified specialists available on the labour market who have a proven track record.

A high level of remuneration is a competitive advantage of Bashneft in the process of recruitment: in 2015 the monthly average salary across the Group amounted to almost 59 thousand roubles, which is 2.3 times higher than the average level in our key operating region, the Republic of Bashkortostan. [G4-EC5](#)

A high level of remuneration, comfortable working conditions and efforts to increase the level of employee engagement help reduce the staff turnover rate (in 2015 it stood at 3.6%). At the same time, during the reporting year the Group's average headcount grew by 9% and totalled almost 36 thousand people.

97% of the Group's employees are covered by collective agreements that provide for social benefits and guarantees for all employees. For 3% of employees, the benefits package is based on regulations on social support. [G4-LA2](#)

The share of temporary or part-time employees working in the Group is small: we do not normally offer part-time employment in the course of our business. However, such employees are offered the same package of social benefits and guarantees as for full-time employees, regardless of the operating region.

During the last three years the Group has been annually revising the level of its employees' remuneration. This obligation is reflected in collective agreements. When doing so, the Group takes into account all aspects of its operating performance: the growth of oil production, refining depth, the development of petroleum product sales.

## The Man of Labour festival

In November 2015, the Man of Labour festival was held in the VDNKh Exhibition Centre. It was organized by the Ministry of Labour of Bashkortostan. The festival was aimed at raising the prestige of blue-collar jobs. Bashneft was represented by a joint team which comprised representatives of various divisions of the Group.



**Number of employees who underwent performance evaluation, thousand people**



**REMUNERATION SYSTEM**

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

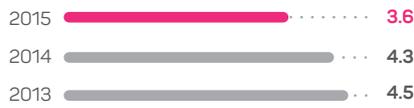
- fixed part (salary, additional payments for health risks and a regional coefficient);
- variable part (bonuses).

In order to calculate the variable part of the remuneration, starting from 2010 we regularly evaluate the performance of our employees. In 2015 the scope of evaluation included the Corporate Centre, 19 branches and subsidiaries (management, specialists, employees). Thus, the evaluation covered 33% of Bashneft's employees. [G4-LA11](#)



For details on the system of remuneration for senior managers, see the Annual Report of PJSOC Bashneft for 2015.

**Staff turnover, %**



**Employee performance evaluation**

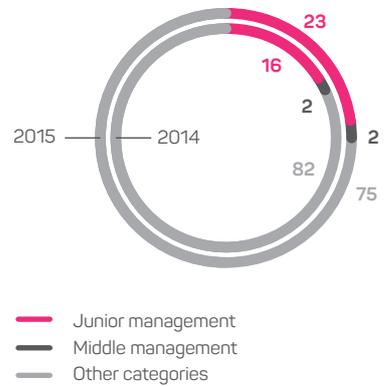
Employee performance evaluation was aimed at monitoring employees' performance, assessing the need for employee training and development and obtaining information on career development and potential revision of employees' salaries. Employee performance evaluation did not affect the variable part of remuneration.

In addition, the variable part of remuneration of some employees is linked to the achievement of KPI targets for the reporting period.



For details on the KPI system, see the Annual Report of PJSOC Bashneft for 2015.

**Personnel structure, %**



**33%**

Share of employees who underwent performance evaluation

# BASHNEFT'S SOCIAL POLICY



## SOCIAL BENEFITS AND GUARANTEES

Bashneft offers its employees an extended package of social benefits and guarantees in addition to those stipulated by legislation. Additional obligations of the employer are stipulated in the Collective Agreement and include, among other things, voluntary medical insurance and insurance against accidents and occupational diseases. In addition, employees are provided with an opportunity of health resort treatment and recreation.

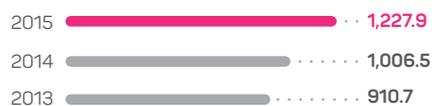
The Group grants its employees additional paid leave in case of registration of marriage and birth of a child. We give additional leave to women with many children and additional pre-maternity leave to pregnant women.

Since 2015 the Group provides additional payments to employees who are on sick leave; these payments will help to

compensate for the difference between an employee's salary and the amount of sick pay. Employees may receive additional payment for five days per calendar year. We believe that this initiative enables a sick employee to follow all recommendations of health care professionals and, if necessary, to stay at home and to avoid the risk of infecting his/her colleagues..

- **Voluntary health insurance.** We arrange voluntary health insurance in order to maintain and improve the health of our employees. Almost all of the Group's enterprises have signed voluntary health insurance contracts with the largest Russian insurance companies. In 2015 the Group spent 363.9 million roubles on VHI.
- **Insurance against accidents and occupational diseases.** In 2015 most enterprises forming part of Bashneft Group signed insurance contracts providing their employees with insurance against accidents and occupational diseases.

## Expenditure on social policy, million roubles



For a detailed breakdown of expenditure on social policy, see Appendix 1 'Social policy and human resource development'.

## Meetings of Bashneft's Veterans' Council with the top management of the Group

In 2015 the Presidium of Bashneft's Veterans' Council held two meetings with the top management of the Group in Ufa. Representatives of the veterans' activist group had the opportunity to take commemorative photos, communicate with the heads of divisions and ask the questions they were interested in.

The Group's management outlined plans regarding organization of Bashneft's work with veterans in 2016. The most topical questions raised at the meetings included an increase in payments to the veterans on anniversaries, holding celebratory meetings, arrangement of renovation of houses of veterans of the Great Patriotic War.



Insurance against accidents and occupational diseases is provided by VSK Insurance Company.

– **Health resort treatment.** Under the Collective Agreement, Bashneft covers part of the costs of holidays at children's summer camps, health resorts and recreation centres incurred by the Group's employees. 50% to 85% of the actual cost of employees' health resort treatment and recreation and 90% of the actual cost of holidays at summer recreation camps for employees' children are covered by the Group. The cost of health resort treatment for employees listed in the final report following a medical examination is covered by the Group in full. In 2015, 329 million roubles were spent on health resort treatment and recreation for employees, their family members and retirees.

– **Fulfilment of obligations under the Collective Agreement.** Expenditure in this area includes financial assistance, support of

people facing difficult circumstances, special payments on birthdays and holidays, paid additional leave, covering the cost of hot meals and transport to work for certain categories of employees. In 2015, 136.2 million roubles were allocated for the fulfilment of obligations under the Collective Agreement

### EMPLOYEE TRAINING AND DEVELOPMENT

Priorities of the Group's social policy include offering its employees ample opportunities for training and development. [G4-LA9](#)

In 2015 expenses on all types of training and professional development programmes (including health and safety training programmes) amounted to 192 million roubles. In the reporting year, the average number of training hours per employee in the Group (face-to-face training) amounted to 34 hours. The amount of face-to-face training



90%

of the actual cost of holidays at summer recreation camps for employees' children are covered by the Group



provided across Bashneft Group in 2015 exceeded 89 thousand person-courses (as against 70 thousand in 2014).

A slight decrease in investment in training programmes and a decrease of the average number of face-to-face training hours per employee resulted from the development of distance learning and self-study, including more active use of the Training and Development Portal.

**Training aimed at developing employees' potential** G4-LA10

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

**In order to develop professional competences, we provide employees with additional training. These efforts form part of the Functional Strategy on HR Management adopted in the Group and include the following:**

- Professional training in an open format;
- Corporate professional training;
- Training aimed at developing general corporate competencies and management skills;
- Business games and simulations.

In 2015 the Group's managers and specialists participated in the Improvement of Public Speaking Skills, Skills of Efficient

Presentation, Efficient Teamwork corporate training programmes. They were aimed at the development of the relevant competencies.

The Group is actively developing a self-study system; in the reporting year the share of employees taking self-study courses and those studying using in-house resources amounted to 58%. In 2015 a self-study tool matrix was formed. The most popular tools included the Training and Development Portal, the Electronic Business Library and the Library of Knowledge.

In 2015 the Knowledge Laboratory project continued to be implemented. The practice of knowledge sharing is widely used in the Group's subsidiaries and branches.

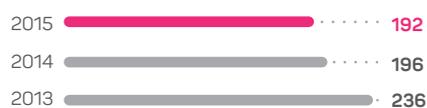
**Recruitment of young professionals**

We are fully aware of the importance of continuity in HR policy. Apart from experienced specialists, we seek to attract talented young people and help them set out on their career in a large oil corporation. We support the best students in relevant fields and attract promising graduates to the Group.

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

In 2015 PJSOC Bashneft awarded personal scholarship to the best students for the sixth time. The Group extended the geographical scope of its cooperation with universities, and now scholarship may be awarded not only to students from Ufa State Petroleum Technological University, but also

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



**THE DECISIONS LAB**

In 2015 a pilot project titled the Decisions Lab was launched; it is an in-house educational activity aimed at generation of ideas, working with innovations and change management.

The principal goal of the project is to use a single platform designed for working with ideas and innovations and making it possible to combine a number of initiatives.

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



### TRAINING AND DEVELOPMENT PORTAL

The Training and Development (T&D) Portal launched in 2014 provides all employees of the Corporate Centre, the Group's branches and subsidiaries with a range of opportunities, including distance learning and testing, as well as an opportunity to receive comprehensive up-to-date information about the Group and communicate with colleagues on professional forums. In 2015 the amount of training provided to Bashneft's employees exceeded 5,000 person-courses. An internal knowledge database available on the Portal and containing more than one thousand items of educational

material grouped by business area was actively used.

Tests for assessing employees' knowledge are developed and performed on the T&D Portal. In 2015 more than 7 thousand tests were performed, including tests to assess the knowledge of blue-collar employees.

In the reporting year an Electronic Business Library comprising more than 700 books was launched on the T&D Portal with the option of downloading a corporate mobile application.



34 hours

Average number of face-to-face training hours per employee of the Group



### HUMAN RESOURCE ASSET

In 2015 Bashneft first launched a project to create a Human Resource Asset. The main goal of the project is to promote professional expertise and provide the Group with highly qualified employees.

The HR Asset comprises the most efficient and active employees of the Group. The main criteria for being included in the HR Asset are efficient work, putting in extra effort and commitment to self-development. To date, more than 1,000 people across the Group have been included in the HR Asset.

The main message that the Group's management seeks to communicate to the HR Asset members is: 'We see and appreciate your efforts aimed at developing yourselves and others; we are ready to support you by making the necessary investments and offering you new opportunities for development; we hope for further cooperation and your commitment'.

The key idea of the project is a transition from a passive learning model ('I undergo training') to a proactive model ('I develop myself').



to students from Ufa State Aviation Technical University and Bashkir State University.

University students are offered an opportunity to do an internship in the Group, during which they will receive a salary. The best final year students are offered work placement in Bashneft enabling them to gain work experience in a large oil company and subsequently obtain employment.

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

We organize meetings for students with the Group's senior management in the form of an open dialogue, as well as students' visits to the refineries and enterprises of Bashneft-Dobycha. USPTU students take part in competitions and research and engineering conferences for the Group's young professionals. The VIC Business Game is conducted every year for Bashneft's young specialists and the team of students of USPTU and USATU.

In 2015 Bashneft employed 25% of students who were on work placement in the Group in the reporting year, 10% of students who

did an internship and 40% of scholarship students participating in the Programme.

### DEVELOPMENT OF THE CORPORATE CULTURE

As a company that has been evolving and developing for more than 80 years, Bashneft has created a unique corporate culture based on such values as professionalism, quality, efficiency, safety and team spirit, as well as on the principle of mutual respect between all employees regardless of their positions, gender, religion and other individual characteristics.

Bashneft does business in several regions of the country where people with different mentalities, culture and traditions live. The fact that the Group's divisions are located in geographically remote areas and remoteness of the Corporate Centre from the main operating regions make it difficult to introduce a uniform corporate culture in all divisions of the Group.

To enable new employees to adapt quickly in the Group, Bashneft has in place the institute of leadership and mentoring. In the course of our business, we use the principles of information transparency and a consistent strategy. A system of internal communications



# 25%

of students were employed by Bashneft in 2015

## Cooperation with universities

We attach great importance to the development of cooperation with universities. As part of this cooperation, we develop the Group's talent pool and support academic and applied science in specialized universities.



### COOPERATION WITH USPTU AND USATU

In 2015 Bashneft signed five-year cooperation agreements with key universities in the Republic of Bashkortostan. The Group's cooperation with the universities under the agreements will cover three areas:



**Work with students.** Measures in this area are taken throughout the year and include participation in the Bashneft's Day, career fairs, organization of work placement and internship, visits to production facilities, etc. The Group's experts organize and conduct training sessions, seminars, workshops and optional courses for students.



**Research and professional development.** These initiatives are aimed at helping the Group achieve its operational objectives and involve retraining and professional development of employees. Key goals in this area in 2017 and 2018 will include organization of teachers' internship at the Group's enterprises and workshops for students to be conducted by Bashneft's experts.



**Museums and educational initiatives.** Bashneft plans to expand the museum collection of Ufa State Petroleum Technological University and to provide it with exhibits for display.

### COOPERATION WITH MSU

**In November 2015, Bashneft and Lomonosov Moscow State University (MSU) signed a five-year Cooperation Agreement. The agreement provides for cooperation between MSU and Bashneft in a number of areas:**

- conducting research aimed at tackling fundamental issues related to oil and gas geology, prospecting for conventional and unconventional hydrocarbon deposits, their exploration and development, hydrocarbon processing techniques;

- implementing state-of-the-art methods and technical solutions in these spheres;
- training highly qualified personnel.

We expect that cooperation between academic researchers at MSU and Bashneft will make a practical contribution to the development of the entire Russian oil and gas industry.



### STUDENTS RECEIVING PERSONAL SCHOLARSHIP

In 2015 an official award ceremony for scholarship students took place at PJSOC Bashneft for the sixth time. Scholarship was awarded to 47 students (43 students from USPTU and four students from USATU). In the reporting year, 2.28 million roubles were allocated for the implementation of this programme. Throughout the six-year duration of the project, the Group awarded personal scholarship to 325 people.

### BASHNEFT'S DAY AT USPTU

In November 2015, Bashneft's Day was held at Ufa State Petroleum Technological University. The event is aimed at incentivizing students to learn and do research, as well as making jobs in the fuel and energy sector more prestigious.

~150

people took part in the event, including students receiving personal scholarship, other students and representatives of the Group

## Values Unite Us



In the summer of 2015, a competition was held at the production sites of the integrated refinery. The competition was titled 'Bashneft Is a Company of Creative People. Values Unite Us.' The main goals of the competition were to promote the Group's corporate values among Bashneft's employees, to engage the employees in social life in the Group and to strengthen the corporate culture.

The creative competition was held in four categories: designing logos for the values, writing a poem about an oil refinery, writing an essay and participating in a contest of amateur singer-songwriters.

is an important element of our efforts to create a shared corporate culture.

We strive to ensure that the corporate culture is consistent with the principles of the Group's core operations.

In 2015 the budget of social programmes aimed at developing the corporate culture totalled 204.6 million roubles. In 2016 the Group plans to spend 394.9 million roubles in this field.

### Internal information space and communications

#### Corporate website

A corporate website is available to all employees of Bashneft; it provides a shared communication space. The intranet resource is an important tool that helps to unite employees and organize their collaboration.

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

In 2015 we enhanced communications aimed at promoting Bashneft's mission and values within the Group. Throughout the year, all news posted

Objectives	Initiatives	2015 actual (million roubles)	2016 target (million roubles)
To increase the level of transparency in the Group. To create a positive image of the Group in the professional and business community. To implement projects in the sphere of business relations	Participation in conferences and exhibitions. holding the Annual General Meeting of Shareholders	20.8	37.9
To develop projects helping to create a positive social image of the Group (including in subsidiaries)	CSR and charitable programmes. Children and youth	4.3	7.9
	CSR and charitable programmes. Veterans	3.1	8.4
	Other social programmes	29.6	47.9
To develop internal communication tools and the corporate culture, incentive programmes and programmes aimed at increasing employee loyalty (including in subsidiaries)	Team-building activities and measures aimed at developing the corporate culture and increasing the level of employee loyalty and engagement	105.6	218.4
	Sporting events	41.2	74.5
<b>Total</b>		<b>204.6</b>	<b>394.9</b>

on the website and on noticeboards in the offices, as well as emailed news messages focused on professionalism, quality, efficiency, safety and team spirit.

**Meetings of the Group’s management with employees**

Bashneft holds regular meetings between its top management and employees. Such meetings and discussions encourage a dialogue within the Group, help to develop openness and involvement of employees in settling the key issues related to Bashneft’s operations. Meetings in a Q&A format increase the effectiveness of such events and provide executives with a very important way to receive feedback, enabling them to receive up-to-date and non-formalized information on certain aspects of the Group’s operations directly from employees at the local level.

In 2015 four meetings between employees and the Group’s management were held; they were attended by over 700 employees of Bashneft. During the meetings, employees were provided with information on the key areas of the Group’s work for the year to come and with presentation materials on the Group’s Long-Term Strategy until 2020. The meetings were held in the form of a discussion, and every employee could ask the management a question and receive an answer in real time.

**Corporate award**

Since 2010 the Group presents an annual award, PJSOC Bashneft’s Corporate Award, to reward Bashneft’s best divisions and best employees for outstanding accomplishments and contribution to Bashneft’s development.

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

The Award is given to winners in seven categories, including: the Best Upstream Project, the Best Project in Oil Refining and Petrochemical Production, the Best Project in Sales, Logistics and Marketing, the Best Project in Business Support and Development.

The President’s Award is given for outstanding actions of individual

employees of the Group. The best young professionals are awarded in the Discovery of the Year category. The Group’s veterans with many years’ work experience receive a prize in the Legend of Bashneft category.

The award ceremony is timed to coincide with the professional holiday: the Oil Workers’ Day.

**Sporting events**

We devote considerable effort to promoting a healthy lifestyle among our employees. The Group’s intention to encourage all of its employees to adopt a healthy lifestyle is supported by a significant amount of funding for sports and health-promoting events. In 2015 the Group allocated 41.2 million roubles for organizing and conducting sporting events.

**This kind of investment in human resources pays off as it not only helps reduce the disease rate, but also strengthens the team spirit among our employees. All team tournaments in which the Group’s employees took part in 2015 were usually won by Bashneft’s teams:**

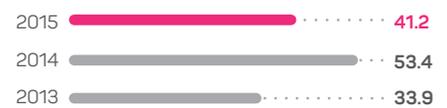
- Bashneft’s team won the first Futsal Championship of Russia among corporations;
- The ALGA-Bashneft team won the Russian futsal championship among the top league futsal teams of the Urals division in the 2015-2016 season;
- Bashneft’s team came first in the team ranking in the Third Ufa Winter Corporate Games in 2015;
- Bashneft’s team won the final of the futsal tournament among corporations for the Cup of Russia;
- PJSOC Bashneft’s team won the Volleyball Cup of the Fuel and Energy Sector;
- Bashneft won the Sixth Ufa Summer Corporate Games for the Cup of the Head of Administration of the Ufa Municipal District of the Republic of Bashkortostan.



An important element of Bashneft’s social policy consists in promoting and developing children’s and youth sports, promoting a healthy lifestyle, facilitating the development of football and futsal in Ufa and in the Republic of Bashkortostan as a whole.

In January 2015, a futsal tournament among the participants of children’s and youth teams of the cities of Russia titled the New Year Cup of the General Director of LLC Bashneft-Dobycha took place in Ufa for the first time. Apart from the ALGA Bashneft team, 18 teams from various cities of Russia representing different age groups took part in the competition, including the team of the Republic of Bashkortostan and the team of Ufa.

Financing of sports events, million roubles



## Sporting events

In order to promote a healthy lifestyle, regular physical exercise and sports, we regularly hold sporting events and corporate tournaments among the Group's employees in a variety of sports: football, volleyball, hockey, table tennis, paintball, billiards, etc. Sporting events not only help make employees fitter, but also develop features which are consistent with Bashneft's corporate values: teamwork, solidarity and mutual support.

In 2015 our team won a number of important tournaments and competitions.



football



volleyball



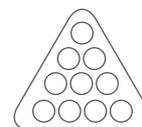
hockey



table tennis



paintball



billiards



### VICTORY OF THE HOCKEY TEAM OF LLC BASHNEFT-POLYUS IN THE COMPETITION FOR THE CUP OF THE GOVERNOR OF THE NENETS AUTONOMOUS DISTRICT

The hockey teams of the leading up-stream companies operating in the region took part in the 2015 tournament. Six matches were played in March 2015, and the Governor's Cup was won by the hockey players of Bashneft-Polyus. In the final match between the team of the Nenets Autonomous District, NAD

Penguins, and team of Bashneft-Polyus, Bashneft's hockey team won by ten goals to five.

As part of the tournament, professional hockey players conducted workshops for young sportsmen from the Nenets Autonomous District. Professionals from

Saint Petersburg demonstrated their skills to young figure skaters: performers from the Ice Theatre directed by an Olympic champion Elena Berezhnaya gave an exhibition performance at the closing ceremony of the Cup.

### FUTSAL CHAMPIONSHIP AND THE CUP OF RUSSIA TOURNAMENT AMONG CORPORATIONS

Bashneft's team won the first Futsal Cup of Russia among corporations, the nationwide final game of which was held in Moscow.

Eight teams took part in the final game series. In the final match Bashneft outplayed the INTER RAO UES team by three goals to nil. At the official award ceremony, the best players of the championship received a special mention. Furthermore, all members of Bashneft's team obtained the rank of the Candidate for Master of Sport in futsal.

In November 2015, the final game of the Cup of Russia futsal tournament among corporations took place in Moscow. Bashneft's team won a prestigious prize, having defeated the strongest rival teams. A total of 16 teams took part in the competition for the Cup, including the teams of INTER RAO UES, the Russian Ministry of Industry and Trade, the Bank of Russia, etc.

At the competition the players received a boost of positive emotions and energy, and on the whole, the event contributed to the development of the Group's corporate culture and engagement of its employees in the corporate life.





**VOLLEYBALL CUP OF THE FUEL AND ENERGY SECTOR**

At the end of 2015, a volleyball tournament among teams from the fuel and energy sector took place in the CSKA Universal Sports Complex. Bashneft won the gold medal amid intense competition from such teams as the teams of FGC UES, Rosenergoatom, MOESK, etc. The team of INTER RAO UES, a three-time winner of the Cup, also took part in the competition for the Cup. In the tournament, members of our team were awarded prizes as the best player and the best setter.

Participation in the tournament provided an excellent example of promotion of a healthy lifestyle and regular physical exercise.



**BASHNEFT. MIND GAMES**

The Group traditionally supports not only sports but also intellectual competitions.

In 2015 the Group held a series of corporate intellectual competitions, Bashneft: Mind Games. Over 10 teams representing various divisions of the Group participated in the competitions. The format of the competitions enabled

Bashneft's employees to demonstrate their talents, to test their knowledge and to communicate with each other in an informal situation. The atmosphere of intellectual competition helped develop team spirit among the players.



**UFA CORPORATE GAMES**

In February 2015, the third Ufa Corporate Games were held, in which 26 Ufa-based enterprises and companies took part along with Bashneft's team. Bashneft's team ranked first in the overall ranking and in a number of disciplines.

Participation of Bashneft's team comprising employees from different units in the Games helped unite them and was important for the development of corporate culture and promotion of a healthy lifestyle among the Group's employees.



## Volunteering

Volunteering traditions have existed in the Group for several years: the Kind Hearts volunteer movement was formed in 2012. Every year, the Group's employees show an increasing interest in this form of civic engagement, which is voluntary in nature and does not involve any monetary rewards.

The Group believes that corporate and individual volunteering are promising areas for the development of philanthropy in Russia. Besides, for employees,

volunteering is a kind of socially useful leisure activity, an opportunity for self-fulfilment and a means of social mobility enabling career advancement.

The Group conducts three campaigns which have already become a tradition: 'Warmth of Our Hearts for the Veterans', 'A Present from Father Christmas' and 'A Present for the Beginning of the School Year'. In the reporting year, the number of children's institutions supported by Bashneft increased from 20 to 26, and

the number of regions where volunteers provide assistance expanded: now small units of the Group are joining the volunteer campaigns along with its Branches. Due to the wide scope of the campaign, presents for the beginning of the school year and New Year presents were received by children from social rehabilitation centres and from orphanages not only throughout Bashkortostan, but also in the Yamalo-Nenets Autonomous District and in the Kaluga and Tyumen Regions of the Russian Federation.

### WARMTH OF OUR HEARTS FOR THE VETERANS

In May 2015, Bashneft held a wide range of events to mark the 70th anniversary of the Victory in the Great Patriotic War. For instance, in run-up to the holiday, every veteran of the Great Patriotic War who had worked for Bashneft received financial support amounting to 15 thousand roubles. 16 thousand employees from all departments of the Group assisted in raising funds for this initiative, and more than 7.5 million roubles were raised. Besides, the Group allocated a significant sum for this initiative from its budget.



### VOLUNTEER CAMPAIGNS IN SUBSIDIARIES AND BRANCHES

Employees of the Group's subsidiaries and Branches conducted their own volunteer campaigns. The Bashneft-Ufaneftekhim Branch and LLC BashNIPneft arranged a targeted campaign to congratulate veterans: representatives of the enterprises visited the veterans, presented each of them with food gift baskets or pies and tried to create a truly festive atmosphere. Volunteers at the oil and gas production

department of LLC Bashneft-Dobycha made arrangements to present anniversary medals from the Ministry of Labour and Social Protection of the Republic of Bashkortostan, placed floral tributes at monuments of the Great Patriotic War, arranged tea parties for veterans, installed memorial plaques on the premises of the oil and gas production department to commemorate Bashneft's employees who had fought in

the Great Patriotic War, and arranged a commemorative event titled the Memory Watch in the Tuimazinsky District. Volunteers at the Volga Regional Branch of LLC Bashneft-Retail Sales arranged a campaign which involved presenting veterans of the Great Patriotic War in Saransk, Ulyanovsk, Cheboksary, Vladimir and Samara with food gift baskets.

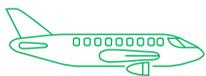


### A PRESENT FOR THE BEGINNING OF THE SCHOOL YEAR

In 2015 all divisions of the Group took part in a charitable campaign aimed at helping children prepare for the beginning of the school year. The Group's employees brought school bags, stationery and school uniforms for children from 20 social rehabilitation centres in the Republic of Bashkortostan, Kaluga and Naryan-Mar.

### A PRESENT FROM FATHER CHRISTMAS

All divisions of PJSOC Bashneft took part in the annual charitable event for the children from children's homes, orphanages and rehabilitation centres. Volunteers from Burneftegaz joined the initiative for the first time and collected presents for the specialized children's home in Tyumen. Overall, the campaign covered 26 institutions supported by Bashneft, including social rehabilitation centres, units for children with special needs, children's homes, as well as one family with many children. The senior management of PJSOC Bashneft actively joined the volunteer initiative and bought the most expensive presents such as bicycles and skis.



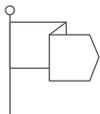
### THE BEST PRACTICES IN VOLUNTEERING ATTRACT NEW VOLUNTEERS IN BASHNEFT

The best practices in volunteering attract new volunteers in Bashneft: employees show considerable initiative and arrange small independent events for children and veterans. For example, in August 2015 volunteers arranged a team-building event for children in the Druzhba camp. In September, together with employees of Ufa Airport,

Bashneft arranged a career guidance event for 16 children from the social rehabilitation centre for minors in Ufa which included an extensive tour of the airport. In the course of the tour, the children were acquainted with the history of civil aviation, were shown a maintenance hangar at the airport and had an opportunity to sit at the wheel

of the legendary An-2 aircraft. The visit to Ufa Airport filled the children with lots of positive emotions.

## Work with the youth



Bashneft attaches great importance to working with the youth. Today's schoolchildren and students may become valuable employees of the Group

tomorrow. We seek to support talented young people and help them to choose the area of study and profession. The ongoing programmes targeted at the

youth are designed to support young specialists at all stages of their introduction to Bashneft, help them start their career and adapt in the Group.



### THE THIRD YOUTH FORUM FOR THE GROUP'S YOUNG ACTIVISTS

In the summer of 2015, the third Youth Forum for the Group's young activists was held in Bashkortostan. This event has already become a tradition in Bashneft. Its aim was to communicate the Group's mission and values and to engage young employees in tackling the tasks facing the Group. The forum was attended by 175 activists and five representatives of the Group's management.

The programme of the forum included team-building training sessions focused on the Group's values; workshops on volunteering and use of the corporate website; sporting events and round-table discussions with the Group's senior management. It is important to note that the participation of the senior management in a project for young employees raised the status of the event in the eyes

of every participant. The Youth Forum not only gave impetus for active participation in different types of events, but also provided an opportunity to reward young employees for the work that they had done.

As part of meetings between young specialists and Bashneft's top management, in September 2015 members of the United Council of Young Specialists had a meeting with the Group's President Alexander Korsik. At this meeting the young people outlined the main goals of the Council and the factors encouraging them to participate in the work of the Council. It turned out that the main motivating factors include an opportunity to gain a wealth of experience, an opportunity for self-study, self-development and self-fulfilment, tackling issues important for the youth, team building and development of the corporate spirit, engagement in the life and business of the Group and an opportunity to shape the Group of the future together.





### I WANT TO BECOME AN OILMAN!

'I Want to Become an Oilman!' ([www.neftyanik-school.ru](http://www.neftyanik-school.ru)) is an original educational project of the Group launched in 2010. The project is aimed at creating a long-term, up-to-date and positive information space to position Bashneft as a socially responsible public company promoting ideas of national importance. As part of the programme, interdisciplinary competitions for schoolchildren are held every year; the competitions include stages held online and in classrooms.

In 2015 we held the 5th Interdisciplinary National Competition for School-

children. This year more than 200 school students (year 7 to year 11) from a dozen of cities, towns and villages competed in this event. In December 2015, winners of the National Interdisciplinary Competition for Schoolchildren 'I Want to Become an Oilman!' were given prizes at the award ceremony in Ufa.

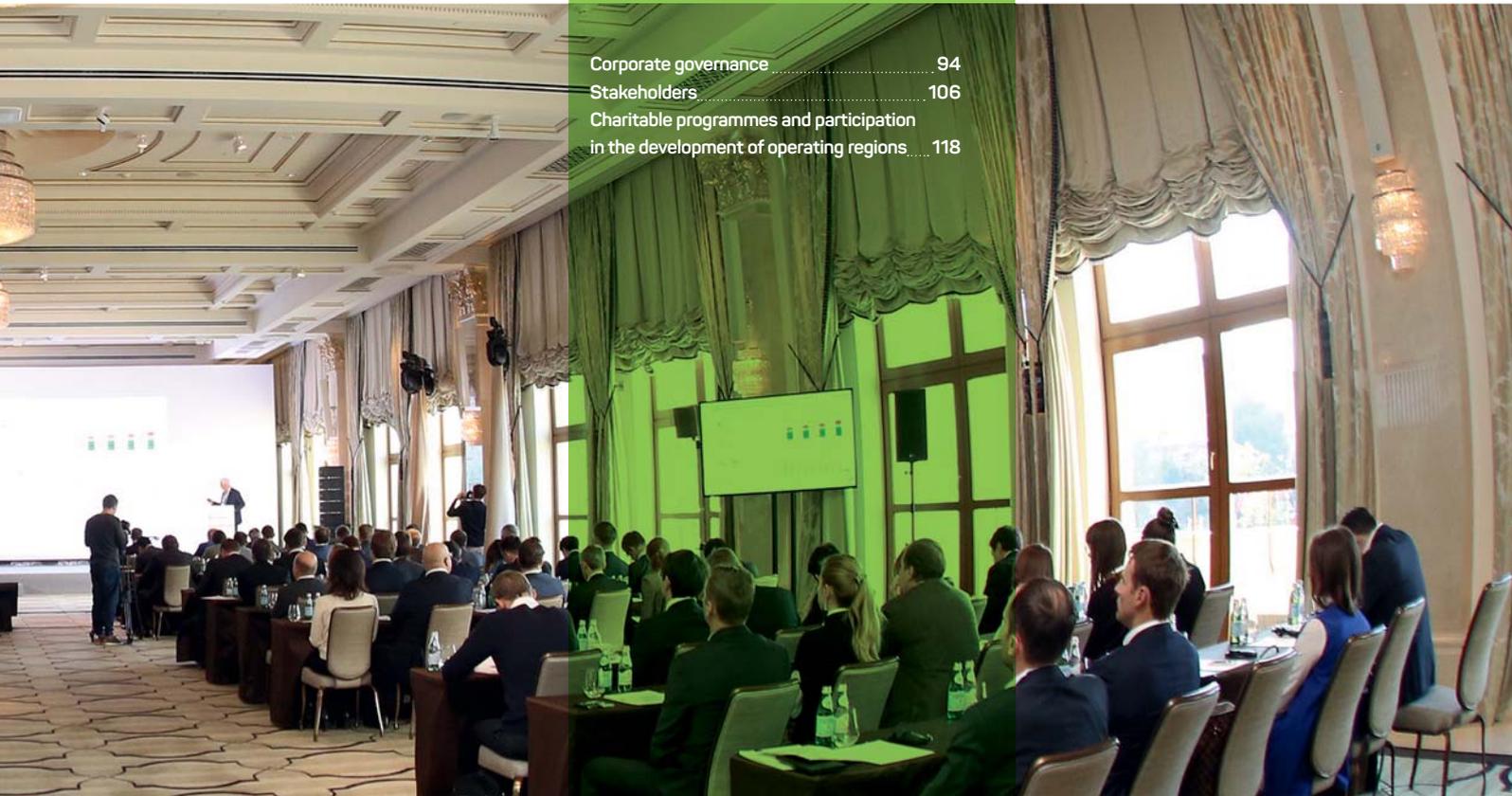




# STAKEHOLDER ENGAGEMENT

'Stakeholders' opinions provide an outside perspective on the Group. We should use this opportunity for development.'

Charles Watson,  
independent director



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Charitable programmes and participation in the development of operating regions .....	118

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

As a large and efficient company, Bashneft seeks to lead and initiate positive changes. We realize that our efforts in the sphere of sustainable development extend beyond the company or our supply chain, and we set an example of socially responsible and ethical behaviour of a large market player. Our goals include further development of the dialogue with stakeholders, on the one hand, and achievement of synergy from cooperation both for the Group and for stakeholder representatives, on the other hand. We engage stakeholders in the discussion of corporate responsibility issues using various forms

of communication. The Group regularly cooperates with its stakeholders.

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

The basic principles that we have applied when identifying stakeholder groups include the following: shared interests and expectations about the Group; the nature of their influence on the achievement of strategic goals; stakeholder engagement tools that we use to communicate with them. [G4-25](#)

Stakeholder engagement is governed by corporate social responsibility principles which are based on the Policy on Corporate Social Responsibility adopted in 2010. Specific forms of engagement of individual stakeholder groups are developed on the basis of the relevant policies and regulations of the Group. [G4-26](#)

During the preparation of this Report we did not take any special additional stakeholder engagement measures.

In the course of stakeholder engagement we are guided by the principle of continuity and regularity; therefore, we continuously implement all stakeholder engagement measures that we believe to be relevant and effective. [G4-37](#)

# CORPORATE GOVERNANCE



‘At present, the Board of Directors represents all categories of shareholders; its composition is balanced, and its members are highly professional.’

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



## OUR PROGRESS IN ACHIEVEMENT OF STRATEGIC OBJECTIVES IN 2015:

- Five committees under the Board of Directors.
- The Audit Committee and the Nominating and Compensation Committee of the Board of Directors comprise only independent directors.
- Independent directors serve on all committees of the Board of Directors.
- The Group's HSE management system successfully underwent the second compliance audit.



## BASHNEFT'S STRATEGIC GOALS IN CORPORATE GOVERNANCE:

- To improve the corporate governance system and to implement the best practices of corporate governance
- To safeguard the rights and legitimate interests of shareholders and investors
- To improve market perception of the Group's business via information disclosure
- To make the Group more attractive to investors and improve the transparency of its business



## OUR TASKS FOR 2016:

- To improve the principles of and approach to regulation of the Company's internal control and risk management system and to update the relevant documents;
- To implement recommendations provided in the Code of Corporate Governance in accordance with the plan approved earlier;
- To improve the practice of information disclosure, information transparency and the level of organization of corporate procedures;
- To update the Charter and a number of internal regulations in order to reflect changes in civil and corporate law;
- To improve the procedure for evaluating the performance of the Company's Board of Directors and its committees.



According to the expert community (as represented by the MIFC Taskforce), PJSOC Bashneft demonstrates one of the highest levels of compliance with recommendations of the Code of Corporate Governance among the largest state-owned companies where implementation of provisions of the Code has been deemed advisable.

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

Our operations affect a wide range of persons; therefore, compliance of our relations with them with best practice of corporate governance is a prerequisite not only for our professional success but also for the well-being of all our stakeholders. As a state-owned company, Bashneft is required to establish mutually acceptable relations with its principal shareholder, the Russian Federation, and a federal subject of Russia, the Republic of Bashkortostan.

**Corporate governance in Bashneft as a state-owned company has certain special features, most notably:**

- members of the Board of Directors include civil servants;
- relationship between a member of the Board of Directors representing the government (the so-called 'professional appointee') and the shareholder has a special nature;

- representatives of the government vote on matters discussed at a General Meeting of Shareholders of the Group only if the Chairman of the Government of the Russian Federation or the Deputy Chairman of the Government of the Russian Federation has issued the relevant written directive;
- additional management tools are used with regard to the Group in order to improve its performance;
- additional requirements for dividend policy and dividend payments apply to the Group (its dividends must total no less than 25% of net income under IFRS for the reporting year);
- additional instruments of control are used and additional requirements apply to the Group with regard to the transparency of its business (e.g. in the sphere of procurement and information disclosure).

We believe that these features did not have a significant impact on the performance of the Board of Directors in the reporting year. At the same time, the Group has adapted to the special nature of corporate governance in state-owned companies relatively fast and has taken it into account during business process organization.

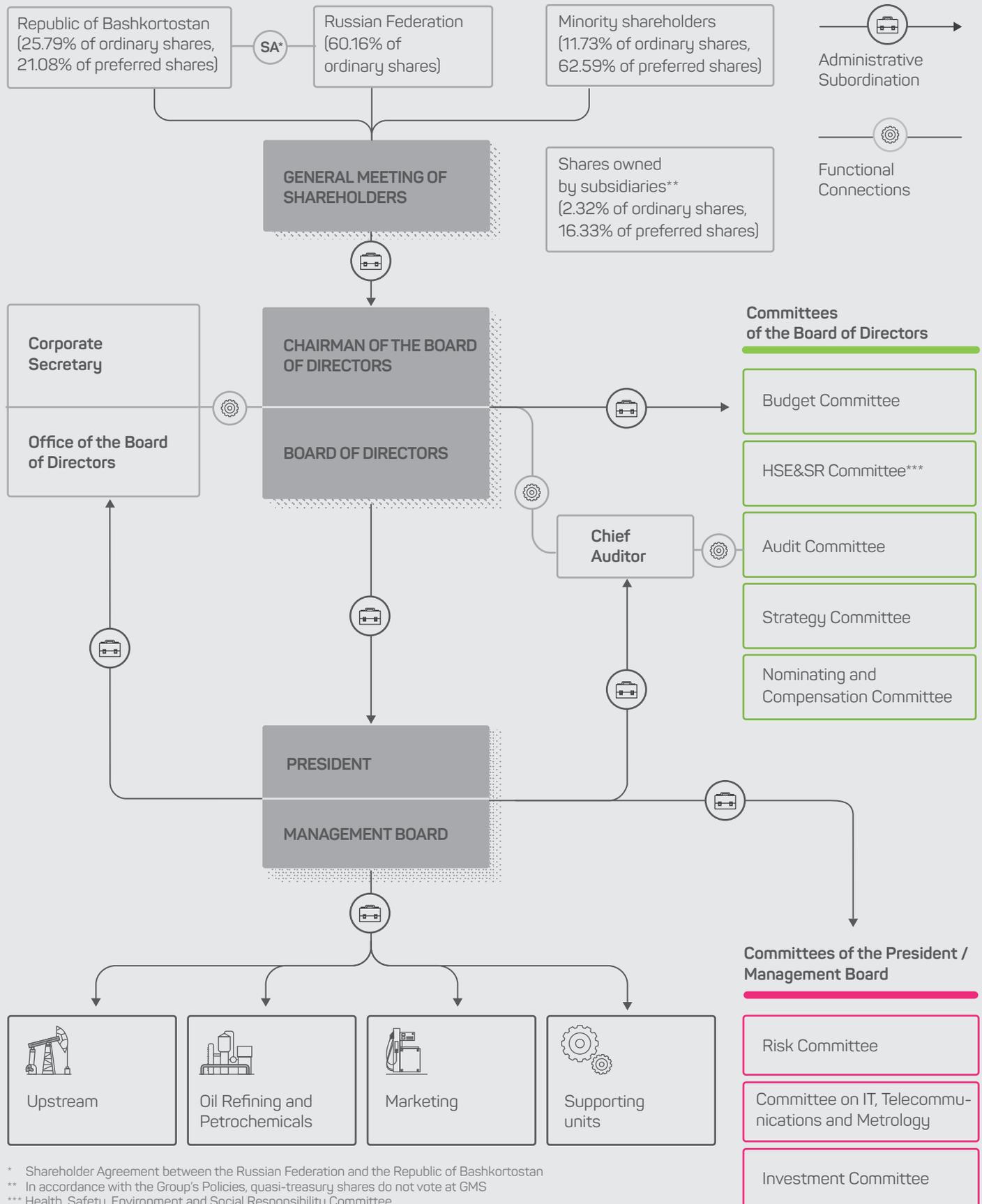
**CORPORATE GOVERNANCE QUALITY AUDIT** G4-44

Starting from 2010, the Group conducts an annual independent corporate governance quality audit (self-assessment) based on in-house guidelines; it helps to reveal the main drawbacks of existing corporate governance practice and promptly identify the key areas of improvement.

The Group relies on recommendations provided in the Code of Corporate Governance approved by the Bank of Russia and uses them as a basis for self-assessment and improvement of its corporate governance practice. This enables us to use the Code as a universal tool for analysing the practice adopted by PJSOC Bashneft and benchmarking it against its competitors.

## Structure of Bashneft's governing and supervisory bodies

G4-34



\* Shareholder Agreement between the Russian Federation and the Republic of Bashkortostan  
 \*\* In accordance with the Group's Policies, quasi-treasury shares do not vote at GMS  
 \*\*\* Health, Safety, Environment and Social Responsibility Committee



## SHAREHOLDER INFLUENCE ON THE DECISION-MAKING PROCESS

According to the shareholder register, as of December 31, 2015, the Group's shareholders included almost 35 thousand persons, including the Russian Federation represented by the Federal Agency for State Property Management (50.08% of the Company's authorized share capital) and the Republic of Bashkortostan represented by the Ministry of Land and Property Relations (25% of the authorized share capital).

The main instrument of shareholder influence on the decision-making process is the participation in General Meetings of Shareholders. Our principal goal in the field of shareholder engagement is to create all conditions that would help to make the decision-making process simple, transparent and efficient for

the owners and to provide easy access to General Meetings to all shareholders willing to participate in them.

The Company provides shareholders with complete information in a timely manner in the materials for General Meetings. Each shareholder of the Group has the right and opportunity to choose between attending the General Meeting in person and participating by absentee voting and enjoys equal voting rights in either case. Special attention is given to facilitating the participation of individuals (mainly employees of the Group or of its subsidiaries) in General Meetings of Shareholders.

~35 thousand persons

Number of the Group's shareholders according to the shareholder register as of December 31, 2015

Interest of the Russian Federation in the authorized share capital:



Interest of the Republic of Bashkortostan in the authorized share capital:



### MEETINGS WITH MINORITY SHAREHOLDERS

In December 2015, Bashneft and the Company's registrar, the Ufa branch of JSC Reestr, held the first consultation for the Group's minority shareholders. The meeting was focused on issues related to the Group's dividend payments. During the meeting, minority shareholders were given detailed answers to questions concerning the procedure for accruing dividends, the timing and methods of initial dividend payment, repeated payment in the event that dividends have not been received and a number of other important issues.



### INFORMATION TRANSPARENCY

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

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

Major sources of information on the Group's operations include the Annual Report and the Sustainability Report.

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



For details on information transparency, see the Annual Report of PJSC Bashneft for 2015.



For more information on shareholder engagement, see the section 'Stakeholders' and the Annual Report of PJSC Bashneft for 2015.

**Structure and powers of the Group's governance bodies responsible for decision-making on economic, environmental and social issues**

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

As of December 31, 2015, the Group had the following corporate governance structure in the sphere of health, safety, environment and social responsibility.

**Management in the sphere of health, safety and environment**

We use a holistic approach to organizing management in the sphere of health, safety and environment (HSE); this approach is based on uniform principles and an integrated corporate functional strategy and covers all key business processes: contractor management,

procurement management, HR management and logistic management.

The Group has in place the Committee on Health, Safety, Environment and Social Responsibility of the Board of Directors, which functions as part of the Group's supreme governing body and is responsible for developing recommendations for the Board of Directors and monitoring implementation of measures in the field of HSE in order to help implement the functional strategy and accomplish the Group's tasks in this area. On a lower level, the HSE management structure comprises the Group's departments responsible for implementation of adopted resolutions within the scope of their functions and powers.

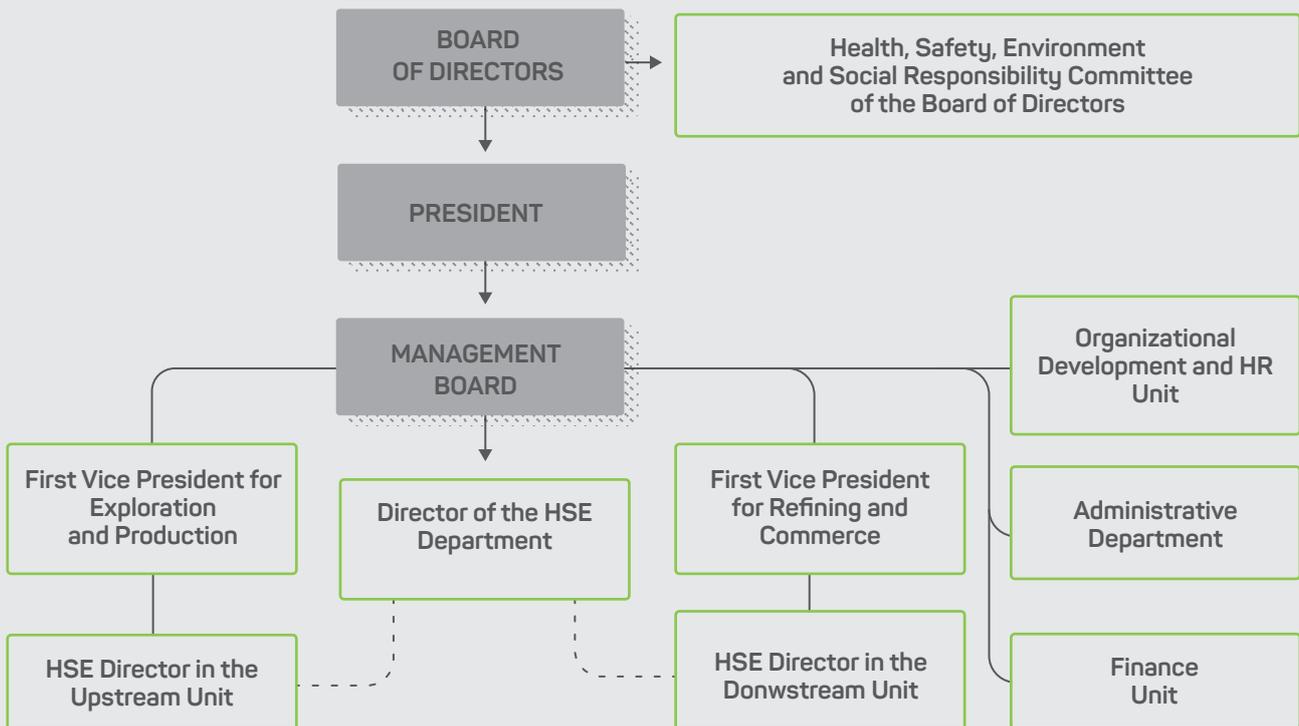
The Group continuously improves its HSE management processes and the HSE management system and continues to adopt the best practices and standards in the course of its operations.



**COMPLIANCE WITH THE OHSAS 18001 AND ISO 14001 STANDARDS**

In 2013 the British Standards Institution (BSI) acknowledged the Group's HSE Management System to be efficient and issued Bashneft with certificates confirming its conformity with the OHSAS 18001 and ISO 14001 standards. Thus, Bashneft successfully completed a project to create an integrated corporate HSE management system meeting internationally accepted standards. In 2015 the Group's HSE management system successfully underwent the second compliance audit.

**Structure and powers of the Group's governance bodies responsible for decision-making on economic, environmental and social issues**



**BOARD OF DIRECTORS** G4-42, G4-45

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

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

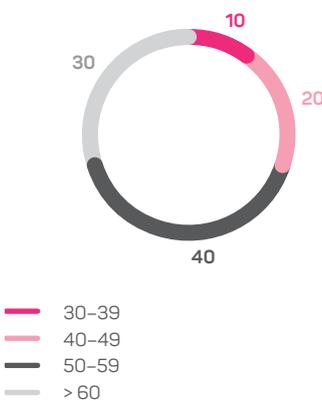
When selecting candidates for the positions of non-executive directors, the Board of Directors and representatives of the major shareholders usually take into account the necessity of nominating to the Board of Directors individuals with profound professional knowledge and experience in the areas that are most important for the Group (industry-specific skills, leadership experience, experience in the areas of finance and management). The number of non-executive directors usually exceeds the number of independent directors. At the same time, a certain percentage of independent directors is maintained, which makes it possible to ensure that the balance of interests of shareholders' representatives on the Board is maintained. Non-executive directors may hold their position for an unlimited period of time. However, during the annual nomination of candidates the following factors are taken into account: whether they actively participated in the work of the previous Board and whether they have a real opportunity to devote sufficient time to matters related to the Company's business.. G4-38, G4-40



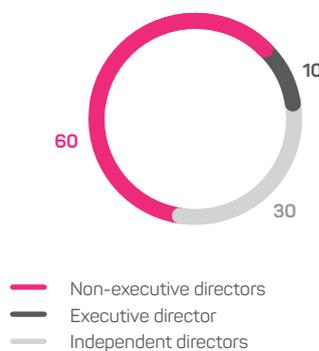
**STRATEGIC SESSIONS**

In 2015 strategic sessions were held separately in the Upstream and Downstream Units in May and June in Ufa. They were attended by members of the Board of Directors (Anthony Considine, Viktor Orlov, Alexander Korsik) and representatives of the Group's principal shareholders and management. Following the sessions, an updated Strategy was formulated, and the Group's Long-Term Development Programme was prepared taking into account special requirements for state-owned companies.

**Age distribution of members of the Board of Directors, %**



**Composition of the Board of Directors, %**



As of December 31, 2015, the Board of Directors of PJSOC Bashneft comprised the Chairman (a non-executive director), one executive director, five non-executive directors and three independent directors (a citizen of the UK, a citizen of Ireland and a citizen of France). G4-39



Taking into account the experience and competences of members of the Board of Directors, in the reporting year the Group organized on-site visits to production facilities for them. The visits were aimed at gaining first-hand knowledge of the situation and working conditions and specialist knowledge of special oil production and refining techniques used by the Group. For instance, Board members visited sites in Bashkortostan (Ufa), the R. Trebs and A. Titov fields in the Nenets Autonomous District and the Sorovskoye and Tortasin-skoye fields in the Tyumen Region.

To share experience and enhance the highest governance bodies' collective knowledge of economic, environmental and social issues, the Group organizes the following events for members of the Board of Directors:

- an induction programme for newly elected members of the Board of Directors. As part of this programme, a director receives necessary and sufficient information about PJSOC Bashneft, its strategy and development issues, its governance system, approaches to key business processes; he/she also gets acquainted with the Group's key senior executives;
- meetings with the management and external consultants on special issues;
- preparing and circulating special reports on specific issues related to PJSOC Bashneft's business (including in cooperation with external consultants);
- visits to production facilities of the Company and its subsidiaries. [64-43](#)

### Committees of the Board of Directors

In order to increase the efficiency of decisions made by the Board of Directors and to enable a more detailed preliminary consideration of key issues and preparation of relevant recommendations, there were five Committees of the Board of Directors as of the end of 2015:

- Strategy Committee;
- Nominating and Compensation Committee;
- Audit Committee;
- Budget Committee;
- Health, Safety, Environment and Social Responsibility Committee.

Matters related to health, safety, environment and social responsibility fall within the competence of the relevant Committee. The Health, Safety, Environment and Social Responsibility Committee monitors the implementation of the Group's strategy and achievement of its objectives in the sphere of HSE and CSR.



In 2015 the share of independent directors on the committees rose to 58%; moreover, a number of committees (the Audit Committee, the Nominating and Compensation Committee) are entirely composed of and chaired by independent directors. This ensures that decisions made by the committees are objective in accordance with the recommended best practices.



For more information on members of the Board of Directors, the Board's functions, powers, its role in the formulation, approval and updating of the strategy, mission and values related to economic, environmental and social aspects, see the Annual Report of PJSOC Bashneft for 2015.

## The Company's President



The President is a permanent sole executive body of PJSOC Bashneft and chairs the Company's collective executive body (the Management Board). The President must act in the interests of shareholders, ensure the Company's profitability and competitiveness, safeguard the rights of shareholders and provide the Group's employees with social guarantees. The President reports on his work to the Board of Directors.

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

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

Since 2011 the position of Bashneft's President has been held by Alexander Korsik.

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

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

The Committee considers data on injuries and industrial safety in the Group on a monthly basis. The Committee is actively involved in developing HSE leadership and develops recommendations for performance improvement in the sphere of environmental protection and social responsibility. The Committee is responsible for preliminary consideration of quarterly HSE reports to be approved at a meeting of the Group's Board of Directors. Twice a year the Committee considers issues related to preparation

of non-financial reports and recommends the Board of Directors to approve the Sustainability Report. In 2015 the Committee comprised three independent directors, one non-executive director and one external expert. [G4-47](#)

### MANAGEMENT BOARD AND TOP MANAGEMENT OF THE GROUP

Senior managers of PJSOC Bashneft facilitate the achievement of the Group's strategic goals by ensuring that action plans in the sphere of health, safety, environment and social responsibility are implemented.

The Management Board is responsible for preliminary consideration of issues to be discussed at the meetings of the Board of Directors and its committees and for preparing proposals to the Board of Directors concerning approval of PJSOC Bashneft's budget and its financial and business plan. The Management Board reports to the Board of Directors on a wide range of economic, environmental and social issues specified in the Charter and internal documents of PJSOC Bashneft.

The number and the list of members of the Management Board are approved by the Board of Directors at the suggestion of the President. The procedure for forming the Management Board, its aims and objectives and the powers of members of the Management Board are governed by the Regulations on the Management Board.



For more information on the membership of the Committees of the Board of Directors, their tasks and resolutions, as well as reports on their performance, see the Annual Report of PJSOC Bashneft for 2015.



In accordance with international best practice, Bashneft has established a compliance function tasked with maintaining high standards of openness and business integrity.

## PREVENTION OF CONFLICTS OF INTEREST G4-41

The Group pays special attention to the prevention and minimization of the impact of possible conflicts of interest among members of its governing and executive bodies.

Internal regulations of the Group establish procedures for controlling and monitoring actions which could indicate a conflict of interest. The Board of Directors reviews bi-annual reports on compliance with the Code of Corporate Governance, the Code of Ethics and the Anti-Corruption Policy.

The Group has organized training for employees of PJSOC Bashneft, its branches and subsidiaries and tests for assessing their knowledge of the provisions of the Code of Ethics and the Anti-Corruption Policy. The Group successfully continues to run a hotline; employees are regularly informed about its operation via mailings and news items in the corporate newspaper.

In 2015 the Group's compliance function was separated from the Internal Audit Unit and transferred to the newly established Compliance Control Department headed by a Compliance Officer and reporting to the Vice President for Corporate Governance and Legal Issues.

## Prevention of conflicts of interest among shareholders

The Group's principal shareholders hold a sufficient number of votes to make decisions on a wide range of issues coming within the competence of the General Meeting of Shareholders and to influence the composition of the Board of Directors. However, the Group has in place a number of efficient instruments to mitigate risks associated with its special management structure characterized by a high concentration of share capital (a special procedure for voting on certain issues, information transparency, a well-balanced structure of the Board of Directors, etc.).

## Prevention of potential conflicts of interest of members of the Board of Directors

Cases which may be considered as a conflict of interest of members of the Board of Directors are specified in the Code of Corporate Governance and the Code of Ethics of PJSOC Bashneft. These documents stipulate that the Board members must refrain from making decisions on issues in relation to which they have a conflict of interest.

As part of the work of the Board of Directors, the Board Chairman and the Company's Corporate Secretary



The Group respects the rights and legitimate interests of minority shareholders and provides them with equal opportunities to participate in the management, access to information, and profit distribution in proportion to their voting power.



For details on prevention of conflicts of interest, see the 'Corporate Governance' section of the Annual Report of PJSOC Bashneft for 2015.



Payments made in 2015	Remuneration, million roubles	Reimbursement for expenses, million roubles
To members of the Board of Directors	51.7	9.5
To members of the Management Board	413.2	0.6

take measures necessary for developing relationships among the Board members that are as friendly and constructive as possible in order to make informed and rational decisions.

In 2015 no conflicts of interest of members of the Board of Directors or members of the Management Board of PJSOC Bashneft were revealed.

### REMUNERATION AND COMPENSATIONS G4-51, G4-52

The procedure for determining and paying remuneration and compensation to members of the Board of Directors is established in the Regulations on Remuneration and Compensation Payable to the Members of the Board of Directors of PJSOC Bashneft.

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

- base pay;

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

**The key principle underlying the system of remuneration for the Group's senior executives consists in a balance between the interests of the management and those of the shareholders. In 2015 remuneration of the Group's senior managers comprised the following components:**

- salary;
- bonuses forming part of the short-term incentive programme (annual bonuses linked to achievement of KPIs);
- bonuses forming part of long-term incentive programmes (a long-term incentive programme for senior executives, which involves accruing and paying annual remuneration, a certain portion of which must be used for purchasing the Company's preferred shares).



A flexible approach to remuneration for the Board of Directors allows the Company to engage highly professional directors who have a considerable experience of working for leading global oil companies.



For details on the system of remuneration and incentives for members of the Board of Directors and senior managers, see the Annual Report of PJSOC Bashneft for 2015.

## COMBATING CORRUPTION

The Group takes measures aimed at forming elements of corporate culture, rules and procedures preventing corruption. We seek to comply strictly with the norms of Russian, international and applicable foreign anti-corruption laws. Combating corruption is one of the Group's fundamental principles of corporate governance.

Anti-corruption procedures are set out in a number of the Group's internal documents. Bashneft regularly monitors the efficiency and supervises the implementation of anti-corruption standards and procedures that it has adopted. The Board of Directors reviews bi-annual reports on compliance with the Code of Corporate Governance, the Code of Ethics and the Anti-Corruption Policy (following a preliminary review by the Audit Committee).

On the corporate level, we inform our employees and conduct regular training in anti-corruption procedures. The Company's employees sign a statement of compliance with anti-corruption legislation. The Group successfully continues to run the Hotline 'Employees Raise Concerns'; employees obtain information about its operation from mailings and news items in the corporate newspaper. [G4-S04](#)

When assessing the reliability of partners and counterparties, the Group takes into account the extent of their opposition to corruption in the course of business. Furthermore, compliance with anti-corruption principles is viewed as an important prerequisite for establishing contractual relationships.

## RISK MANAGEMENT AND INTERNAL CONTROL; INTERNAL AUDIT [G4-2](#)

Risk management is an integral part of strategic and operations management and business planning; it is a package of measures implemented at all levels of management and planning.

**To maintain and develop the Risk Management System, the Group has created the Risk Committee of the Management Board. The Committee comprises Vice Presidents, Finance Directors and Department Directors representing various business areas and performs the following key functions:**

- it considers and approves the corporate risk register, the risk map and the risk management report;

- it develops recommendations for the Management Board concerning risk management methods and mechanisms and approves action plans for managing risks.

[G4-46](#)

Key risks that are constantly monitored include country and regional risks, industry-specific, financial, legal and operational risks. From the perspective of sustainable development, operational risks (more specifically, environmental risks and occupational health and safety risks) are the most important ones.

### Internal control in Bashneft is aimed at ensuring:

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

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

The Internal Audit Unit forms an integral part of Bashneft's organizational structure; it comprises internal audit departments responsible for various areas of business. The main aim of internal audit in the Group is to provide the Board of Directors, the Audit Committee of the Board of Directors and executive bodies with independent and objective guarantees that PJSOC Bashneft and its subsidiaries have appropriate internal control, risk management and corporate governance systems.



'An auditor acts as the Company's assistant. The main task of the Internal Audit Unit is to assist the Management Board and the Board of Directors in improving the Group's performance.'

Nikolay Morozov,  
Chief Auditor



For details on all risks that we consider as significant, see the Annual Report of PJSOC Bashneft for 2015.

## Our initiatives to improve corporate governance



### IMPROVEMENT OF CORPORATE GOVERNANCE QUALITY AND ADOPTION OF BEST PRACTICES:

- Improving the organization and holding of General Meetings of Shareholders;
- Improving the Group's share capital structure;
- Improving the Group's information transparency;
- Updating internal policies and procedures regulating corporate governance in the Group;
- Arranging an independent assessment of corporate governance quality and assigning an external corporate governance rating.



### IMPROVEMENT OF PERFORMANCE OF GOVERNING BODIES:

- Implementing a training programme for members of the Board of Directors;
- Optimizing the composition, functions and powers of collective governing bodies (including Board committees) and improving cooperation between governing bodies;
- Improving certain procedures related to organization of the work of the Board of Directors and its committees;
- Arranging an independent external performance evaluation of the Board of Directors.



### MANAGEMENT OF SUBSIDIARIES:

- Improving the Group's structure (including divestment of non-core assets and reorganization of certain subsidiaries);
- Improving the governance system in subsidiaries (including the structure of governing bodies, the instruments of communication with the Corporate Centre and the allocation and detailed description of areas of responsibility);
- Integrating new subsidiaries into the Group;
- Rolling out corporate procedures and standards to newly acquired subsidiaries.



### MANAGEMENT OF ENVIRONMENTAL RISKS AND OCCUPATIONAL HEALTH AND SAFETY RISKS

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

To reduce the likelihood of this risk, the Group has in place a health and safety system which involves constant monitor-

ing of the condition of process units, an equipment upgrade programme, measures for preventing industrial accidents and incidents, and development of a health and safety culture. The Group has established a risk assessment system in this area.

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



In 2015 no significant violations related to corruption or compliance with ethical norms were detected.



For details on the RMS, internal control and internal audit, see the Annual Report of PJSOC Bashneft for 2015.

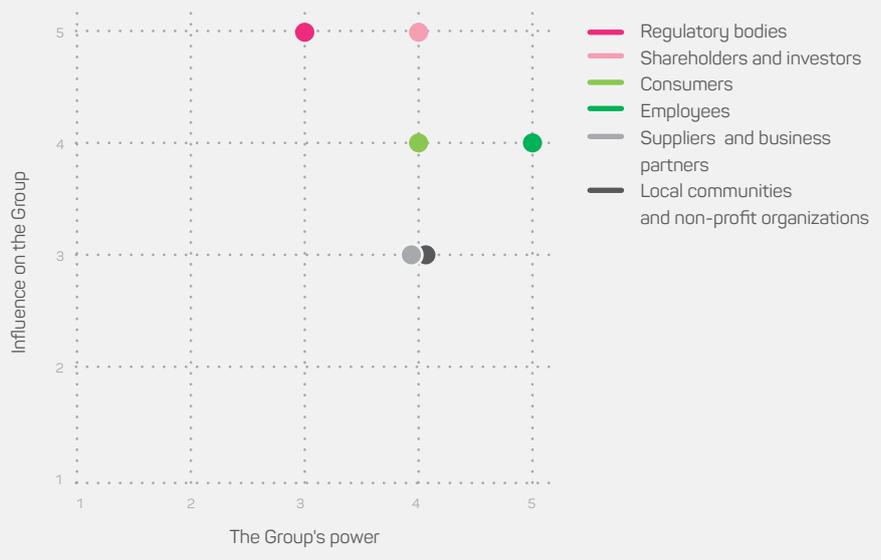
# STAKEHOLDERS

Bashneft defines stakeholders as groups of people that can be influenced considerably by the Group's operations and products and that, in their turn, can make an impact on the Group's ability to attain its strategic goals.

**We classify the Group's stakeholders into six target groups:**

- Shareholders and investors
- Employees
- Consumers
- Suppliers and business partners
- Regulatory bodies
- Local communities and non-profit organizations G4-24

**The Group's stakeholder map**



## Distribution of stakeholders in terms of their impact on the Group

BASHNEFT GROUP	 SHAREHOLDERS AND INVESTORS	 EMPLOYEES	 CONSUMERS
 <p><b>Area of significant impact</b></p>	About 35 thousand shareholders  Russian and foreign investors	The Group's personnel: about 36 thousand employees, specialists and executives	Customers at filling stations  Wholesale buyers  Refineries of other companies
	 <p><b>Area of limited impact</b></p>		



**SUPPLIERS  
AND CONTRACTORS**

Key suppliers of purchased crude oil for the Group's integrated refining complex

- Other suppliers
- Contractor organizations
- Other business partners



**REGULATORY BODIES**

- Federal government
- Regional governments
- Administrations of municipalities in operating regions



**LOCAL COMMUNITIES  
AND NON-PROFIT ORGANIZATIONS**

Population of key operating regions

- Health care, cultural, sports, educational institutions in operating regions
- Federal non-governmental organizations (RSPP, Chamber of Commerce and Industry, Union of Oil and Gas Producers of Russia, etc.)
- Regional and local non-governmental organizations
- Media

## Shareholders and investors

We believe that shareholders and investors are a stakeholder group that has the strongest impact on the Group.

### FORMS OF ENGAGEMENT

- General Meeting of Shareholders (in 2015 one Annual General Meeting of Shareholders and three Extraordinary General Meetings were held)
- Regular meetings between the Group's management and shareholders and representatives of the investment community (83 meetings throughout 2015)
- Analyst Days and on-site visits to production facilities
- Investor Day
- Participation in investment conferences, exhibitions, road shows (eight conferences and one non-deal road show in 2015)
- Ongoing efforts to maintain and expand contact with investment banks

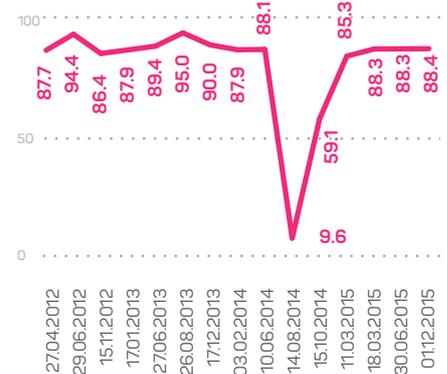
### CHANNELS OF COMMUNICATION

- Preparation of presentations and conference calls to discuss financial performance
- The main public source of financial and corporate information is the Group's corporate website at [www.bashneft.ru](http://www.bashneft.ru)
- Information disclosure in accordance with the requirements of Russian legislation
- Preparation of the Group's Annual Reports and Sustainability Reports on an annual basis



In October 2015, the Group held the Investor Day in Moscow once again. As part of the event, Bashneft presented its updated medium-term development strategy. The event won high praise from the investment community.

### Quorum at General Meetings of Shareholders, %



### PRINCIPLES OF ENGAGEMENT

- Respecting and safeguarding the rights and legitimate interests of shareholders and investors
- Ensuring information and financial transparency
- Consistent and collective managerial decision-making
- Compliance with the norms of business ethics

### BENEFITS TO STAKEHOLDERS FROM ENGAGEMENT WITH THE GROUP

- High historical levels of dividend yield: one of the highest dividend yields among state-owned companies
- Transparency of information facilitating investment decisions
- High credit ratings reflecting our business stability and efficiency

# > 87%

A significant number of attendees constituting a quorum (over 87% of holders of voting shares) and the number of minority shareholders attending meetings indicate that shareholders attach great importance to matters of corporate governance in PJSOC Bashneft.



An independent survey conducted by Nasdaq in September and October 2015 revealed that the investment community had a high opinion of the efforts of Bashneft's management and its investor relations team, as well as Bashneft's communication with investors as a whole. PJSOC Bashneft was ranked in the top 10 companies of the greatest interest to the investment community.



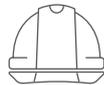
For details on investor and shareholder engagement, see the Annual Report of PJSOC Bashneft for 2015 and the Group's website at [www.bashneft.ru](http://www.bashneft.ru)

## Employees

We view the Group's employees as a stakeholder group that depends to the greatest extent on our actions. This means that we have to bear additional responsibility when dealing with the Group's employees as one of our stakeholders.



In February 2016, a new Collective Agreement with employees of PJSOC Bashneft was signed for the period from 2016 through 2018



In the reporting year, the percentage of workplaces characterized by harmful working conditions across the Group decreased by 2.6 p.p.

### FORMS OF ENGAGEMENT

- Creation of safe working conditions for each employee of Bashneft: implementation of large-scale programmes in the sphere of occupational and process safety
- Cooperation with the United Employee Representative Body in the process of negotiating the Collective Agreement
- Cooperation with Employee Councils of Bashneft and trade unions representing the majority of the Group's employees in the normal course of business
- Interaction with the Youth Council of the Group
- Meetings between senior management and staff
- Professional training and development programmes
- Use of anonymous Hotlines

190 million roubles

Funding for training and development programmes in 2015

59 thousand roubles per month

Average salary level in the Group in 2015 which is 2.3 times higher than the average in our key operating region, the Republic of Bashkortostan

### PRINCIPLES OF ENGAGEMENT

- The health and safety of our employees is our top priority
- Bashneft has in place the Code of Ethics. Provisions of the Code stipulate that the Group's governing bodies and employees must avoid any discriminatory behaviour. The Code of Ethics also ensures that all employees have equal rights and opportunities in terms of salaries and promotion
- The Group does not use child labour, forced or compulsory labour or any other non-standard forms of employment which reduce, directly or indirectly, the level of social protection of employees

### BENEFITS TO STAKEHOLDERS FROM ENGAGEMENT WITH THE GROUP

- The Group is a stable and large employer offering long-term career planning opportunities to its employees
- High wages significantly above the regional level
- Large social security package and ample opportunities for training and personal development

### CHANNELS OF COMMUNICATION

- Corporate portal (Intranet) and media
- Collective and individual meetings between the Group's management and employees
- Corporate newspaper (Bashkirskaya Neft)

## Consumers

Our business model involves controlling the entire value chain, from oil production to sales of crude oil and petroleum products. Therefore, we pay considerable attention to our customers and consumers of our products. Our key objective in this field is to attain the highest level of service and perfect quality of products supplied to consumers.



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

# 65

filling stations were upgraded in 2015 as part of the programme; the relevant investment totalled about 600 million roubles. We continue to implement the programme to rebrand our own filling station network in compliance with uniform corporate standards of design.

### FORMS OF ENGAGEMENT

- Hotlines for consumer complaints about product and service quality
- Receiving and processing complaints and suggestions concerning Bashneft's filling stations on the Group's website at bashneft-azs.ru
- Regular customer surveys to evaluate the level of consumer satisfaction with product quality
- The Mystery Consumer programme aimed at monitoring the quality of customer service at the filling stations
- Customer service and support, settlement of claims and disputes
- Customer data protection and confidentiality
- Development and implementation of loyalty programmes for long-time customers
- Ongoing implementation of the programme to improve product quality through further refinery upgrades

### CHANNELS OF COMMUNICATION

- Preparation of reports on the Group's quality assurance initiatives
- Publication of information on the Group's official website
- Launch of specialized applications for smartphones providing comprehensive information on the Group's existing retail network and product range
- Use of a standardized corporate style of Bashneft at the Group's full-service filling stations to increase customer loyalty and improve brand recognition



The Group attaches considerable importance to convenience and seeks to ensure that partnership with the Group is not only profitable but also comfortable for consumers. We develop a wide range of marketing channels, from wholesale supply of crude oil via pipelines to small wholesale business and retail sales via our own network of filling stations.

### PRINCIPLES OF ENGAGEMENT

- Attaining the highest level of service and perfect quality of products supplied to consumers
- Ensuring transparency in relations with suppliers and contractors, and providing comprehensive information to all stakeholders
- Combating corruption

### BENEFITS TO STAKEHOLDERS FROM ENGAGEMENT WITH THE GROUP

- Focus on the production of high-technology state-of-the-art products meeting the latest standards and requirements
- The Group is customer-oriented, offers high quality service (including the retail segment) and ensures information transparency



~100%

of diesel fuel and 95.7% of motor gasoline produced by Bashneft met the Euro 5 standard in 2015. We produce high-quality engine fuel.



In 2015 there were no incidents of non-compliance of product quality with regulations and voluntary codes concerning product and service information and labelling.

‘Our main competitive advantage consists in excellence in every sphere: high-quality fuel, first-rate service, high visual standards.’

Kirill Kasterin  
Vice-president for regional sales



### CUSTOMER LOYALTY PROGRAMME LAUNCH

In late 2015 Bashneft launched an innovative customer loyalty programme at the Group’s filling stations. This is a new project forming part of Bashneft’s efforts to develop a retail channel for petroleum products and promote its brand. The loyalty programme involves awarding bonus points for purchases made at a filling station. The loyalty programme incorporates the experience

of leading oil companies, as well as state-of-the-art technologies in the sphere of banking, traditional retail and e-commerce. The programme is highly personalized, enabling each customer to select their preferred format of participation in the programme based on their personal needs and preferences.

## Suppliers and business partners

### FORMS OF ENGAGEMENT

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

### CHANNELS OF COMMUNICATION

- Publication of information on the Group's operations on the corporate website and specialized procurement websites

**We use a responsible approach to the selection of suppliers and contractors. Among its business partners, Bashneft has gained reputation as a reliable customer due to our commitment to established standards of ethical business conduct.**

We adhere to the principle of zero tolerance to corruption and use a wide range of anti-corruption tools and methods to create equal conditions for all suppliers, contractors and business partners. Since 2011 we have been successfully following the Anti-Corruption Policy of PJSOC Bashneft.

In 2015 savings from procurement procedures (competitive tendering) totalled 9.11%, which is more than in 2014 (8.45%). The average number of bidders remained the same and totalled about five bidders.

We cooperate with a number of partners in the sphere of retail sales of engine fuel. 80 filling stations of our partners are situated in eight regions of European Russia and operate under the Group's brand name. On the one hand, cooperation with us provides sales companies with a considerable competitive advantage as customers associate Bashneft's brand with high-quality petroleum products and excellent service. On the other hand, we impose a number of mandatory requirements on our partners: for instance, they must comply with the Group's standards in HSE. [G4-EC8](#)

In 2015 PJSOC Bashneft won a prestigious award in the sphere of procurement: 'Company of the Year in the Sphere of Competitive Procurement'.

Bashneft makes every effort to ensure that our suppliers and contractors have a responsible attitude to HSE. To achieve this, the Group includes relevant clauses in contracts and demands that its partners comply with HSE regulations. Where necessary, we conduct prequalification audits of contractors to check if they comply with requirements in the field of health, safety and environment. In addition, Bashneft ranks suppliers and contractors on the basis of HSE criteria. A number of measures in the sphere of road traffic safety apply both to Bashneft's departments and to our partners.



For details on procurement, see the Annual Report of PJSOC Bashneft for 2015.

### PRINCIPLES OF ENGAGEMENT

- Zero tolerance to corruption
- Organization of procurement in accordance with Federal Law № 223-FZ dated July 18, 2011 on Procurement of Goods, Works and Services by Certain Types of Legal Entities
- Priority is given to import substitution
- Equal rights, fair treatment, no discrimination or restrictions of competition

- The winner is selected by means of an open tender on the basis of the best price/quality ratio, delivery and payment terms
- The winner is selected on the basis of objective criteria for admission and assessment
- Information transparency, use of modern information technologies (automation, e-commerce, electronic document management tools)
- Mutual responsibility in the course of procurement on the part of both the employees of the organizer of the procurement process and its participants

### BENEFITS TO STAKEHOLDERS FROM ENGAGEMENT WITH THE GROUP

- The Group has an impeccable reputation as a customer and business partner
- Commitment to established standards of ethical business conduct
- Wide use of anti-corruption tools and methods helps to create equal conditions for all suppliers, contractors and business partners

## Local communities and non-profit organizations

### FORMS OF ENGAGEMENT

- Environmental protection in operating regions
- Support for social initiatives
- Charity work
- Lease of land plots for the Group's operations
- Meetings and consultations with local authorities
- Signing of agreements on cooperation in the sphere of social and economic development of the regions
- Regular meetings, correspondence and conference calls with competent officers to promptly address any issues and identify promising areas of cooperation

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

1.9 billion roubles

Scope of charitable and sponsorship programmes in 2015

20.2 billion roubles

Bashneft's tax payments to the budget of the Republic of Bashkortostan

The Group does charity work in five of its operating regions: the Republic of Bashkortostan, the Nenets Autonomous District, the Khanty-Mansi Autonomous District, the Republic of Tatarstan and the Orenburg Region



### PRINCIPLES OF ENGAGEMENT

- Mutually beneficial close cooperation with representatives of local communities
- Compensation for losses from the use of natural resources and environmental damage
- Absence of conflicts with local communities or indigenous minorities

### CHANNELS OF COMMUNICATION

- Preparation of presentations
- Meetings and consultations
- Providing information on the Group's operations on the corporate website

### BENEFITS TO STAKEHOLDERS FROM ENGAGEMENT WITH THE GROUP

- Large-scale programmes aimed at investing in social infrastructure in the Group's operating regions
- Targeted support of low-income organizations and individuals
- Development of volunteering among the Group's employees

## Regulatory bodies



The Group's management regularly interacts with representatives of various regulatory bodies at all levels. Our cooperation with regional authorities in the Republic of Bashkortostan, the Orenburg Region, the Khanty-Mansi Autonomous District and the Nenets Autonomous District is based on agreements on social and economic development of the regions and environmental cooperation agreements.



Although the Group closely cooperates with government agencies, in fact we do not receive or use financial assistance from the government. In 2015 benefits and financial assistance received by the Group from the government totalled 4.3 million roubles; given the scope of our operations, this amount is negligible.

On the other hand, we do not finance political parties, institutions or movements to gain commercial advantage for specific projects of the Company or its subsidiaries; we do not make political donations. G4-EC4



### FORMS OF ENGAGEMENT

- Participation in working groups affiliated with regulatory bodies
- Expert and advisory participation in the drafting of laws and regulations
- Participation in meetings and sessions of committees and commissions of legislative bodies and local authorities
- Dialogue with regulatory bodies as representatives of the largest shareholders focused on outlining areas of the Group's development, forming its governing bodies, determining the amount of dividend payments and dealing with other key issues related to its business
- Regional executive bodies act as intermediaries hearing complaints from residents about environmental issues



### PARTICIPATION IN WORKING GROUPS AND ADVISORY COUNCILS AFFILIATED WITH GOVERNMENT BODIES

The Group's representatives participate in working groups and expert councils affiliated with regulatory bodies. Bashneft's President Alexander Korsik sits on the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Security and the Government Commission on the Fuel and Energy Sector, Reserve Replacement and Improving the Economy's Energy Efficiency.

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

- The working group of the Ministry of Energy on efficient associated gas utilization;
- The working group on the development of the Federal Target Programme on Elimination of Accumulated Environmental Damage in 2014 – 2025;
- The working group of the Ministry of Energy on the formulation of proposals for designing tax, tariffs, and customs policy guidelines for the oil industry;

- The Advisory Council on anti-trust legislation, pricing and tariff policy of the State Duma Committee on Economic Policy, Innovative Development and Business;
- The Advisory Council of the State Duma Committee on Budget and Taxes;
- The Advisory Council of the State Duma Committee on Energy;
- The Share Issuers' Committee of the Moscow Exchange,

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



In November 2015, Bashneft organized an on-site meeting over the issues of safety of oil and gas facilities for the Research and Development Council of the Federal Service for Environmental, Technological and Nuclear Supervision. The seminar was attended by representatives of the government of the Republic of Bashkortostan and the Federal Service for Environmental, Technological and Nuclear Supervision, independent experts and the Group's senior executives. The event was aimed at improving cooperation with representatives of the expert community in ensuring the safety of oil and gas facilities and communication between the Group's management and representatives of the Federal Service for Environmental, Technological and Nuclear Supervision.

As part of the event, the delegates visited Bashneft's production facilities. As part of the visit, they were shown state-of-the-art support facilities of the Group and cutting-edge technology used in the course of operations.



#### PRINCIPLES OF ENGAGEMENT

- Strict compliance with applicable legislation
- Constructive dialogue with regulatory bodies to assist in addressing social issues within the scope of its competence

#### CHANNELS OF COMMUNICATION

- Publication of reports on the Group's operations
- Publication of information on the Group's operations on the corporate website

#### BENEFITS TO STAKEHOLDERS FROM ENGAGEMENT WITH THE GROUP

- The Group is the largest taxpayer in Bashkortostan and a major source of tax revenue for budgets at all levels
- Active participation of the Group's representatives in the work of joint committees and commissions provides regulatory bodies with professional expert assessments and recommendations on industry legislation

# KEY AREAS OF STAKEHOLDER ENGAGEMENT

G4-27

Issues that are the focus of attention of the Group's stakeholders

	Investors and shareholders	Employees	Consumers	Suppliers and partners	Regulatory bodies	Local communities and non-profit organizations
<b>Strategy and Development</b>						
Strategic targets and their achievement	●	●			●	
Bashneft's new Strategy and LTDP	●	●			●	●
Bashneft's value	●	●				
External and internal factors behind Strategy adjustment	●				●	
The Group's measures for attaining strategic goals	●	●	●	●	●	●
<b>Investor and Shareholder Engagement</b>						
Amount of dividend payments	●					
Conclusion of the shareholders' agreement	●				●	
<b>Corporate Governance</b>						
Implementation of best corporate governance practices	●			●	●	●
<b>Geology and Development / Exploration and Production</b>						
Production level	●	●	●		●	●
Expansion of the resource base	●				●	
Further development of the R. Trebs and A. Titov fields; production growth at the fields of Burneftegaz Group	●	●				●
<b>Oil Refining</b>						
Implementation of best practices in the sphere of technology	●	●	●			
Refinery upgrades	●	●	●	●	●	●
Increasing refining depth					●	
Improving operating performance of refineries				●	●	
<b>Marketing and Logistics</b>						
Export volumes	●		●		●	
Domestic sales volumes	●		●		●	●
Development of niche product sales			●			
Development of retail sales			●			●
<b>Economy and Finance</b>						
Revenue	●				●	
Changes in financial performance under the new Strategy	●					
Long-term financial model	●					
Debt level	●					
Level of tax expense	●				●	●
Comprehensive approach to cost cutting	●			●	●	
Dividends	●				●	
Cost control	●			●	●	

	Investors and shareholders	Employees	Consumers	Suppliers and partners	Regulatory bodies	Local communities and non-profit organizations
<b>Human Resources</b>						
Talent pool development		●			●	●
Stable employment		●			●	●
Remuneration		●				
Competitive salaries		●			●	●
Social benefits		●				●
Medical insurance		●				
KPIs	●	●				
Social investments		●				●
Opportunities for professional and career development of employees		●				
<b>Health, Safety and Environment</b>						
Reduction in the number of injuries; development of the occupational safety culture	●	●		●	●	●
Key HSE initiatives	●	●		●	●	●
HSE costs	●	●			●	●
Minimization of environmental impact	●	●			●	●
Associated gas utilization	●	●			●	●
Waste management	●	●		●	●	●
Reduction of harmful emissions	●	●	●		●	●
Energy efficiency	●	●			●	●
Efficient use of water resources	●	●			●	●
Transparent disclosure of data on HSE performance	●	●		●	●	●
<b>Social and Charity Work</b>						
Infrastructure development in operating regions	●	●	●	●	●	●
Areas of social and charity work		●			●	●
Expenditure on social and charity work	●	●			●	●
Assistance to the regions in responding to natural disasters	●	●	●	●	●	●
<b>Capital Construction and Logistic Support</b>						
Investment volumes	●				●	
Capital expenditure volumes	●			●	●	
<b>Introduction of Innovations and Information Technologies</b>						
Key areas of innovative development in the Upstream and Downstream Units		●			●	
The use of advanced information technologies in key areas of the Group's operations		●		●	●	



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

# CHARITABLE PROGRAMMES AND PARTICIPATION IN THE DEVELOPMENT OF OPERATING REGIONS



## OUR ACHIEVEMENTS:

- 233 billion roubles: tax payments to budgets of various levels in 2015
- 1.9 billion roubles: expenditure on charity work and development of social infrastructure in the Group's operating regions
- Funding provided for 80 social and infrastructure projects in the Republic of Bashkortostan

Bashneft is a large taxpayer and employer in several regions of Russia. The Group's tax payments to regional budgets and tens of thousands of jobs help make Bashneft an important driver of development of these regions.

Direct involvement in the development of the Group's operating regions forms an important part of Bashneft's non-profit activities. We support projects to build and repair regional and local infrastructure; we provide voluntary assistance to regions in emergency situations, implement long-term programmes to support education and sports and actively participate in community life.

In the course of our work, we seek to build a foundation for future well-being of society. The Group focuses on the long-term prospect and invests in

socially significant projects. The key principle of Bashneft's charity work is that it must be transparent and public as a prerequisite for promoting the most advanced and effective forms of philanthropic work. In addition, we seek to introduce effective mechanisms for allocation of funds for charitable projects.

Social charitable projects involving the Company's employees are an additional instrument of our HR policy.

## Objectives in the sphere of development of operating regions and charity work

- To improve the quality of life in the operating regions;
- To create a favourable social environment for the achievement of strategic business objectives and an increase in the Group's capitalization;
- To identify social priorities to be addressed through close cooperation with administrations of the operating regions;
- To enhance public confidence in the Group and strengthen its public reputation;
- To develop a harmonious dialogue and cooperation between the Group and the main stakeholders representing local communities;
- To implement environmental projects aimed at improving the environment.

## ECONOMIC IMPACTS ON OPERATING REGIONS

G4-EC7, G4-S01, G4-S02, G4-HR8  
G4-OG9, G4-OG10, G4-OG11, G4-OG12

Bashneft uses a systematic approach to cooperation with regions taking into account long-term priorities of



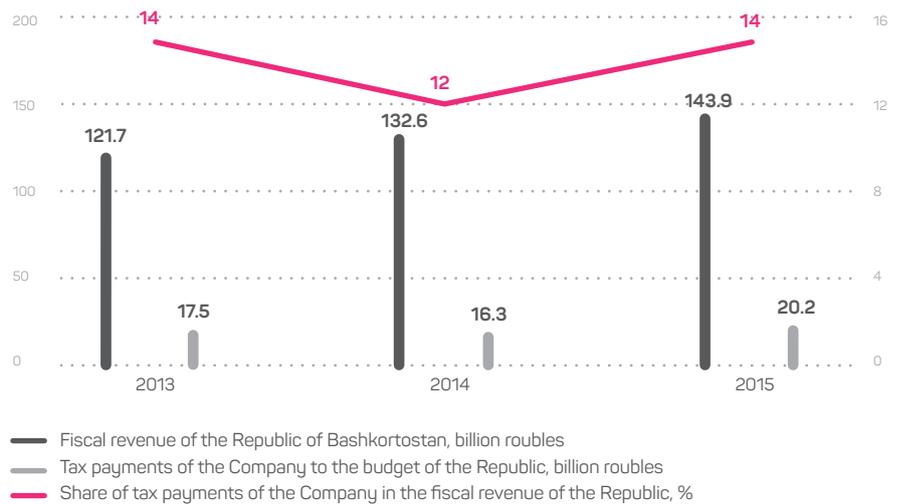
'Participation in social and economic development of operating regions is one of Bashneft's key priorities. As we implement large-scale operational programmes, we also invest in the development of social infrastructure in our operating regions, and we seek to improve the quality of life of their residents.'

Igor Marchenko,  
Vice President for Strategy  
and Development

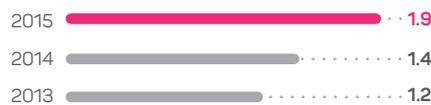


the Group and strategies for regional development. The Group plays a considerable part in the development of its operating regions as it is a major employer and taxpayer and invests heavily in infrastructure development, maintenance and repairs, modernization of its facilities and professional development of its employees.

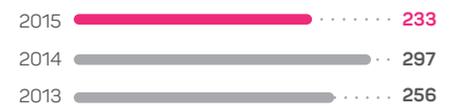
The Group's main operating region is the Republic of Bashkortostan. PJSOC Bashneft is the largest taxpayer in the Republic of Bashkortostan: tax payments of the oil business account for over a half of the budget of Ufa and constitute a considerable part of the Republic's budget. Although the Group is expanding its business into new regions, Bashneft's management intends to continue following a focused policy aimed at maintaining the current level of tax payments to the region. In 2015 the Group paid 233 billion roubles in tax to budgets of various levels, including 20.2 billion roubles to the budget of the Republic of Bashkortostan. A year-on-year reduction in the total amount of tax payments was caused by a decrease in customs payments due to a reduction in customs duties following a fall in oil prices.



**Expenditure on participation in the life of communities, development of social infrastructure in operating regions and charity work, billion roubles**



**Tax payments to budgets of various levels<sup>2</sup>, billion roubles**



1. <https://minfin.bashkortostan.ru/presscenter/news/298715/>

2. Including all tax payments stipulated by tax legislation, as well as export customs duties and regular charges for subsoil use. The amounts represent taxes paid by all companies forming part of Bashneft Group in the relevant reporting periods.

## PARTICIPATION IN THE LIFE OF LOCAL COMMUNITIES

Bashneft addresses the needs of local communities by actively participating in the economic and cultural development of its operating regions. The Group puts this concept into practice by achieving its strategic objectives with due regard for the interests of local communities and a commitment to meet their reasonable expectations. We closely cooperate with representatives of local communities. The Group actively renders immediate assistance to them, including financial support.

We define an indigenous people as a people whose ethnic identity has developed historically in a given territory. The Group receives the relevant information from regional authorities and local administrations. We practise a specially designed format of mutually beneficial relations with representatives of indigenous minorities in the Nenets Autonomous District (the operating region of LLC Bashneft-Polyus) and the Khanty-Mansi Autonomous District (the operating region of LLC Bashneft-Dobycha and LLC Burneftegaz).

In the Nenets Autonomous District, the Group holds regular public consultations with representatives of indigenous peoples on the development of the R. Trebs and A. Titov fields. All issues related to the Group's operations are regularly discussed at working meetings and conferences with representatives of local administrations.

Frequently used forms of partnership between the Group and local communities include leasing land plots in the areas where Bashneft carries out construction and operations. When doing so, Bashneft compensates for losses from the use of natural resources and environmental damage. Contracts for reimbursement (compensation) of losses have been signed with local national communities when allocating land for the Group's operations. Overall, in 2015 the Group allocated about 30 million roubles for these purposes in the Nenets Autonomous District as against 24 million roubles a year earlier. At the same time, we did not perform any operations leading to resettlement of private households.

Bashneft uses special strategies of cooperation with representatives of indigenous minorities in the Khanty-Mansi Autonomous District whose communal family areas form part of a territory covered by the Group's operations. Thus, in 2015 the Group concluded 10 agreements on the use of land for mining

purposes with holders of the right to traditional land use. Under the agreements, the Group paid about 2 million roubles to the owners of communal family lands. These funds were used for purchasing fishing tackle, fuel and lubricants, and food, as well as for development of the communal family lands. In 2015 economic agreements covered more than 30 family members of the owners of communal family lands. [G4-0G9](#)

Every year we actively participate in national celebrations and cultural events in the Group's operating regions. These include the Plough Day – Sabantuy in the Republic of Bashkortostan and in the Khanty-Mansi Autonomous District; snowmobile races for the Artur Chilingarov Prize, the Day of Deer, the IES-BASKET basketball tournament and the Arctic Dance ballroom dancing competition in the Nenets Autonomous District.

The Group sponsors the preservation of traditional crafts, education and social support of population and indigenous Arctic minorities, as well as major repairs of housing and social facilities. [G4-HR8](#), [G4-0G10](#)

In 2015 we did not identify any violations of the rights of indigenous minorities. Similarly, there were no significant conflicts with local communities or indigenous minorities in the reporting year.

## TARGET PROGRAMMES, CHARITY WORK AND SPONSORSHIP

As part of its policy on corporate social responsibility, Bashneft implements a wide range of social programmes in the field of education, support of regional infrastructure and social projects, and private donations.

All charity work in the Group is centralized and is regulated by the Procedure for Organizing Charity Work of PJSOC Bashneft; in the Group's subsidiaries and branches, charity work is subject to approval from the Charity Commission and is governed by Agreements signed by Bashneft.

### We divide our projects in the sphere of charity work and direct assistance in the development of operating regions into three notional groups:

- support for social and economic development of the Group's operating regions;
- provision of targeted social assistance by the Group and its subsidiaries;

- sponsorship.

### Geographical footprint of the Group's charity work

**Bashneft supports social development of its operating regions. It does charity work under long-term agreements with the administrations of the regions:**

- In the Republic of Bashkortostan, funding is provided under a donation agreement between the Group and the Fund of Targeted Social Programmes of the Republic of Bashkortostan.
- In 2012 a Cooperation Agreement was signed between the Administration of the Nenets Autonomous District and LLC Bashneft-Polyus, PJSOC Bashneft's subsidiary. In 2015 the Administration of the Nenets Autonomous District and LLC Vostok NAO Oil Company signed a Cooperation Agreement and a Protocol to the Agreement on Social and Economic Cooperation valid until the end of 2016.
- In March 2013, the Agreement on Participation of PJSOC Bashneft in Social and Economic Development of the Orenburg Region was signed; the Agreement is valid until 2016.
- In July 2013, the Administration of the Nizhnevartovskiy District of the Khanty-Mansi Autonomous District and Bashneft signed an Economic Agreement; it provides for social and economic cooperation of the parties. In 2015 the Economic Agreement was renewed until July 2016.

## Infrastructure development in operating regions

### MAJOR REPAIRS OF A PRIMARY SCHOOL BUILDING FOR A SECONDARY GENERAL SCHOOL

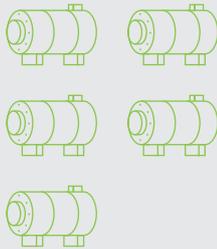
91 million roubles

Bashneft provided funding for major repairs of a school building constructed in 1937 in the village of Yazykovo in the Republic of Bashkortostan. A comprehensive range of measures was implemented, from preparation of design specifications and cost estimates to replacement of utility networks, purchase of furniture and equipment of a canteen. Now over 400 schoolchildren from nearby villages attend the school.



5

new water-heating boilers



1

steam boiler



Bashneft provided funding for the renovation of the heat supply system and major repairs of the heat supply network in the village of Verkhneyarkeyevo in the Ilishevsky District of the Republic of Bashkortostan.

The project involved the renovation of the central boiler house, which had been in operation since 1978, and replacement of worn-out pipes with modern trenchless pipelines with polyurethane foam insulation. In the course of renovation, equipment was replaced, and five new water-heating boilers and one steam boiler were installed. Installed capacity of the boiler house increased to 16.5 MW.

### RENOVATION OF A HEAT SUPPLY SYSTEM AND MAJOR REPAIRS OF A HEAT SUPPLY NETWORK

129.2

million roubles

### CONSTRUCTION OF A MULTIFUNCTIONAL SPORTS GROUND IN THE VILLAGE OF KRASNY YAR

4 million roubles

Bashneft provided funding for the construction of a multifunctional sport complex in the village of Krasny Yar in Bashkortostan. The sports ground comprises facilities for futsal, handball, basketball, volleyball and athletics. In winter, it is easily transformed into an ice rink, and ice hockey enthusiasts will have their own ice hockey rink. In addition, weight training facilities have been built nearby. The sports complex also includes heated changing rooms. Floodlights have been installed around the perimeter of the sports ground, making it possible to do sports in the evening.



## Republic of Bashkortostan

Bashneft provides charitable funding for construction, renovation and repairs of social facilities in Bashkortostan on an annual basis. The lists of such facilities are compiled by the Group in cooperation with its operational units and local authorities and are approved by the Government of Bashkortostan.

In 2015 the Group allocated about 1.5 million roubles to support social development in the Republic of Bashkortostan. Funding was provided for 80 projects and initiatives in 33 municipalities and 12 towns and cities of Bashkortostan.

Overall, between 2009 and 2015 charitable funding for social facilities in the Republic of Bashkortostan exceeded 9 billion roubles. During those years, Bashneft's charitable programmes covered 13 towns and 47 districts representing 83% of Bashkortostan's population.

Bashneft also implements a set of environmental projects in the Republic of Bashkortostan. In 2015 Bashneft continued implementing the programme aimed at providing the districts of the Republic of Bashkortostan with high-quality drinking water. As part of the programme, from 2011 through 2015 PJSOC Bashneft provided financial assistance for the restoration of springs, construction of water pipelines, repairs of water supply networks and other projects in a number of districts of Bashkortostan facing problems with water supply. Overall, during this period funding for the water programme exceeded 700 million roubles.

In 2015 the Group allocated over 164 million roubles to finance projects forming part of the programme. The largest projects forming part of the programme

financed by Bashneft in 2015 as part of its charity work were implemented in the Kaltasinsky District (renovation of water intake facilities and the Sosnovka-Krasnokholmsky water pipeline), the Krasnokamsky District (major repairs of the Urazayevo pump station and the Sabanchi-Redkino water main), the Tuimazinsky District (construction of a water pipeline in the village of Starye Tuimazy) and the Sterlibashevsky District (major repairs of outdoor water supply networks in the village of Sterlibashevo) of the Republic of Bashkortostan.

Apart from the water programme, we allocated about 15 million roubles for the construction of modular wastewater treatment facilities in the village of Burayevo, which will enable full-scale integrated operation of the village's water supply networks repaired in 2014.

## Nenets Autonomous District

Bashneft and the Administration of the Nenets Autonomous District are committed to maintaining a stable social and economic situation in the District, creating a favourable investment climate and promoting the welfare of all its residents.

In 2015 the volume of the Group's charitable programmes in the Nenets Autonomous District totalled 40 million roubles. Main areas of work included development of social and economic infrastructure of the Nenets Autonomous District, creation of new jobs in the District and implementation of charitable projects, primarily in the sphere of education (purchase of instructional vehicles and equipment for educational institutions in the District). Bashneft also implemented projects in the field of sports, culture and social assistance.

## Orenburg Region

Bashneft's charitable projects in the Orenburg Region are aimed at creating favourable conditions for economic and social development of the region. In 2015 Bashneft invested 20 million roubles to support social development of the region, including 3 million roubles to each of the following districts: Alexandrovsky, Oktyabrsky, Perevolotsky and Orenburgsky, where the Group produces oil. In addition, we allocated 8 million roubles for the funding of regional programmes.

Charitable projects implemented in the Orenburg Region in 2015 include development of a series of parks and gardens called the Walk of Fame in the village of Oktyabrskoye in the Oktyabrsky District; equipment and renovation of buildings of cultural and educational institutions in the Alexandrovsky District; repairs of the community centre in the village of Stepanovka in the Perevolotsky District; renovation of the building of the Zagadka nursery school in the village of Repino; renovation of the building of the Arkhangelovskiy Cultural and Library Service Centre (a municipal state-financed cultural institution); replacement of windows in the building of the Strukovskaya secondary general school in the Orenburgsky District.

The Group also provided 8 million roubles in funding for the repairs of the building of the drama theatre in Buguruslan, for arranging a tour of the Russian State Choir and for purchase of high-tech medical equipment for regional health care institutions.

Bashneft plans to increase the scope of its core operations in the region and to continue participating in projects focused on sustainable social development of the Orenburg Region.

### Charitable funding for social development of the Republic of Bashkortostan by functional area, million roubles

Area of funding	2013	2014	2015
Infrastructure	154	352	442
Education	221	237	427
Sports	611	145	325
Health care	25	208	159
Assistance in responding to natural disasters	-	250	76
Culture	84	155	71
Other	5	3	-
<b>Total</b>	<b>1,100</b>	<b>1,350</b>	<b>1,500</b>

### Khanty-Mansi Autonomous District

Bashneft's charitable projects in the Khanty-Mansi Autonomous District are aimed at developing social infrastructure in the Nizhnevartovsky District and preserving traditional crafts of indigenous peoples of the Arctic, including fur farming. The Group also builds and repairs housing and social facilities and provides social support to the population. In 2015 charitable funding provided by the Group in the region totalled about 2 million roubles.

### Independent charitable projects of the Company and its subsidiaries

The Group actively implements an independent programme aimed at providing targeted charitable support. As a rule, these are small direct one-time donations to individuals and non-profit organizations. The decision on participation in targeted charitable projects is made by the Charity Commission of PJSOC Bashneft. Based on the decisions of the Commission, the Group provides targeted charitable support to social non-profit organizations and to financially disadvantaged social groups. Measures of this kind remain an important tool for providing social support to individual representatives of local communities. In 2015 the Charity Commission held 14 meetings and considered 483 applications.

In 2015 the Group's expenditure on this area of charity work exceeded 300 million roubles.

We provided assistance to the Administrations of the Yutazinsky and Bavlinsky Districts of the Republic of Tatarstan; financial assistance to the Church of the Iveron Theotokos in the Ochako-

vo-Matveyevskoye District of Moscow (a metochion of the Patriarch of Moscow and all Russia) for the construction of a church; financial assistance to the Youth of the Nation Regional Public Foundation of Rima Batalova in the Republic of Bashkortostan in order to fund the project 'Sport Is Available to Everyone'; financial assistance to the Association of Mining and Geological Organizations of the Republic of Bashkortostan.

The Group also provided assistance to 22 employees and their family members totalling 4.7 million roubles, out of which almost 3 million roubles were allocated for medical treatment provided to children.

### Sponsorship

The Group acts as the General Sponsor of hockey teams that hold leading positions in the KHL and SHL Championships: the Autonomous Non-Profit Organization Hockey Club Salavat Yulaev and the Autonomous Non-Profit Organization Hockey Sports Club Toros respectively.

Title sponsorship agreements were concluded with these sports organizations in March 2015 under the Resolution of the Board of Directors of PJSOC Bashneft. In December 2015, approval was given for further cooperation in 2016 on the terms and conditions agreed upon earlier.

We act as the general sponsor of broadcasts of hockey matches of ANPO HC Salavat Yulaev for SUE Bashkortostan Television and Radio Broadcasting Company. An agreement on the provision of advertising services has been signed with FSUE Bashkortostan State Television and Radio Broadcasting Company (a branch of VGTRK).

### Improvement of the Group's system for charitable funding

We make constant efforts to improve the efficiency of our charity work. To focus our efforts on key areas and have closer control over spending, budgets are approved and the outcome of charity work and sponsorship is analysed by the Board of Directors. In addition, the Group has in place a Charity Commission comprising representatives of the Audit Unit and the Capital Construction and Logistic Support Unit.

Bashneft has adopted the Procedure for Organizing Charity Work of PJSOC Bashneft, which defines the key areas and principles of the Group's charity work, the procedure for consideration of requests for charitable support submitted to Bashneft and criteria for assessing them. In addition, a set of anti-corruption requirements is applied to the process of providing charitable assistance.

At present, Bashneft is adopting the practice of submitting regular current reports by recipients of charitable assistance followed by the provision of a final report.



# APPENDICES

## APPENDIX 1. OUR ASSESSMENT OF RESULTS

### Outcomes of the Group's operations in the reporting year and the areas of their use G4-EC1, G4-OG1, G4-S08, G4-10

#### Operating results

Indicator	Unit of measurement	2013	2014	2015
Proved reserves (1P)	million barrels	2,045.3	2,172.0	2,323.6
Reserve replacement ratio	%	134	179	202
Oil production	million tonnes	16.1	17.8	19.9
Unit production costs per barrel of oil	roubles	256.8	273.2	297.4
Crude oil distillation capacity	million tonnes	24.1	24.1	23.2
Petroleum product output	million tonnes	19.7	19.9	17.7
Unit refining costs per barrel of oil	roubles	135.8	155.0	198.2
Gasoline output	million tonnes	4.9	5.0	5.0
Euro 3	%	8.7	8.9	2.4
Euro 4	%	21.3	0.3	1.9
Euro 5	%	70.0	90.7	95.7
Diesel fuel output	million tonnes	7.5	7.5	7.4
Euro 3	%	68.4	64.0	-
Euro 4	%	3.1	0.0	0.1
Euro 5	%	28.5	36.0	99.9
Output of other petroleum products and petrochemicals	million tonnes	7.3	7.4	5.3
Number of own and partner filling stations	pcs	764	802	744
Revenue	billion roubles	461.9	637.3	611.3
Costs and expenses	billion roubles	480.9	560.3	517.9
Taxes paid	billion roubles	256	297	233
Net income excluding minority interest	billion roubles	46.4	43.2	58.2
Dividends paid	billion roubles	5.3	82.7	20.1

#### Extent of impact mitigation of environmental impacts of operations, products and services

Indicator	Unit of measurement	2013	2014	2015
Total environmental protection expenditures and investments	billion roubles	10,212	9,342	9,450
Volume of harmful atmospheric emissions	thousand tonnes	187.5	187.2	216.3
Associated gas utilization rate	%	72.7	74.8	74.8
Emissions per tonne of oil produced	kg	4.2	3.5	4.6
Emissions per tonne of oil processed	kg	5.7	5.3	5.5
Emissions of ozone-depleting substances (ODS)	Due to the nature of production processes in the oil industry, Bashneft does not emit any ozone-depleting substances.			
Energy consumption within the organization	million GJ	140.32	141.14	154.17
Electricity consumption rate in oil production	kWh/t	17.5	18.0	18.6
Electricity consumption rate in oil refining and petrochemical production	kWh/t	106.2	100.2	115.4

Indicator	Unit of measurement	2013	2014	2015
Energy savings	million GJ	0.27	0.31	0.68
Total water discharge	million cubic metres	16.0	22.0	30.4
Total water withdrawal	million cubic metres	40.9	49.8	48.1
Volume of wastewater reused after treatment	million cubic metres	–	12.8	12.6
Volume and disposal of formation or produced water	million cubic metres	–	135.3	141.0
Contamination of industrial wastewater with petroleum products	mg/l	0.17	0.17	0.13
Total weight of waste produced during the year	thousand tonnes	140	164	164
Volume of accumulated oil sludge	thousand tonnes	275	284	299
Sludge processing	%	31	29	33
Weight of transported, imported, exported, or treated waste deemed hazardous	We do not transport, import or export any waste deemed hazardous under the terms of the Basel Convention.			
Renovation and major repairs of flowlines	kilometres	296	405	481

### Harmful substance content in engine fuel produced by Bashneft G4-0G8

Indicators	Euro 3	Euro 4	Euro 5
<b>Gasoline</b>			
Percentage by volume of benzene, %, max	1.0	1.0	1.0
Mass fraction of sulphur, mg/kg, max	150	50	10
<b>Diesel fuel</b>			
Mass fraction of sulphur, mg/kg, max	350	50	10
Percentage by weight of polycyclic aromatic hydrocarbons, %, max	8.0	8.0	8.0

### Changes in population density (number of individuals per square kilometre) of main species of game birds at the R. Trebs and A. Titov fields over the years

Species	2013		2014		2015	
	The R. Trebs field	The A. Titov field	The R. Trebs field	The A. Titov field	The R. Trebs field	The A. Titov field
Bean goose	17.8	18.1	15.8	17.5	16.2	18.9
Greater white-fronted goose	16.1	1.7	19.3	1.2	19.0	2.4
Eurasian wigeon	–	–	–	1.7	–	1.6
Northern pintail	1.8	1.1	1.5	0.85	1.6	1.2
Eurasian teal	–	0.6	–	0.4	–	0.4
Common goldeneye	–	–	–	0.1	–	0.1
Common scoter	0.5	1.2	0.5	0.6	0.5	0.9
Greater scaup	5.8	2.8	4.4	2.1	4.9	1.7
Long-tailed duck	3.7	–	5.2	–	5.3	1.7
Red-breasted merganser	4.8	–	2.7	–	3.1	–
Willow ptarmigan	11.4	10.6	12.1	4.8	11.7	8.6
European golden plover	–	1.1	0.1	1.9	0.1	2.4
Common ringed plover	0.8	3.4	0.8	2.2	0.9	4.7
Wood sandpiper	–	7.3	0.1	5.3	0.1	5.2
Red-necked phalarope	10.7	2.0	9.5	1.5	8.8	2.3
Little stint	10.3	–	8.7	–	9.5	–
Temminck's stint	6.3	6.1	4.6	5.4	5.3	5.8
Dunlin	7.3	–	7.1	–	6.8	–
Ruff	3.1	–	3.0	0.3	2.7	1.0
Terek sandpiper	–	1.1	–	–	–	1.1
Grey plover	0.5	–	1.1	–	0.9	–

### Occupational health and safety

	Unit of measurement	2013	2014	2015
Total occupational and process safety, civil defence and emergency response expenditure and investments	billion roubles	2.1	2.2	2.5

	Unit of measurement	2013	2014	2015
Funding for occupational health and safety measures	million roubles	226.3	807.9	1,187.3
HSE training programme	million roubles	37.0	20.5	13.5
Programme to incentivize HSE performance	million roubles	5.4	9.9	109.9
Development and implementation of a plan to raise awareness in the field of HSE	million roubles	9.5	22.1	33.6
Pilot initiatives	million roubles	46.5	10.3	158.2
Implementation of measures based on the results of the analysis of past incidents	million roubles	66.1	201.6	217.9
Protection of health	million roubles	1.3	50.1	169.0
Personal protective equipment	million roubles	60.5	493.4	485.2
Funding for measures aimed at ensuring process safety	million roubles	1,806.9	1,341.1	1,249.6
Implementation of measures to ensure compliance of hazardous production facilities with process safety rules	million roubles	1,214.9	1,142.4	724.4
Compulsory public liability insurance for owners of hazardous production facilities	million roubles	32.1	26.2	28.1
Development of safety declarations for hazardous production facilities (including process safety inspection)	million roubles	15.7	4.4	0.9
Process safety inspection aimed at extending the duration of safe operation of equipment	million roubles	135.3		
Expenditure on inspection, testing and maintenance of equipment and technical devices by third-party organizations	million roubles	329.9	115.2	395.2
Development of emergency response plans (including process safety inspection)	million roubles	7.6	0.3	0.6
Expenditure under contracts with professional emergency response teams	million roubles	71.4	70.3	100.4
Expenditure on protection of employees in emergency situations	million roubles	80	3	20
Lost time injury frequency rate (LTIFR)		0.45	0.33	0.3
Corporate training programme in occupational and industrial safety	person-courses	32,422	28,005	4,825
Rules of Keeping Alive	person-courses	25,092	4,144	1,808
Accident Investigation	person-courses	2,172	346	601
Managers' Leadership and Behavioural Audit	person-courses	1,340	1,508	692
Defensive Driving	person-courses	812	1,038	126
Risk Assessment	person-courses	1,801	1,119	609
Use of Personal Protective Equipment	person-courses	1,168	19,582	697
OGP Reporting	person-courses	37	26	0
Integrated Management Systems	person-courses	0	172	245
Training of Trainers for HSE Divisions	person-courses	0	59	47
Process Safety (HAZOP)	person-courses	0	11	0

### Social policy and human resource development

	Unit of measurement	2013	2014	2015
Expenditures on social policy	million roubles	910.7	1,006.5	1,227.9
Health resort treatment and recreation for employees, their families and retired employees	million roubles	187.7	220.8	329.0
Voluntary health insurance	million roubles	147.1	245.3	363.9
Expenditures on personnel training/development programmes	million roubles	231.4	198.3	194.2
Expenditures under the collective agreement	million roubles	91.6	137.4	136.2
Other social expenses (sporting events, business events, events for children, youth, veterans, celebrations, etc.)	million roubles	242.4	261.7	204.6

### Development of operating regions

	Unit of measurement	2013	2014	2015
Investments in operating regions, charity work	million roubles	1.2	1.4	1.9
Tax payments to the budget of the Republic of Bashkortostan	billion roubles	17.5	16.3	20.2
Share of Bashneft's tax payments in the fiscal revenue of the Republic	%	14	12	14
Number of social and infrastructure projects in the Republic of Bashkortostan funded by Bashneft	pcs	250	86	80
Number of jobs	thousand people	27.9	33.3	35.9

# APPENDIX 2.

## GRI CONTENT INDEX



### General Standard Disclosures

Indicator	Section (or disclosure made in the table)	Page	External assurance
G4-1 A statement from the most senior decision-maker of the organization	<b>Yes</b> Address by the Chairman of the Board of Directors and the President of PJSOC Bashneft	10-11	No
G4-2 Description of key impacts, risks, and opportunities	<b>Yes</b> Address by the Chairman of the Board of Directors and the President of PJSOC Bashneft About the Group – Sustainable development strategy About the Group – Risk management and market factors Corporate governance – Risk management system and internal control	10-11 27 34 104	No
G4-3 The name of the organization	<b>Yes</b> Contact details	137	No
G4-4 The primary brands, products, and services	<b>Yes</b> About the Group – Bashneft today Main types of liquid petroleum products sold via Bashneft's network of filling stations are listed at <a href="http://www.bashneft-azs.ru/production/quality/">http://www.bashneft-azs.ru/production/quality/</a> Main types of engine lubricants produced by Bashneft are listed at <a href="http://www.bashneft-azs.ru/production/oil/">http://www.bashneft-azs.ru/production/oil/</a> Main types of petrochemical products are listed in the Annual Report of PJSOC Bashneft for 2015	23	No
G4-5 The location of the organization's headquarters	<b>Yes</b> Contact details	137	No
G4-6 The number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report	<b>Yes</b> About the Group – Bashneft today	23	No
G4-7 The nature of ownership and legal form	<b>Yes</b> The nature of ownership: shared ownership. Legal form: public joint-stock company		No
G4-8 The markets served	<b>Yes</b> About the Group – Bashneft today	26	No
G4-9 The scale of the organization	<b>Yes</b> About the Group – Bashneft today, including the subsection 'The Group's business model in action'	26	No
G4-10 Total number of employees (broken down by various aspects)	<b>Yes</b> Social policy and human resource development – The Group's employees Appendix 1. Our assessment of results	74 124	No
G4-11 The percentage of total employees covered by collective bargaining agreements	<b>Yes</b> All of the Group's employees are covered by a Collective Agreement		No
G4-12 Supply chain of the organization	<b>Yes</b> About the Group – Supply chain	35	No
G4-13 Significant changes during the reporting period	<b>Yes</b> About the Group – Calendar of events Detailed information on operating results and changes in the structure of the Group is provided in the Annual Report of PJSOC Bashneft for 2015.	18	No
G4-14 Report whether and how the precautionary approach or principle is addressed by the organization (Principle 15 of the Rio Declaration on Environment and Development of the UN, 1992)	<b>Yes</b> Sustainable Development – Charters and membership of associations	15	No
G4-15 Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses	<b>Yes</b> Sustainable Development – Charters and membership of associations	15	No
G4-16 Memberships of associations	<b>Yes</b> Sustainable Development – Charters and membership of associations Safe development and environmental protection	15	No
G4-17 List all entities included in the organization's consolidated financial statements or equivalent documents. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report	<b>Yes</b> About the Report – General provisions	7	No
G4-18 Process for defining the report content	<b>Yes</b> About the Report – Process for defining material aspects and their boundaries	7	No

Indicator	Section (or disclosure made in the table)	Page	External assurance
G4-19 List of all the material Aspects identified in the process for defining report content	<b>Yes</b> About the Report – Process for defining material aspects and their boundaries Appendix 3 – Material aspects of Bashneft's business	8-9 134-135	No
G4-20 Aspect Boundary within the organization for each material Aspect	<b>Yes</b> About the Report – Process for defining material aspects and their boundaries	8-9	No
G4-21 Aspect Boundary outside the organization for each material Aspect	<b>Yes</b> About the Report – Process for defining material aspects and their boundaries	8-9	No
G4-22 The effect of any restatements of information provided in previous reports, and the reasons for such restatements	<b>Yes</b> About the Report – Differences from the Sustainability Report for 2014.	7	No
G4-23 Significant changes from previous reporting periods in the Scope and Aspect Boundaries	<b>Yes</b> About the Report – Differences from the Sustainability Report for 2014	7	No
G4-24 A list of stakeholder groups engaged by the organization	<b>Yes</b> Stakeholder Engagement – Stakeholders	106	No
G4-25 The basis for identification and selection of stakeholders with whom to engage	<b>Yes</b> Stakeholder Engagement	93	No
G4-26 The organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group. An indication of whether any of the engagement was undertaken specifically as part of the report preparation process.	<b>Yes</b> Stakeholder Engagement Stakeholder Engagement – Stakeholders	93	No
G4-27 Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns	<b>Yes</b> Stakeholder Engagement – Stakeholders – Key areas of stakeholder engagement	116–117	No
G4-28 Reporting period for information provided	<b>Yes</b> About the Report – General provisions	7	No
G4-29 Date of most recent previous sustainability report (if any)	<b>Yes</b> About the Report – General provisions	7	No
G4-30 Reporting cycle	<b>Yes</b> About the Report – General provisions	7	No
G4-31 The contact point for questions regarding the report or its contents	<b>Yes</b> Contact details	137	No
G4-32 The 'in accordance' option the organization has chosen. The GRI Content Index for the chosen option. The reference to the External Assurance Report, if the report has been externally assured	<b>Yes</b> About the Report – General provisions	7	No
G4-33 The organization's policy and current practice with regard to seeking external assurance for the report	<b>Yes</b> About the Report – General provisions	7	No
G4-34 The governance structure of the organization, including committees of the highest governance body and committees responsible for decision-making on economic, environmental and social impacts of the organization	<b>Yes</b> Stakeholder Engagement – Corporate governance – Structure of Bashneft's governing and supervisory bodies	96	No
G4-35 The process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	No		
G4-36 Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	<b>Yes</b> The Group has not appointed a position of this kind combining the powers and bearing responsibility for all these matters		No
G4-37 Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics	<b>Yes</b> Stakeholder Engagement LLC Bashneft-Polyus, a subsidiary of PJSOC Bashneft, holds regular public consultations on the implementation of the project to develop the R. Trebs and A. Titov fields. Participants of the consultations include representatives of the Group's management In addition, the Group's management regularly interacts with representatives of various regulatory bodies at all levels.	93	No
G4-38 The composition of the highest governance body and its committees	<b>Yes</b> Stakeholder Engagement – Corporate governance – Board of Directors Details on the composition of the Board of Directors and the Board committees are provided in the Annual Report of PJSOC Bashneft for 2015	99	No
G4-39 Report whether the Chair of the highest governance body is also an executive officer	<b>Yes</b> The Chairman of the Board of Directors of PJSOC Bashneft is not an executive officer of the Company	99	No
G4-40 The nomination and selection processes for the highest governance body and its committees	<b>Yes</b> Stakeholder Engagement – Corporate governance – Board of Directors	99	No
G4-41 Processes for the highest governance body to ensure conflicts of interest are avoided and managed	<b>Yes</b> Stakeholder Engagement – Corporate governance – Prevention of conflicts of interest	102	No
G4-42 The highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	<b>Yes</b> Stakeholder Engagement – Corporate governance – Board of Directors	99	No

Indicator	Section (or disclosure made in the table)	Page	External assurance
G4-43 The measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics	Yes Stakeholder Engagement – Corporate governance – Board of Directors	100	No
G4-44 The processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics and actions taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics	Yes Stakeholder Engagement – Corporate governance – Corporate governance quality audit	95	No
G4-45 The highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities	Yes Stakeholder Engagement – Corporate governance – Board of Directors	99	No
G4-46 The highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics	Yes Stakeholder Engagement – Corporate governance – Risk management and internal control	104	No
G4-47 The frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	Yes Stakeholder Engagement – Corporate governance – Board of Directors	101	No
G4-48 The highest committee or position that formally reviews and approves the organization's sustainability report	Yes The Sustainability Report is approved by the Board of Directors of PJSOC Bashneft		No
G4-49 The process for communicating critical concerns to the highest governance body	Yes During weekly meetings, senior executives provide the Group's president with information, including information on all major concerns. In addition, the Group has in place a Hotline enabling anyone wishing to communicate critical concerns to the Group's management to do so via a phone call, by email, by filling in a feedback form on the Group's website or by sending a letter by mail		No
G4-50 The nature and total number of critical concerns that were communicated to the highest governance body and the mechanisms used to address and resolve them	No		
G4-51 The remuneration policies for the highest governance body and senior executives and performance criteria	Yes Stakeholder Engagement – Corporate governance – Remuneration and compensations Annual Report of PJSOC Bashneft for 2015	103	No
G4-52 The process for determining remuneration	Yes Stakeholder Engagement – Corporate governance – Remuneration and compensations	103	No
G4-53 Report how stakeholders' views are sought and taken into account regarding remuneration	No		
G4-54 The ratio of the annual total compensation for the organization's highest-paid individual to the median annual total compensation for all employees	No		
G4-55 The ratio of percentage increase in annual total compensation for the organization's highest-paid individual to the median percentage increase in annual total compensation for all employees	No		
G4-56 The organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics	Yes Sustainable development – The Group's mission, values and principles in the sphere of sustainable development	13	No
G4-57 The internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organizational integrity	Yes The Group has in place a compliance function, whose work is aimed at maintaining high standards in corporate governance and transparency of operations. Bashneft's employees can receive advice on issues of ethical and lawful behaviour and compliance of their actions with Bashneft's Code of Ethics from the compliance officer		No
G4-58 The internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity	Yes The Group runs a hotline, 'Employees Raise Concerns'		No

## Specific Standard Disclosures

Indicator	Section (or disclosure made in the table)	Page	External assurance
<b>CATEGORY: ECONOMIC</b>			
Aspect: Economic Performance			
G4-EC1 Direct economic value generated and distributed	Yes Appendix 1. Operating results	124	No
G4-EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change	No		
G4-EC3 Coverage of the organization's defined benefit plan obligations	Yes The Group's pension scheme forms part of the statutory pension insurance system		No
G4-EC4 Financial assistance received from government	Yes Stakeholder Engagement – Stakeholders – Regulatory bodies	114	No
Aspect: Market Presence			
G4-EC5 Ratios of standard entry level wage compared to local minimum wage at significant locations of operation	Yes Social policy and human resource development – Incentives and remuneration The Republic of Bashkortostan is the largest and most important operating region for Bashneft. In 2015 the minimum wage in Bashkortostan stipulated by Federal Law No. 408-FZ dated December 1, 2014 amounted to 6,900 roubles.	76	No
G4-EC6 Proportion of senior management hired from the local community at significant locations of operation	No		
Aspect: Indirect Economic Impacts			
G4-EC7 Development and impact of infrastructure investments and services supported	Yes Stakeholder Engagement – Economic influence on operating regions	118	No
G4-EC8 Significant indirect economic impacts, including the extent of impacts	Yes About the Group – Supply chain Stakeholder engagement – Stakeholders – Suppliers and business partners	37 112	No
Aspect: Reserves			
G4-OG1 Volume and type of estimated proved reserves and production	Yes About the Group – Bashneft today Appendix 1. Our assessment of results – Operating results	23 124	No
<b>CATEGORY: ENVIRONMENTAL</b>			
Aspect: Materials			
G4-EN1 Materials used by weight or volume	Yes About the Group – Supply chain	35	No
G4-EN2 Percentage of materials used that are recycled input materials	Yes The Group does not use significant amounts of materials that are recycled input materials given the nature of its industry (oil production).		No
Aspect: Energy			
G4-EN3 Energy consumption within the organization	Yes Safe development and environmental protection – Improving energy efficiency	66	No
G4-EN4 Energy consumption outside of the organization	No		
G4-EN5 Energy intensity	Yes Safe development and environmental protection – Improving energy efficiency	68, 69	No
G4-EN6 Reduction of energy consumption	Yes Safe development and environmental protection – Improving energy efficiency	67	No
G4-EN7 Reduction in energy requirements of products and services	Yes Safe development and environmental protection – Improving energy efficiency	68, 69	No
G4-OG2 Total amount invested in renewable energy	Yes The Group does not invest in renewable energy		No
G4-OG3 Total amount of renewable energy generated by source	Yes The Group does not generate renewable energy		No
Aspect: Water			
G4-EN8 Total water withdrawal by source	Yes Safe development and environmental protection – Protection of water resources	58	No
G4-EN9 Water sources significantly affected by withdrawal of water	Yes Safe development and environmental protection – Protection of water resources	59	No
G4-EN10 Percentage and total volume of water recycled and reused	Yes Safe development and environmental protection – Protection of water resources	58	No
Aspect: Ecosystem Services including Biodiversity			
G4-EN11 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	No		
G4-EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	No		
G4-EN13 Habitats protected or restored	Yes Safe development and environmental protection – Support of biodiversity	62	No

Indicator	Section (or disclosure made in the table)	Page	External assurance
G4-EN14 Total number of IUCN Red List Species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	<b>Yes</b> Safe development and environmental protection – Support of biodiversity	62	No
G4-OG4 Number and percentage of significant operating sites in which biodiversity risk has been assessed and monitored	No		
Aspect: Emissions			
G4-EN15 Direct greenhouse gas emissions (Scope 1)	No		
G4-EN16 Energy indirect greenhouse gas emissions (Scope 2)	No		
G4-EN17 Other indirect greenhouse gas emissions (Scope 3)	No		
G4-EN18 Greenhouse gas emissions intensity	No		
G4-EN19 Reduction of greenhouse gas emissions	No		
G4-EN20 Emissions of ozone-depleting substances (ODS)	<b>Yes</b> Due to the nature of production processes in the oil industry the Company does not emit any ozone-depleting substances		No
G4-EN21 NOX, SOX, and other significant air emissions	No		
Aspect: Effluents and Waste			
G4-EN22 Total water discharge by quality and destination	<b>Yes</b> Safe development and environmental protection – Protection of water resources	58, 59	No
G4-EN23 Total weight of waste by type and disposal method	<b>Yes</b> Safe development and environmental protection – Soil conservation	61	No
G4-EN24 Total number and volume of significant spills	<b>Yes</b> In the reporting year, the pipeline failure rate (the number of spills per kilometre of pipelines) totalled 0.079		No
G4-EN25 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	<b>Yes</b> We do not transport, import or export any waste deemed hazardous under the terms of the Basel Convention		No
G4-EN26 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff	No		
G4-OG5 Volume and disposal of formation or produced water	<b>Yes</b> Safe development and environmental protection – Protection of water resources	59	No
G4-OG6 Volume of flared and vented hydrocarbon	No		
G4-OG7 Amount of drilling waste (drill mud and cuttings) and strategies for treatment and disposal	<b>Yes</b> Safe development and environmental protection – Soil conservation	61	No
Aspect: Products and Services			
G4-EN27 Extent of impact mitigation of environmental impacts of products and services	<b>Yes</b> Safe development and environmental protection – Introduction	44	No
G4-EN28 Percentage of products sold and their packaging materials that are reclaimed by category	<b>Yes</b> Most products manufactured by the Group (crude oil, petroleum products) are sold without packaging by means of transportation via pipelines, by rail and other types of transport		No
G4-OG8 Benzene, lead and sulphur content in fuels	<b>Yes</b> Safe development and environmental protection – Introduction Appendix 1. Harmful substance content in engine fuel produced by Bashneft	44, 125	No
Aspect: Compliance			
G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	<b>Yes</b> There were no significant fines or non-monetary sanctions for non-compliance with environmental laws and regulations during the reporting year		No
Aspect: Overall			
G4-EN31 Total environmental protection expenditures and investments by type	<b>Yes</b> Safe development and environmental protection – Environmental protection Appendix 1. Extent of impact mitigation of environmental impacts of operations, products and services	54	No
Aspect: Environmental Grievance Mechanisms			
G4-EN34 Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	<b>Yes</b> Bashneft has implemented an efficient mechanism for processing environmental complaints. The Group maintains several channels for receiving complaints from population and employees and has a response mechanism in place. Public complaints are filed with municipal administrations, the Ministry of Emergency Situations and the Ministry of Natural Resources and Environment of the Republic of Bashkortostan and forwarded to the central control unit of the integrated refining complex. Complaints from Bashneft's employees are received via the Group's Hotline. Each complaint is investigated and, if it is confirmed, appropriate corrective measures are taken.		No

Indicator	Section (or disclosure made in the table)	Page	External assurance
<b>CATEGORY: SOCIAL</b>			
<b>Subcategory: Labour Practices and Decent Work</b>			
Aspect: Employment			
G4-LA1 Total number and rates of new employee hires and employee turnover by age group, gender and region	<b>Yes</b> Social policy and human resource development – The Group's employees	74	No
G4-LA2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	<b>Yes</b> Social policy and human resource development – The Group's employees	76	No
G4-LA3 Return to work and retention rates after parental leave, by gender	No		
Aspect: Occupational Health and Safety			
G4-LA5 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	No		
G4-LA6 Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	<b>Yes</b> Safe development and environmental protection – Occupational safety	48, 50	No
G4-LA7 Workers with high incidence or high risk of diseases related to their occupation	<b>Yes</b> Safe development and environmental protection – Occupational safety	49	No
G4-LA8 Health and safety topics covered in formal agreements with trade unions	<b>Yes</b> Trade unions and employee councils took part in the drafting of the Collective Agreement. Health and safety topics were covered in the Collective Agreement		No
Aspect: Training and Education			
G4-LA9 Average hours of training per year per employee by gender and by employee category	<b>Yes</b> Social policy and human resource development – Employee training and development	79	No
G4-LA10 Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	<b>Yes</b> Social policy and human resource development – Employee training and development	80	No
G4-LA11 Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	<b>Yes</b> Social policy and human resource development – Incentives and remuneration	77	No
<b>Subcategory: Human Rights</b>			
Aspect: Indigenous Rights			
G4-HR8 Total number of incidents of violations involving rights of indigenous peoples, and actions taken	<b>Yes</b> Stakeholder engagement – Charitable programmes and participation in the development of operating regions – Participation in the life of local communities	44, 118, 120	No
G4-OG9 Operations where Indigenous communities are present or affected by activities and where specific engagement strategies are in place	<b>Yes</b> Stakeholder engagement – Charitable programmes and participation in the development of operating regions – Participation in the life of local communities	118, 120	No
<b>Subcategory: Society</b>			
Aspect: Local Communities			
G4-S01 Percentage of operations with implemented local community engagement, impact assessments, and development programmes	<b>Yes</b> Bashneft owns significant assets in Bashkortostan, the Khanty-Mansi Autonomous District, the Nenets Autonomous District, the Orenburg Region and Tatarstan and makes a significant impact on local residents. We actively participate in the development of our operating regions and engage in a mutually beneficial dialogue with local communities. For details, see the sections 'About the Group' and 'Charitable programmes and participation in the development of operating regions'.	118	No
G4-S02 Operations with significant actual and potential negative impacts on local communities	No		
G4-OG10 Number and description of significant disputes with local communities and indigenous peoples	<b>Yes</b> Stakeholder engagement – Charitable programmes and participation in the development of operating regions – Participation in the life of local communities	118, 120	No
G4-OG11 Number of sites that have been decommissioned and sites that are in the process of being decommissioned	No		
Aspect: Anti-corruption			
G4-S03 Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	No		
G4-S04 Communication and training on anti-corruption policies and procedures	<b>Yes</b> Corporate governance – Combating corruption All of the Group's employees underwent training in anti-corruption policies and procedures. We provide employees with regular training in anti-corruption policies and procedures. Each newly hired employee of the Group receives obligatory training in anti-corruption policies and procedures.	104	No

Indicator	Section (or disclosure made in the table)	Page	External assurance
G4-S05 Confirmed incidents of corruption and actions taken	<b>Yes</b> No incidents of corruption were identified during the reporting period		No
G4-S06 Total value of political contributions by country and recipient/beneficiary	<b>Yes</b> We do not participate in the projects which may impact decision-making by public authorities and local governments with regard to the Group's operations, or make political donations.		No
G4-S07 Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	<b>Yes</b> In the reporting year, there were 23 legal actions against the Group for anti-competitive behaviour, anti-trust, and monopoly practices, out of which: <ul style="list-style-type: none"> <li>• in 16 cases complaints were declared to be unsubstantiated or were dismissed</li> <li>• in five cases complaints were declared to be substantiated</li> <li>• the hearing of two cases was postponed until the necessary information is obtained</li> </ul>		No
<b>Aspect: Emergency Preparedness</b>			
	<b>Yes</b> Safe development and environmental protection – Occupational health and safety – Protecting employees in emergency situations	53	No
<b>Aspect: Compliance</b>			
G4-S08 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	<b>Yes</b> In 2015 fines imposed for non-compliance with laws and regulations totalled about 7.7 million roubles. No non-monetary sanctions were imposed		No
<b>Aspect: Asset Integrity and Process Safety</b>			
G4-OG13 Number of process safety events, by business activity	<b>Yes</b> Safe development and environmental protection – Environmental protection – Improving the reliability of pipelines	61	No
<b>Aspect: Product Responsibility</b>			
<b>Aspect: Customer Health and Safety</b>			
G4-PR1 Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	No		
G4-PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	<b>Yes</b> No incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services were recorded in the reporting period		No

# APPENDIX 3. MATERIAL ASPECTS OF BASHNEFT'S BUSINESS G4-19

## Category: Economic

The Economic Category illustrates the flow of capital among different stakeholders, and the main economic impacts of the organization throughout society.

Aspects	Materiality for stakeholders						Assessed impact of the aspect on the Group's sustainable development
	Shareholders and investors	Regulatory bodies	Consumers	Suppliers and contractors	Local communities	Employees	
Economic Performance	++	++	-	+	+	++	High
Market Presence	++	+	++	+	+	-	High
Indirect Economic Impacts	++	++	+	+	++	+	Low
Reserves	++	+	+	++	+	-	Medium

## Category: Environmental

The Environmental Category covers impacts related to inputs (such as energy and water) and outputs (such as emissions, effluents and waste). In addition, it covers biodiversity, and product and service-related impacts, as well as environmental compliance and expenditures.

Aspects	Materiality for stakeholders						Assessed impact of the aspect on the Group's sustainable development
	Shareholders and investors	Regulatory bodies	Consumers	Suppliers and contractors	Local communities	Employees	
Materials	-	+	-	++	+	-	High
Energy	-	+	+	++	+	-	Medium
Water	-	+	-	++	++	-	High
Ecosystem Services including Biodiversity	-	++	+	-	++	+	Low
Emissions	+	++	++	+	++	+	High
Effluents and Waste	+	++	++	+	++	+	High
Products and Services	+	+	++	+	+	+	High
Compliance	+	++	++	+	+	-	High
Overall	+	+	+	+	+	+	Medium
Environmental Grievance Mechanisms	-	++	++	+	++	+	Medium

## Category: Social

G4-19

The social dimension of sustainability concerns the impacts the organization has on the social systems within which it operates. The Social Category includes the following subcategories:

- Labour Practices and Decent Work;
- Human Rights;
- Society;
- Product Responsibility.

### SUBCATEGORY: LABOUR PRACTICES AND DECENT WORK

Aspects	Materiality for stakeholders						Assessed impact of the aspect on the Group's sustainable development
	Shareholders and investors	Regulatory bodies	Consumers	Suppliers and contractors	Local communities	Employees	
Employment	-	++	-	-	++	++	Medium
Occupational Health and Safety	+	++	-	+	+	++	High
Training and Education	+	+	-	+	+	++	Medium

### SUBCATEGORY: HUMAN RIGHTS

Aspects	Materiality for stakeholders						Assessed impact of the aspect on the Group's sustainable development
	Shareholders and investors	Regulatory bodies	Consumers	Suppliers and contractors	Local communities	Employees	
Indigenous Rights	+	++	-	-	++	-	Medium

### SUBCATEGORY: SOCIETY

Aspects	Materiality for stakeholders						Assessed impact of the aspect on the Group's sustainable development
	Shareholders and investors	Regulatory bodies	Consumers	Suppliers and contractors	Local communities	Employees	
Local communities	+	++	-	-	++	+	High
Anti-corruption	++	++	++	++	+	+	High
Compliance	+	++	++	+	+	+	Medium
Emergency Preparedness	+	++	+	+	++	++	High
Asset Integrity and Process Safety	++	++	+	+	++	++	High

### SUBCATEGORY: PRODUCT RESPONSIBILITY

Aspects	Materiality for stakeholders						Assessed impact of the aspect on the Group's sustainable development
	Shareholders and investors	Regulatory bodies	Consumers	Suppliers and contractors	Local communities	Employees	
Customer Health and Safety	+	++	++	-	+	-	High

# APPENDIX 4. CERTIFICATE OF PUBLIC ENDORSEMENT



# CONTACT DETAILS

## FULL COMPANY NAME G4-3

Public Joint-Stock  
Oil Company Bashneft

## SHORT NAME

PJSOC Bashneft

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## MONTH AND YEAR OF PUBLICATION

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