

Corporate social responsibility 2009

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The company's operations are subject to the health, safety and environmental risks inherent in the oil industry. These risks are subject to complex regulation by laws and government instructions. Such regulatory legislation governs, among other things, the composition of emissions discharged into the atmosphere, water use and wastewater discharge and discharges to the sea, air and water venting of detrimental impurities, the use, handling and disposal of hazardous substances and waste, soil and groundwater contamination, land reclamation and employee health and safety.

In addition to those government regulations, all upstream subsidiaries of the group have adopted a uniform Industrial Security Policy and downstream subsidiaries have adopted a uniform HSE Declaration (Health, Safety, Environment) that regulates industrial and environmental security and labour conditions. An integrated HSE Management System has been implemented based on standard industry regulations as well as an information sharing system within the downstream segment.

Human Resources

The company's key objective in working with personnel is to seamlessly implement the major changes taking place within the group. The major priority remains to implement unified, world-class employment standards in every region where the company operates.

The development and implementation of unified employment standards is a part of a major strategic plan to create a smooth mechanism for decision making and control through all the company's subsidiaries, while at the same time attracting and retaining talented professionals in the workforce. Alliance Oil is committed to:

- Following the principles of social partnership – respect and to treat all employees equally
- Objectively measuring the contribution of every person in the company's results
- Improve efficiency of the compensation system and create a link between compensation and the productivity of individuals and groups
- Implement and introduce effective personnel management technologies
- Constantly improve the employees knowledge and experience

The average number of employees during the reporting years ended December 31, 2009 was 6,794 compared to 7,071 for 2008. Staff numbers were optimized by reorganizing branches of the company's retail subsidiaries, and outsourcing non-core activities such as catering and cleaning. Some 73% of the workforce is working within the downstream segment while 23% is working with upstream operations. The remaining 4% is employed in the management company or in other operations.

The average age of the group's employees in 2009 was 40 years. The share of employees older than 45 decreased by 5%, and amounted to 38% at December 31, 2009. 21% of the workforce were younger than 30 years and 41% was between 30 and 45 as at December 31, 2009.

Having an equal distribution of gender is important to the group. Given the fact that oil and gas industry typically has a large majority of male employees, the existing proportion of 61% male and 39% female employees as at December 31, 2009, indicates that the company is moving to a balanced gender distribution.

Education and development of personnel

Developing staff potential is of great importance to the company. Over the course of recent years Alliance has constantly developed its personnel policies in order to support education and development of personnel. The company believes that it is essential to provide opportunities for each one of them to grow and develop both professionally and as individuals. The company uses best international practice to effectively assess the need for staff resources, to identify the most successful candidates for key management positions, and to create a reserve of qualified specialists.

The system for improving the qualifications of Alliance employees is continuously developing. Technical competences and personnel evaluation tools are being developed and implemented for people involved in core and supporting processes. Core competences have been developed to evaluate if employees fulfill their job requirements and to define possible ways of their professional

development and act as a core measurement tool for personnel moves.

An internal training system targeting improvement of product knowledge and client service has also been introduced. In 2009, 2,349 people were undertaking this training. The group has internal corporate education centers, licensed to certify qualified workers.

In addition, a total of 2,352 employees participated in different forms of education in 2009, both internally and in external education centers, including 1,961 people in obligatory studies, 151 people taking professional courses, 240 people taking a qualification upgrade. Education expenditure amounted to approximately TUSD 400 in 2009.

Salary, bonus and incentive systems

The company pays its staff a competitive salary, and also uses a flexible system of incentives whose benefits depend directly on the personal achievements of the employee. The company has developed procedures to reward employees with performance bonuses, established a unified approach to paying bonuses for achieved results, strengthened the role of the line managers, and boosted motivation for staff.

The company's incentive plans aims to attract high potential and motivated labor force. Key principles of these plans are:

- Competitive salary that accounts for changing environment of the labor market and the company's capabilities
- Creation of Key Performance Indicators (KPI) linked to the bonus system
- Development of motivation competitions
- Training and development of employees

Salary

The company pays its staff competitive salaries which are determined based on monitoring of the labor market with regional and sectoral breakdown to account for inflation and production targets.

The average per employee salary in the group remained stable in 2009 and amounted to TUSD 1 per month. The average salary increased by 1%.

Bonus

In 2009 a process of evaluation of different positions and the development of a grading system commenced.

Also, in 2009, KPI measures were developed for management and key specialists. Bonus system linked to production results were further developed. The group's retail subsidiaries have established a performance management system based on individual goals connected to the company's strategy and individual development of employees following evaluation of the employees' competence. In 2010, the system will be expanded to cover upstream and refining subsidiaries as well as the group management.

Benefits

Most of the group's subsidiaries have collective agreements with the labor unions that regulate main rights and responsibilities of both the employer and the employees. The group's subsidiaries are also providing an extended list of benefits in addition to those required under Russian Law, namely:

- extra medical care and medical insurance
- improved working conditions
- support for retired workers and veterans
- sports, recreation and cultural activities
- material support for workers

In 2009, company voluntary social support payments amounted to TUSD 5,700, with the majority spent on accident insurance and voluntary healthcare insurance. A breakdown of the support payments is presented below:

Area	TUSD	%
Voluntary healthcare insurance	1,660	29%
Accident insurance	1,760	31%
Social sphere and living conditions spendings	970	17%
Pensioners, veterans and children spendings	600	10%
Celebrations and ceremonies	470	8%
Material support	140	3%
Other	100	2%

One of the company's priorities within human resources remains employee insurance. The workforce is covered both by obligatory social insurance and voluntary medical insurance. The collective voluntary medical insurance programme includes polyclinic, dental, hospital service and rehabilitation treatment. In 2009, TUSD 1,660 were spent on this program.

As a part of health and recreation activities support, in 2009 the company provided subsidies to 113 employees and 275 employee children.

The type and scale of subsidies differ within the group's subsidiaries. Typical benefits include among others free food, extra payments for maternity leave and compensation of travel costs.

As a part of the motivation programme, the company has in 2009 undertaken a "Best in Profession" contest and "Best Retail Outlet" contest to indicate the most efficient employees and working groups within the company.

The company is active in promoting its employees for state, ministry, professional and corporate awards. In 2009, 288 people were rewarded for achievements and dedicat-

ed lifelong work, including 17 employees by federal and ministry awards, 8 by regional and municipal awards and 263 by corporate awards of the group.

Veterans and disabled support

The company pays great attention to the war veterans and pensioners with lengthy service to the company. Special bonuses are paid for the Victory Day, National Oil Day and extra payments are made to their state pension entitlement. A one-time material support subsidy is also paid selectively.

Alliance Oil supports its disabled employees through education and training, and by creating new positions for them.

The environment and occupational health and safety (HSE)

Alliance has a unified system at its subsidiaries for managing environmental protection and occupational and industrial health and safety, developed on the basis of a Declaration defining the company policy on industrial and environmental safety and workforce protection. The following goals were identified as priorities for the company and its subsidiaries.

- to ensure absolute priority of the company's employees health and life and health and life of population in the areas of company's businesses and priority of environmental factors over political and economic factors
- to minimize the environmental impact of the company's operational facilities
- to use natural resources in an efficient manner
- to achieve and to maintain an advanced scientific and technical level of HSE protection to ensure industrial and environmental safety and workforce protection
- to ensure that the company's activity in the sphere of industrial and environmental safety and workforce protection complies with Russian and international standards

Organisation

All subsidiaries depending on the size of the entity have HSE functions or HSE specialists, operating according to the Department Provisions, Job Descriptions, Operational Control Provisions, effective legislation, standards and rules. The group has developed a reporting system according to which the subsidiaries should report on:

- Accidents, emergencies or incidents that have occurred immediately by phone, and within an hour in writing. An Investigation Report is submitted following any investigation;
- quarterly updates on the implementation progress of the HSE annual plan;
- annual statistical required by the State

Environmental protection

Alliance regards minimising environmental impact as an integral part of running the business efficiently. All management decisions are carefully analysed for possible negative consequences to the environment.

All the group's business units have environment impact standards, licenses and permissions. Compliance with environment impact standards and license requirements is

monitored according to the schedules developed by supervising authorities.

Contamination emissions change depending on the operating throughput. Subsidiary companies are consistently implementing activities to reduce their environmental impact.

Total environmental spending in 2009 amounted to TUSD 10,470, including investments in environmental assets of TUSD 2,580. The main activities during 2009 included:

- implementation of the first phase of the sanitised protection area (SPA) for the border around the Khabarovsk Refinery and Khabarovsk oil depot. The first stage includes development of the SPA design projects within the border, including the residential block, and approval of the SPA design border line. The SPA engineering design project for the Vladivostok oil depot is in the process of development;
- completion of construction of the first phase of the chemical water treatment facilities at the Khabarovsk Refinery;
- commencement of construction of industrial storm wastewater treatment facilities at the Vladivostok oil depot and Khabarovsk Refinery, together with engineering design of treatment facilities in Ussuriiskaya and Sysoevskaya oil depots;
- completion of the engineering design of an oil products vapour recovery unit at the oil products loading rack in Khabarovsk oil depot;
- completion of landfill engineering design for solid waste and industrial waste in the scope of OJSC "Pechoraneft" Kolvinskoe oil field infrastructure.

In addition, the company is implementing several measures in close cooperation with the municipal and regional authorities at the Khabarovsk Refinery, to protect the environment.

In the upstream segment, a set of measures was implemented in 2009 to introduce electrochemical protection of surface pipelines to better secure them against oil leakages. The company uses an ongoing monitoring system with special focus on water objects and gradually increases the number of ecological control posts.

Water use by the company

Indicator	Unit	2009	2008
Water used, total	'000 m ³	4,135	4,513
External sources, total *	'000 m ³	4,078	4,137
Including			
Surface sources (rivers)	'000 m ³	3,058	3,061
Underground sources	'000 m ³	1,020	1,059
Recycled water	'000 m ³	31,732	31,658
Recycled water in sequential use	'000 m ³	614	614
Discharge to rivers	'000 m ³	160	158
Discharge to surface, total	'000 m ³	150	200

* includes surface sources, underground sources and municipal supplies

Potable water consumed from municipal suppliers represents approximately 1.5% of the company's total water consumption.

Water treatment facilities with specific required capacity are installed at all of the company's production assets: the Khabarovsk refinery has a sewage water treatment system with 600 m³/h capacity, oil product wholesale terminals and retail stations have systems with up to 50 m³/h and 10 m³/h capacity, respectively.

Emissions

Indicator	Unit	2009	2008
Total emission	'000 tn	12.9	15.6
Including			
Solid	'000 tn	0.4	0.5
Liquids and gas	'000 tn	12.5	15.1
Including			
Sulphur oxides	'000 tn	2.3	2.4
Carbon oxides	'000 tn	4.3	4.9
Nitrogen oxides	'000 tn	0.6	1.2
Hydrocarbons excluding VOC *	'000 tn	2.5	3.9
VOC	'000 tn	2.8	2.7

* volatile organic compounds

In 2009, the company had no pollution accidents.

Work force protection

Every year Alliance companies develop comprehensive technical plans. The plans are meant to improve working conditions, work force protection, health and domestic provisions for workers, prevent accidents in the workplace and work-related diseases, and reduce the number of accidents and incidents.

Alliance Oil spent approximately TUSD 2,870 on work force protection in 2009.

The company sources high-quality and prompt domestic health and preventive medicine services for employees, providing them with special clothing and footwear, individual protection gear and personal hygiene products.

Alliance pays particular attention to teaching safe working methods and techniques and first-aid skills for use in case of any accidents. The company also certifies positions for accident prevention and avoidance and provide regular medical examinations. The company provides compulsory employee insurance against industrial accidents and work-related diseases, and also guarantees the right to special pensions for workers who worked under harmful or dangerous conditions.

The company pays serious attention to employee training in safety. In 2009, 1,117 employees were participating in education, professional upgrade or other training regarding safety, including compulsory regular training and assessment on safety and security, fire protection trainings, hazardous liquids trainings and other.

The number of incidents and accidents has been constantly reduced over the last years. In 2009, there were no industrial breakdowns. However, a total of 6 accidents occurred in the group including one lethal. The main reasons for accidents and incidents identified are:

- Mistakes made by an injured person;
- Breach of operational instruction;
- Not using personal safety devices;
- Inadequate power supply by municipal power station.

HSE activities in 2010

The company continuously modernises its technical equipment in order to reduce the impact of production processes on the environment. Independent audits are regularly conducted to assess the ecological state of industrial infrastructure sites, and identify possible issues that may inflict damage on the environment, the health of the workforce, or the population. The company takes significant preventive measures and cooperates closely with local and Federal supervisory authorities to protect the environment. The scope of main HSE activities in 2010 will include:

- Certification of the integrated management system to comply with international standards ISO 9001, ISO 14001, OSHAS 18001;
- Optimization of providing employees with personal safety devices (PSD) and continued development of corporate PSD provision standard and regulations;
- development of an engineering design project to recover soil contamination;
- construction of gathering facilities and hydrocarbon gases recovery units in the intermediate truck fleets of the Khabarovsk Refinery and the Khabarovsk oil depot;
- engineering design of associated petroleum gas recovery facilities by upstream companies;
- engineering, reconstruction and construction of industrial storm wastewater facilities;
- extension of design project development and implementation of SPA in the Company's operational units.

Social policy and charity

The company's aim in implementing its sponsorship and charitable projects is to stimulate the economic and social development of the regions where the company operates, to improve the business climate and to nurture continuing dialogue between business and society. Alliance's charitable projects are intended to contribute to quality of life and higher level of culture and education, in addition to promoting the physical, moral and spiritual health of society.

Alliance is aware that, by contributing to a favourable social climate in our operating regions and establishing a positive dialogue with local communities, the company achieves faster growth and improves business development.

Alliance chooses sponsorship projects and charitable programmes that are of high priority for the regional development. One of the most important areas is restoration and maintenance of social infrastructure. The company's enterprises are financing the repair and renovation of cultural, healthcare and educational facilities. The group pays particular attention to historical sites and areas of great cultural significance. In addition, the group regularly provides help to local authorities to maintain streets, roads and public spaces. Hundreds of families have received decent housing thanks to Alliance's support.

The company also places a high priority on sponsoring the development of sport. Alliance is a long-term partner of the "Neftyanik" and "Samorodok" (Khabarovsk), the "Tom" (Tomsk), and the "Lutch-Energia" (Vladivostok) Premier League sports clubs. In addition, the company provides support to sports clubs and municipal sports groups, and also for the development of sport for children and young people.

Alliance pays a great deal of attention to projects supporting spiritual and cultural development in the regions.

Groups that have received targeted charitable assistance from the company's enterprises include the Russian Children's Fund and "Zia" children's folk ensemble. Alliance is also assisting municipal cultural institutions, such as children's and amateur theatres, and local museums. The company also funded the publishing of educational books.

Where possible, support is provided to various religious faiths as the company considers that this is important in fostering spiritual and moral values in society.

Alliance is engaged in a number of charitable projects to develop science and education. The company is providing assistance to conduct the Intellectual Olympics for children and scientific competitions. Considerable funds are being placed into providing material and technical support to schools and colleges, and supplying class room and laboratory equipment.

The company backed children's homes, the veterans, religious institutions (including all the major Russia's religions) and ecological monitoring.

While implementing a strategy of social responsibility in the regions where the company is operating, Alliance pays close attention to the development of local communities by assisting youth organisations, veterans' councils, municipal administrations and local self-government authorities. Festivals are held regularly with Alliance support at district and municipal levels to celebrate significant holidays for the country, city or region.

A total of TUSD 25,140 was invested in social responsibility in 2009, including TUSD 13,253 donated to the Zia Bazhaev Charity Fund, TUSD 6,800 sponsored to sports development, and TUSD 2,540 of grant-in-aid (by sponsoring agreements signed with the local authorities). The grant-in-aid included the construction of an ambulance station.