



TAIF GROUP OF COMPANIES



2011



NIZHNEKAMSKNEFTEKHIM  
SUSTAINABILITY  
REPORT



**КАМСКАЯ  
ЖЕМЧУЖИНА**  
НИЖНЕКАМСКНЕФТЕХИМ



УЖИНА

# TABLE OF CONTENTS

06

	ADDRESSES
06	Chairman of the Board of Directors
08	General Director

11

	ABOUT THE REPORT
12	Period under report, the reporting cycle
13	Reporting principles

14	EVENTS IMPORTANT FOR THE COMPANY AND THE COMMUNITY
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23

	ABOUT THE COMPANY
26	Core activities
26	Company's development strategy
29	World market standing
32	Economical efficiency

35

	CORPORATE SOCIAL RESPONSIBILITY
36	Management of sustainable development
37	Risk management
38	Principles of corporate social responsibility
39	Interaction with stakeholders

45

	THE COMPANY AND SHAREHOLDERS
46	Corporate management
48	Responsible business practice
48	Information policy of the Company

51

	THE COMPANY AND BUSINESS PARTNERS
52	The Company activities in the field of produce quality and safety
53	System of mandatory requirements to produce safety
55	Customer satisfaction

**57**

THE COMPANY AND EMPLOYEES

- 58 Human resource management
- 68 Social partnership
- 69 Social programs for Company employees

**79**

SAFETY AND HEALTH OF EMPLOYEES

- 80 Occupational and industrial safety policy
- 81 Occupational and industrial safety training system
- 81 Employees' life and health preservation is the Company priority

**87**

ENVIRONMENTAL ACTIVITIES OF THE COMPANY

- 88 Arrangement of environmental activities
- 89 Main events relevant to environmental protection
- 98 Results of environment-related activity

**101**

THE COMPANY AND COMMUNITY

- 103 Social programs developed jointly with the community
- 107 OAO Nizhnekamskneftekhim and science
- 110 Marketing communications

**113**

INDEPENDENT AUDITOR'S OPINION ON CERTIFICATION OF THE SUSTAINABLE DEVELOPMENT REPORT

- 118 TABLE OF STANDARD GRI ELEMENTS
- 127 FEEDBACK QUESTIONNAIRE
- 128 CONTACT DETAILS

## Address of the Chairman of the Board of Directors



Dear readers, colleagues, partners and friends,

Allow me to present to your attention the Report on Sustainable Development of the OAO Nizhnekamskneftekhim for the 2011 period which covers all social aspects of activity of one of the leaders of the national petrochemical industry and the backbone enterprise of the city of Nizhnekamsk.

Outstanding financial and economic indicators of activity of our Company for accounting 2011 year have been achieved not only owing to a favorable economic situation in the product markets, but also owing to the immense contribution of highly professional staff involved in all business activities of the Company. In fact, it is the people who take executive decisions, who make seemingly impossible tasks their mission, but successfully complete them, generate the profit so needed to the Company.

It is the social responsibility and social partnership of shareholders, administration and labor collective of OAO Nizhnekamskneftekhim that provide a basis of successful development of the Company today. Its competitiveness, business development and prosperity of the Republic as a whole depend on how much strong is the social capital of the Company.

In the last financial year the Company allocated 6.7 billion Roubles for social services, environmental safety, charity and sponsorship. The target charitable programs have been launched

for development of education, children's and youthful sports and creativity, welfare gain of inhabitants and public health services enhancement in the city of Nizhnekamsk. The company kept on financing reduced hot water rates for the population of Republic Tatarstan.

Pages of the Report on Sustainable Development of the OAO Nizhnekamskneftekhim for the 2011 period presented to your attention contain detailed information on activity of the Company in social services being in balance and going hand in hand with its industrial potential.

I am confident, that social activity of the OAO Nizhnekamskneftekhim will be focused on improvement of the quality of life and raising of living standards of the workers and city dwellers of Nizhnekamsk in the future as well. Professional experience of the Company staff, its high sense of duty, harmony of interests of community and business will serve as the warranty for achievement of the strategic aims and objectives for continuation of the upward tendency of the Company in the long-term perspective.

Chairman of the Board of Directors  
OAO Nizhnekamskneftekhim



**A.K. Shigabutdinov**

## Address of the General Director



Dear shareholders, colleagues and partners,

Here is the Report of Sustainable Development of OAO Nizhnekamskneftekhim in 2011, in which the Company discloses information about the main aspects of its activities in the field of sustainable development. This is where we tried to reflect qualitative changes in activity of the Company and to emphasize our innovative approaches and to show openness to business and society.

Report on sustainable development has become an integral part of our business. We understand that social responsibility and social partnership is the foundation of a successful business. The competitiveness of the Company and the prosperity of the Republic as a whole depend on the scale and quality of social work. Recognizing the active role of business in social development and the need for greater social dialogue Nizhnekamskneftekhim has joined the Social Charter of Russian business in 2011.

In the reporting year the Company has achieved very high production results. Total volume of production is estimated at 121.3 billion rubles. This is 30.8 billion rubles higher than in 2010. The growth rate of industrial production amounted to 107.6%. Throughout the

year the main production facilities were running smoothly and at optimal loads, thereby maximum outputs were achieved: 559,000 tons of rubber and 593,000 tons of plastics.

In the International Year of Chemistry the Company has launched a new rubber finishing and drying line and a pilot plant for production of elastomers under the State contract, and continued its scientific and technical cooperation with Kazan National Research Technological University, and hosted the third conference of young scientists of science and technology center and the review contest for young innovators of the Company.

Today, just as more than four decades ago, Nizhnekamskneftekhim remains the city-forming enterprise. 646.4 million rubles of taxes was transferred to the budget of Nizhnekamsk in the course of the year. These funds are redistributed in the form of salaries to state employees and the construction expenses for housings, roads and for maintenance of social facilities.

While trying to improve the production efficiency the Company management never forgets that the production achievements should have a direct influence on the life quality of employees and the citizens both in terms of reducing the environmental load and in health care, education and social infrastructure development.

Protection of the environment continues to be one of the priority scopes of activities of the Company. The work in this area was carried out in accordance with the stated environmental policy and the long-term ecological program. During the year more than 20 business events were executed under this program. Landscaping of sanitary protection zone of biological treatment plants was conducted at the expense of the Company, that is 194,000 pine seedlings were planted in the area of 51 hectares. In recent years, emissions have been reduced by half, and the quality of treated effluents discharged into the river Kama was improved on all counts.

As one of the largest energy consumers in Tatarstan, the Company constantly makes efforts to reduce the acquisition costs of energy from the outside. Through implementation of energy saving programs for the period from 2000 to 2010, energy intensity of commercial products decreased by 60%. Today energy conservation program No. 3 is in progress for the period 2011-2015 and until 2020 in the long term.

General Director  
OAO Nizhnekamskneftekhim

On occasion of the 45-th anniversary of Nizhnekamsk the Company presented another gift to the city – the park of petrochemists. Its area is 8 hectares and it includes: children's playground with recreation complexes and benches and paved paths and grounds and floor lamp lighting and utilities. Thus, residents and visitors of Nizhnekamsk have a new recreation area.

In 2011 Nizhnekamskneftekhim continued the implementation of social investment programs. The total amount of payments made during the reporting period for the items included in the Collective Agreement is estimated at 452 million rubles which exceeds the planned amount by 4%. In addition to the Collective Agreement and based on the approved provisions, payments have been made from February 1 for the anniversary dates of employees and in connection with the first marriage. Interest payments at year-end were resumed to employees of the Company, and pecuniary aid was envisaged for the vacation. In general, these payments totaled more than 500 million rubles. The Company provided financing to housing construction through the State Housing Fund of Tatarstan, and also ensured the execution of planned activities in the field of occupational safety and increase of professional level of petrochemists and youth policy.

The Company continued to give its relentless attention to the popular sports and the children's sports, creating the conditions for the preparation of highly skilled athletes, and it actively participated in addressing urban social programs, treating this activity as an integral part of corporate culture. The total social burden for Nizhnekamskneftekhim at year-end amounted to more than one billion rubles.

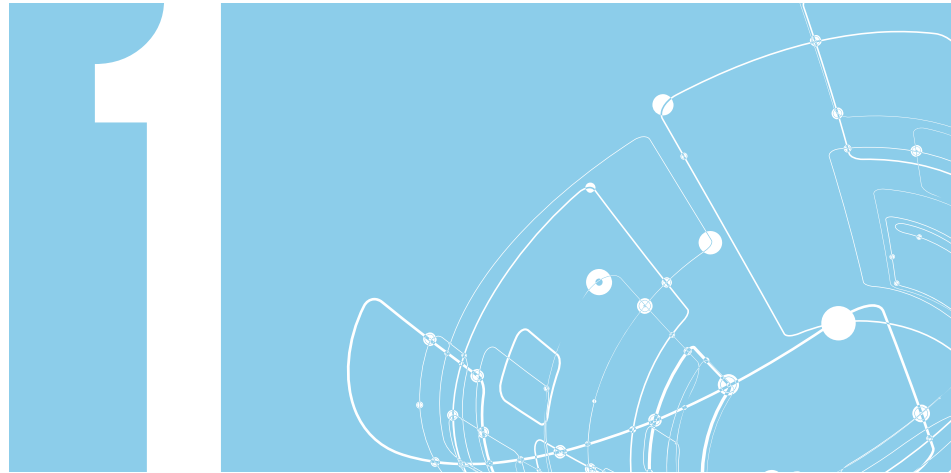
In 2011 Nizhnekamskneftekhim has launched a new Strategic Development Program, which provides for expansion of the base for raw material supply for the Company, and increase of production capacities of rubber, and construction of new plastics production plants. The role of the Company is defined in further development of the industry of small and medium-sized businesses within the republican system of cooperation, including development of the industrial park Kamskiye Polyany and association Nizhnekamsk Industrial District.

At the same time the Company as always remains a socially responsible Company and in partnership with community organizations is continuing its social and charitable activities.



**V.M. Busygin**





## **ABOUT THE REPORT**

## Section 1

# ABOUT THE REPORT

### PERIOD UNDER REPORT, THE REPORTING CYCLE

OAO Nizhnekamskneftekhim (hereinafter the «Company») continues the practice of publishing annual reports on sustainable development in order to inform the public about the principles, objectives, practical results and prospects of corporate social policy and the Company's activities in areas related to sustainable development.

This Sustainability Report (hereinafter «Report») is the third report<sup>1</sup> and it covers the period from January 1, 2011 through December 31, 2011. The report is based on the Guidelines for reporting on sustainable development of the Global Reporting Initiative (Global Reporting Initiative, GRI (G 3.1)). The Company declares conformance of the Sustainability Report for 2011 to requirements of A level of GRI Guidelines. Verification of the third party allows us to declare about A+ level pursuant to GRI principles. Independent external evaluation based on the international standards was performed by ZAO «Bureau Veritas Certification Rus».

In preparation of the Report, the Company established a working group whose task was selection of information from reliable sources. The working group included managers and specialists from different divisions of the Company that are responsible for the issues of corporate management and economic and social and environmental impact. The working group made considerable efforts for involvement of stakeholders in the process of discussion of such matters as determination of the format and contents of the Report and important subjects that need to be disclosed.

Data on OAO Nizhnekamskneftekhim is used in the performance analysis of Sustainability Report for 2011. OAO Nizhnekamskneftekhim uses the services of branch and contracting organizations in its production activities. Performance figures of these organizations are not included in the Report. Similar approach was used in preparation of the Reports for previous years. There were no significant changes in the field of measurement techniques compared to the previous year. Information and performance indicators of the Company were collected in accordance with the procedures of corporate governance, and Russian and international standards and the reporting requirements. The data in the Reports for the years 2010 and 2011 is comparable. The Company is aware of the necessity of providing the timely information in the Report, therefore, the Report is published with the same frequency once a year, and is synchronized with the publication of the Annual Report.

For convenience of readers the Report includes a table showing the location of the issues and indicators in accordance with the GRI Guidelines on page 118.

The concept of the Report is defined by the concept of social responsibility of Nizhnekamskneftekhim. Accordingly, the Company considers the interests of society, assumes responsibility for the impact of activities on customers, suppliers, employees, shareholders, local communities and other stakeholders of the public sphere. This commitment goes beyond the statutory obligations, and suggests that Nizhnekamskneftekhim voluntarily take additional measures to improve the quality of life of employees and their families, as well as local community and society as a whole. Having taken the responsibility for its impact on society, the Company accounts for its actions and keeps records of same.

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<sup>1</sup> Social Reports of OAO Nizhnekamskneftekhim for 2009 and 2010 are available on the corporate website [www.nknh.ru](http://www.nknh.ru). Previous reports of the Company are included in the National Register of non-financial corporate reporting of the Russian Union of Industrialists and Entrepreneurs (certificates No. 220.2.080.05.09 for 2010 and No. 265.2.080.05.10 for 2011.).

The report has been subjected to internal audit and the external analysis in the form of the survey of the parties concerned including government representatives, business partners and civil society organizations to identify their information needs and the subsequent inclusion of this information in the Report.

Details of the financial and operating activities are presented in the Annual Report of ОАО Nizhnekamskneftekhim for 2011, which is available on the Company's website [www.nknh.ru](http://www.nknh.ru).

Any questions regarding the report or its contents can be referred to: (8555) 37-93-33, 37-71-81, 37-53-31, or at 423574, the Republic of Tatarstan, Nizhnekamsk, ОАО Nizhnekamskneftekhim. You can send your questions by e-mail: [nknh@nknh.ru](mailto:nknh@nknh.ru).

Performance indicators and indicators of financial and economic activity contained in the Report have been submitted in the format

of International Financial Reporting Standards (IFRS). Indicators and information on economic and ecological activities, as well as in the areas of occupational safety and product liability and personnel management and training and social programs are presented with respect to ОАО Nizhnekamskneftekhim.

By publishing the Report on sustainable development Nizhnekamskneftekhim expects to continue and expand a constructive public dialogue on issues of responsible business and would welcome the recommendations of all stakeholders to improve its activities in the field of sustainable development.

## REPORTING PRINCIPLES

**1. The authenticity and transparency.** The authenticity of the information is ensured by reporting management systems for collection, consolidation and quality control of accounting information, that proved their effectiveness as a basis for a comprehensive analysis of activities and for taking corrective managerial solutions on the basis of the analysis results. Transparency of information presented in the Report is attained by methodologically justifiable structuring of information and by reporting the performance figures in the most informative, accurate and reasonably detailed manner.

**2. Relevance, completeness and materiality.** The relevance of the information presented in the Report is ensured by selection of a one year period for the reporting period, that is as close as possible to the time of publication of this Report. Through regular interaction with stakeholders the Company determines the priorities in the disclosure of the information provided in the Report. The Report contains the most significant operating results and indicators that have an effect on the Company's operations and on the environment and the society for the period under review.

**3. Feedback from stakeholders.** Opinion of all stakeholders is important to the Company on the Company's statements and actions in sustainable development, so the Report also contains the form of feedback. Comments and suggestions will be considered in improving the accountability of management systems, the formation of administrative decisions and in preparing the subsequent reports of the Company. The Company is interested in receiving comments and recommendations about the Report, so the Report includes a feedback questionnaire on page 127.

**4. The objective comparability.** The objectivity and comparability of reporting are based on the use of the standards in its formation. In addition, the principles and approaches developed by the international practice have been taken into account, which will allow the Company to compare the reported data with the data presented in the reports of other companies, as well as records of the Company for future periods.

**5. Verifiability.** An external audit is an effective tool for gathering evidence to support the information provided in the Report. The data included in the report have been checked by the relevant departments of the Company. The report went through the procedure of external certification for verification of its compliance with GRI Guidelines. Independent Auditor's Report prepared by Bureau Veritas Certification Rus is on page 114.

**6. The context of sustainable development.** The context of sustainable development is determined by the fact that the Company has consistently included more information about the risks associated with sustainable development. The Report reflects the impact of the Company's performance on the environment and it is reported what measures are taken in relation to this impact.



## EVENTS IMPORTANT FOR THE COMPANY AND THE COMMUNITY

### PRODUCTION PROGRESS

#### JANUARY

OAO Nizhnekamskneftekhim was awarded the prize of RT government for the quality of products and services and their safety. For reference, the Company's products are exported to over 50 countries (Europe, America and Southeast Asia).

#### APRIL

An extended session was held at Nizhnekamskneftekhim under the chairmanship of Sergei Kudryashov, the RF Deputy Minister of Energy. The central theme of discussion was devoted to the development of oil-gas chemistry in the republics of Tatarstan and Bashkortostan. The meeting was attended by President of Tatarstan Rustam Minnikhanov and Deputy Prime Minister of Bashkortostan Yuri Pustovgarov, and representatives of the largest petrochemical companies in Russia, including Tatneft and TAIF groups.

#### JUNE

«Ecoleader» again: Nizhnekamskneftekhim has once again won the Republican contest in the category «For an effective environmental program».

#### JULY

Nizhnekamskneftekhim was highly praised by the head of rosprirodnadzor V. Kirillov for environmental activity. In 2011 V. Kirillov paid a familiarization visit to our Company, he visited several facilities, and was satisfied with the measures being taken in the Company in the field of environmental protection.



### AUGUST

The third rubber finishing and drying line was built and commissioned at butyl rubber plant at capacity of 8 tons per hour. The 8 ton line in some sense could be regarded as exclusive as it is the first time ever in the world. Start-up of the new unit will increase production of halobutyl rubber up to 100,000 tons per year. The ceremonial start of the new line was attended by A. Shigabutdinov, General Director of PSC TAIK and chairman of Nizhnekamskneftekhim board of directors and by the General Director V. Busygin and members of the board of directors. A. Shigabutdinov wished all those present new labor achievements and said: «Today the Company is at such a level that it has never reached before: it is the flagship of the economy not only of our Republic but of Russia too, the Company is developing at a rapid pace. This was achieved by joint efforts of workers and specialists and managers».

### SEPTEMBER

OAO «Nizhnekamskneftekhim» won the Grand prix of the XVIII international exhibition «Oil and gas. Petrochemistry» in the category «Products with enhanced and improved performance» for the organization of the production of butadiene rubber SKD-L.

### OCTOBER

By the results of the XVI international exhibition of chemical industry and science «Khimia-2011» OAO Nizhnekamskneftekhim was awarded the Grand Prix «For development and implementation of new high-quality produce types and contribution to Russian petrochemical industry». In addition, the Company also won medals and diplomas in the nomination «High quality and reliable products.» The exposition of the Company was noted with the diploma «For the best design solution of the exposition booth and professionalism of managers», and V. Busygin, General Director, was awarded the diploma «For significant contribution to development of the RF petrochemical industry».



## PARTICIPATION IN THE LIFE OF THE SOCIETY

### JANUARY

New year pearl of Nizhnekamsk – this was the assessment of the Christmas town built by specialists of Nizhnekamskneftekhim following the results of the contest for the best Christmas decoration.

Gold medal winners of the world youth ice hockey championship (under 20 years), representatives of HC «Neftekhimik» Maxim Berezin and Andrei Sergeyev, returned home from the United States. «Guys, we are proud of you» – the hockey fans shouted enthusiastically here and there from all sides at Begishevo airport. Later, Vladimir Busygin, the head of the Company, congratulated the winners in solemn atmosphere.

### FEBRUARY

Representative of sports club «Neftekhimik» Aliya Iksanova became the two times champion of XXV Winter Universiade (city of Erzurum, Turkey) in 5 km race and relay, and a silver medalist in the 10 km race and the 15 km mass-start. Aliya admitted that the victory was not easy, and she is very proud to have won the first gold medal of the Universiade-2011 for the Russian national team.

### MARCH

Traditional meeting of General Director Vladimir Busygin with women working for the Company was held on the eve of the international women's day. Mr. Busygin pointed out that today the Company does not have the so-called «Purely men's» professions, and women are employed in many divisions of the Company and are often the best in their teams.

International qualifying rhythmic gymnastics tournament «Alina» took place in the sports and fitness center «Friendship». The event was held under supervision of the deputy of State Duma of the Republic of Tatarstan, the legendary gymnast Alina Kabaeva. «At this competition I saw a lot of decent performances, and the kids enjoyed themselves. I am very pleased with the organization of competitions,» – later shared Alina, not forgetting to thank the management of the Company for assistance in the tournament.

### MAY

The traditional meeting of Company executives and World War II veterans and home front workers was held in the House of Folk Art on the eve of Victory Day. Currently 36 war veterans and 392 home front workers are registered by the board of veterans of the Company.

Petrochemists celebrated their professional holiday on a large scale. In his congratulatory speech General Director Vladimir Busygin said that Nizhnekamskneftekhim personnel truly has something to be proud of: high-quality work of all Company's departments



brings good results – the Company has repeatedly bestowed prizes and awards for excellence in quality, environmental protection, energy conservation and social policy.

Representatives of Nizhnekamskneftekhim became the winners in six categories of amateur art festival «City of masters» among the young workers held in honor of the 45th anniversary of Nizhnekamsk. 25 creative teams of industrial enterprises and organizations and institutions of the city participated in the festival.

## JUNE

Meeting in the day of memory and grief «And the saved world remembers...» dedicated to 70th anniversary of the Great Patriotic War, 1941-1945, was held on June 2, 2011 at the square near the Victory Monument. In the Day of memory and grief the search squad «Neftekhimik», and members of the military-patriotic club «Heritage», and representatives of the Board of war and labor veterans of Nizhnekamskneftekhim, and young leaders of the Company laid flowers at the Victory Monument and lit candles as a sign of grief for the victims of the Great Patriotic War. The meeting continued with one minute's silence in remembrance of all soldiers – those who died defending us, and who won the freedom and independence for future generations. The event was organized by the department for work with young people with the support of administration and trade union organization of Nizhnekamskneftekhim.

## JULY

Opening of petrochemists park. General Director Vladimir Busygin expressed the hope that in the future this place will become a favorite recreation area for Nizhnekamsk people and guests.

Married couples of Nizhnekamskneftekhim are the winners of the city competition dedicated to the day of family, love and fidelity. Competition dedicated to All-Russia Day of family, love and fidelity was held in Nizhnekamsk House of Folk Art. Performance of Nizhnekamskneftekhim Representatives was praiseworthy of the holiday family. On behalf of the administration and the trade union organization of Nizhnekamskneftekhim they were presented with flowers and gift certificates. Medal «For the love and fidelity» – a badge of honor of the feast was presented to the Akhmetzyanovs married couple, who have been married for 56 years. They have five children and nine grandchildren and three great-grandchildren. They shared the secrets of their happy marriage with the young couples and wished them a long happy family life.



## AUGUST

Nizhnekamskneftekhim sports picked team ranked first with the best ever result at XVII Spartakiada Games of Tatarstan trade union committee of chemical industry workers.

## SEPTEMBER

Long-awaited festival was celebrated by citizens – 45th anniversary of Nizhnekamsk. Nizhnekamsk owes its «birth» to Nizhnekamskneftekhim: when in 1956 the decision was taken to construct a complex of petrochemical plants in this area, the idea was that the city will grow up near the future chemical plant, which will meet all modern requirements. And so it happened.

«Neftekhimik» search party took part in the All-Russian «Memory Watch-2011» held in the Smolensk region in the Kholm-Zhirkovskaya area on the right bank of the Dnieper. In total, this «Memory Watch» was attended by one hundred ninety-five people – 31 search parties from nine regions of Russia. For perpetuation of memory of the fallen defenders of the Motherland, «Neftekhimik» search party was awarded the diploma «For active participation in the search movement» and medals «Warriors of the Motherland» were awarded to the Company's employees. Participation of «Neftekhimik» squad in the »Memory Watch» was organized by the department for work with young people with the support of administration and trade union organization of Nizhnekamskneftekhim.

## OCTOBER

Ceremonial meeting of Nizhnekamskneftekhim veterans dedicated to the day of older persons.

Delegation of representatives of Finnish and French organizations visited Nizhnekamskneftekhim in the context of the Presidential program of management training.

Team «Outpost» of Nizhnekamskneftekhim participated in the XI republican games traffic law enforcement of Tatarstan. The main task of Games was improvement of the recreational, physical, legal, psychological and athletic performance and improvement of education and training work in the organizations for protection of public order. The team «Outpost» of Nizhnekamskneftekhim took an active part in all kinds of competitions and won the top places.

## NOVEMBER

The fourth republican game tournament «Brain ring» was held on November 4-5, 2011 in Mendeleyevsk among the young workers of businesses and organizations of Tatarstan. The organizer of the final series of games was the Regional public organization «Youth association of the RT enterprises and organizations» of the Ministry of Youth, Sports and Tourism of the Republic of Tatarstan. 19 teams took part in the tournament. The team of Automation Center represented Nizhnekamskneftekhim in these games, which is the leader of the series of intellectual games among young workers, both in the Company and in Nizhnekamsk municipal area.



## DECEMBER

The best leaders of the republican contest «manager of the year» were announced in Kazan. Awards «Gratitude of the President of the Republic of Tatarstan» were granted to Vladimir Busygin, General Director of OAO Nizhnekamskneftekhim, and Albert Shigabutdinov, chairman of the board of directors of OAO Nizhnekamskneftekhim, General Director of PSC TAIF.

## FEBRUARY 2012

OAO Nizhnekamskneftekhim was awarded the winner's diploma of the 5-th republican contest «Philanthropist of the year 2011» in the category «For the long-term partnership». The Company has been engaged in charity work for 45 years of its business activity. It is an active participant of all republican and urban social programs, and assists public funds in organizing cultural and sports events and national holidays, and also assists scientific and educational institutions to conduct scientific and practical conferences and forums, and furnishes targeted financial assistance to retired persons, disabled persons and children. The Company's employees have truly friendly relations with teachers and students of Mendeleev special boarding school and sponsored educational institutions of Nizhnekamsk.

## ACTIVITIES CARRIED OUT UNDER THE INTERNATIONAL YEAR OF CHEMISTRY

The science and technology center of Nizhnekamskneftekhim hosted the III conference «Consumer properties of Nizhnekamsk rubber and growth prospects», dedicated to the Year of Chemistry. The participants got acquainted with the Company's scientific achievements of recent years, and ideas and proposals for joint cooperation were submitted for discussion. 30 reports were submitted by representatives of science and technology center and by other companies of the industry.

Specialists of Nizhnekamskneftekhim science and technology center participated in the Republican scientific and practical conference «High technology in chemistry, petrochemistry and oil refining».

Competition on professional skills was held in major employments, including the one among young engineers of science and technology center – «The best in the professional occupation».

Young workers of Nizhnekamskneftekhim participated in the second republican industrial contest of workmanship for the title of «Best in profession of industry sector» devoted to the International Year of Chemistry, organized by Tatarstan union committee of chemical industry workers together with the industry department of the Ministry of Energy of the Republic of Tatarstan, and OAO Tatneftekhiminvest-holding and Kazanorgsintez. Young workers



from nine related subsidiaries of the Republic competed in two professional skills – an instrumentation fitter and a laboratory chemical analyst. This contest was held in order to raise the prestige of skilled workers of basic industrial occupations, and promote advance experience, and form the positive public opinion about blue-collar occupations in the industrial sector. Young representatives of OAO Nizhnekamskneftekhim achieved success at the competition and won top places.

Elena Markina, the process engineer of science and technology center of Nizhnekamskneftekhim won the republican contest «Woman of the year. Man of the year: women's view of 2011» in nomination» «My fate – my profession». E. Markina is a brilliant representative of young scientists and production workers of the Company. After graduating the university she came to work in the science and technology center, and immediately joined the researches. She ran seven pilot tests, and she is the author of 2 applications for inventions, and is co-author of publications in magazines «Rubber and technical rubber», «Herald of Kazan state technical university» and «Applied Chemistry Magazine».

Traditional tourist forum of young workers of Nizhnekamskneftekhim was held in the sports camp «Olympian» in August 2011, which was dedicated to the International Year of Chemistry and the 45th anniversary of the city of Nizhnekamsk. Each year the event has been organized by the department on work with youth, and the sports club «Neftekhimik» with the support of trade union organization of the Company».

Each year representatives of OAO Nizhnekamskneftekhim take part in the competition which is held by the Russian Union of scientific and engineering public organizations, the International Union of Scientific and Engineering Associations, the Prokhorov Academy of engineering sciences, Interregional social fund for promotion of scientific and technological progress. Diploma of XII all-russian contest «Engineer of the Year 2011» in the category «Professional Engineers», a commemorative silver medal, a badge «Professional Engineer of Russia» and a certificate conferring the title «Professional Engineer of Russia» were presented to N. Khasanov, the shop manager of butyl rubber plant and A. Shalfeev, deputy shop manager of synthetic rubber plant.

**In accordance with the legal protection of technical solutions and means of individualization as of December 31, 2011, intellectual property of Nizhnekamskneftekhim consists of 402 patents for inventions, 62 utility patents and 42 certificates for trademarks, 8 certificates for a computer program.**

## AWARDS OF NIZHNEKAMSKNEFTEKHIM

### FEBRUARY 2011

› OAO Nizhnekamskneftekhim once again confirmed the reputation of the most sporting team of Tatarstan: following the results of republic-wide competition show 2010 the Company was awarded a diploma and a cup for the best organization of sports and recreation and mass sporting activity among industrial enterprises.

### APRIL 2011

› OAO Nizhnekamskneftekhim was awarded Grand Prix Diploma «For implementation of energy-saving technologies of petrochemical plants» following the results of annual exhibition «Fuel and Energy Complex of Russia in the XXI century», which was held within the framework of Moscow International Energy Forum «Fuel and Energy Complex of Russia in the XXI century». The enterprise was also awarded diploma «For the achieved success in energy saving» and Memorable partner sign of Moscow International Energy Forum «Fuel and Energy Complex of Russia in the XXI century».

### MAY 2011

› OAO Nizhnekamskneftekhim was awarded a special cup «The best company of the year in inventions and innovations» and honor certificate of Ministry of Economic Affairs of the Republic of Tatarstan following the results of annual competition on «The best arrangement of inventive, innovative, patent and license activities» among companies, organizations and agencies of Tatarstan. For active participation in innovative activities and high level of inventions under development presented at the annual contest «The best invention of the year» the Company was awarded the golden sign «The best invention in the Republic of Tatarstan»

› General Director of OAO Nizhnekamskneftekhim Vladimir Busygin became the winner of republic-wide competition «Area of Law» in the category «For considerable contribution in support of law enforcement».

### JUNE 2011

› Following the results of 2010 OAO Nizhnekamskneftekhim became the winner of the annual republican competition «Ecoleader» in the category «For effective ecological program».

› OAO Nizhnekamskneftekhim has joined the ranks of Russian Companies being branch-wise leaders in terms of environmental transparency by the eco-energy rating agency Interfax-ERA, being a part of Interfax International Group».

### AUGUST 2011

› Personnel department of OAO Nizhnekamskneftekhim was awarded an honorary diploma of the winner of the 7th All-Russian contest «Best HR Service-2011» in the category «For the success of the development and implementation of effective personnel policy at the stage of implementation of new public programs of innovative development of Russian economy».

### SEPTEMBER 2011

› Sanitary squad of OAO Nizhnekamskneftekhim won the Cup and the certificate of honor as the winner of the republican competitions between extraordinary emergency rescue teams.

### OCTOBER 2011

› OAO Nizhnekamskneftekhim ranked among the top ten of 100 largest companies in the real economy of Russia both in ecoenergy and technological efficiency.

### NOVEMBER 2011

› OAO Nizhnekamskneftekhim became the winner of the second degree National Ecology prize «Ecomir» for successful implementation of the consecutive phase of the long-term ecological program for years 2007 through 2015. The priority subject of 2011 competition was «Introduction of innovative management methods for improvement of the life quality and environment protection».

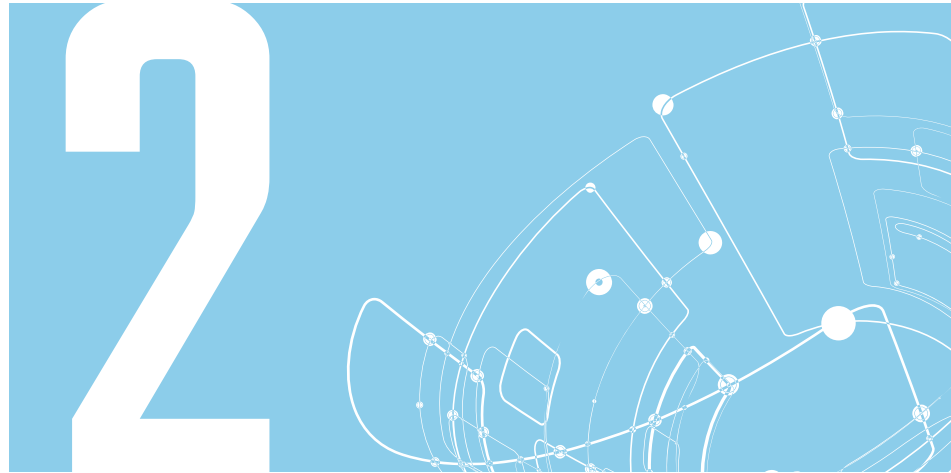
› OAO Nizhnekamskneftekhim was, for the sixth time, recognized the winner of the Federal Show-Contest in the field of environmental protection, environment conservation and favored the honorary degree of the «Leader of Environmental Activity in Russia-2011».

› OAO Nizhnekamskneftekhim's Youth Organization has won Grand Prix based on the results of the Contest for the Best Youth Organization of the Republic of Tatarstan in 2011.

### DECEMBER 2011

› OAO Nizhnekamskneftekhim became the winner of the Contests «Best Product of Exhibition» and «Energy Efficient Equipment and Technologies», held within the 13th International Dedicated Exhibition «Power Generation. Resource Saving-2011». The Company has been marked with the First Order Diploma for application of reducing cooling devices on the cracking furnaces at the Ethylene Plant in the category of «Equipment and Technologies for Disposal of Wastes of Petrochemical, Fuel and Energy, Agricultural and other Industrial Sectors, including Generation of Secondary Energy Resources and (or) Materials», as well as with the Second Order Diploma in the category of «Honor of Tatarstan» for the halogenated butyl rubber finishing line at the Butyl Rubber Plant.





## **ABOUT THE COMPANY**

## Section 2

# ABOUT THE COMPANY

OAO Nizhnekamskneftekhim is a dynamically developing high-tech petrochemical company making part of TAIF Group and is the main enterprise in Nizhnekamskneftekhim group of companies<sup>1</sup>.

Nizhnekamskneftekhim Joint-Stock Company has been established under the Law of the Republic of Tatarstan «On reorganization of state and municipal property in the Republic of Tatarstan (on denationalization and privatization)», and in compliance with the «Nizhnekamskneftekhim» Industrial Corporation privatization plan, approved by the Resolution No. 41, dated August 11, 1993, of the State Property Management Committee, Republic of Tatarstan, and in accordance with the Minutes of Meeting No.25 of the Board of the State Property Management Committee, Republic of Tatarstan, dated July 20, 1993, registered with the Ministry of Finance, Republic of Tatarstan, dated August 18, 1993 and entered under No. 388 in the State Register of the Joint Stock Companies established on the territory of the Republic of Tatarstan

The form of ownership is the mixed one. Total value of assets of OAO Nizhnekamskneftekhim as of 31.12.2011 is 68,410.8 million rubles.

July 31, 1967 is the birthday of Nizhnekamskneftekhim. Today Nizhnekamskneftekhim is one of the largest petrochemical companies in Europe. The industrial complex of the Company includes 10 major production plants, 8 basic departments, six centers (including the science and technology one) as well as ancillary production shops and divisions).

The functional structure is composed of the functions performed by units:

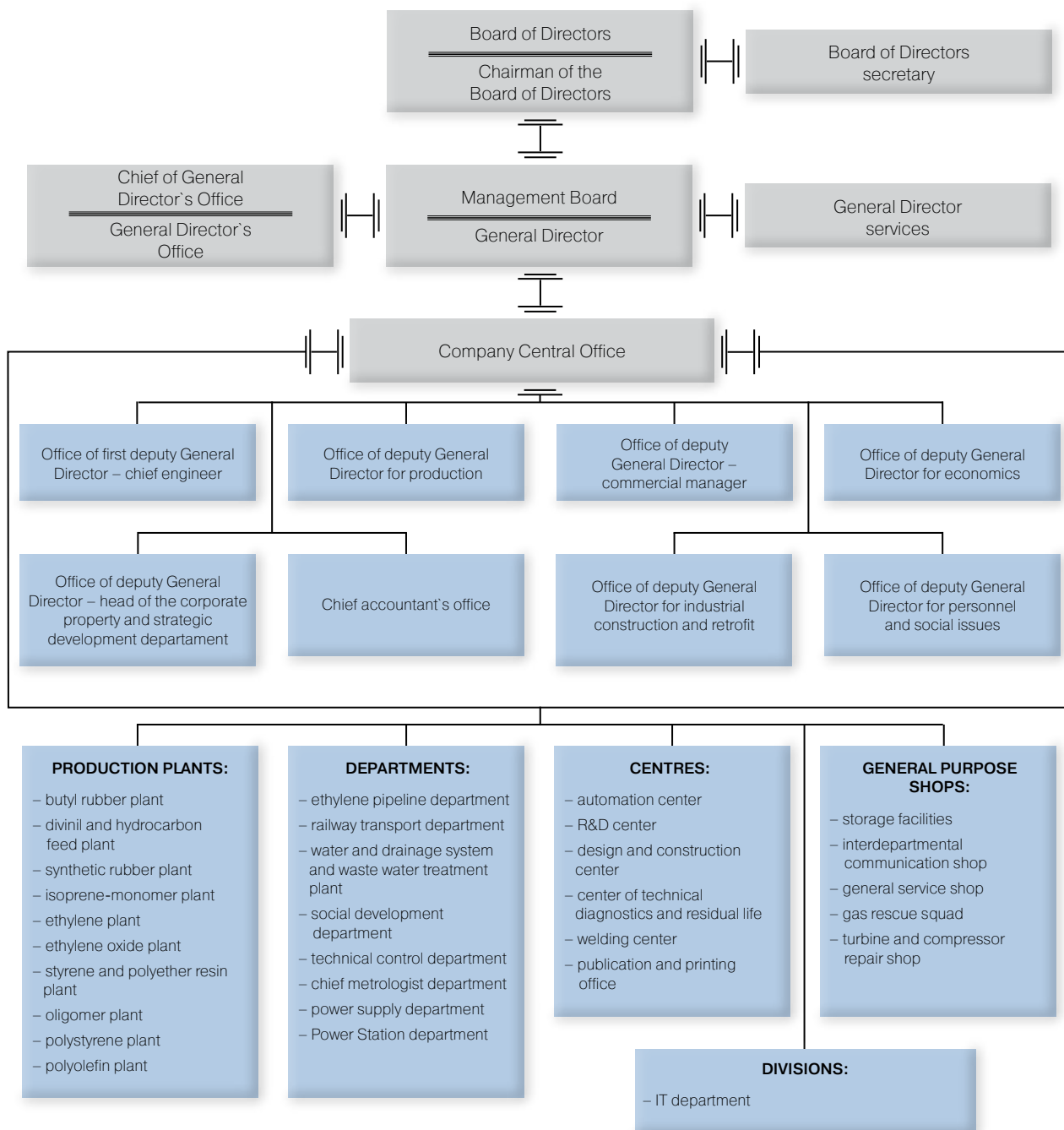
- ▶ the central office performs the function of coordination and organization of work of the joint-stock company;
- ▶ the plants perform the function of producing butyl rubber, butadiene and hydrocarbon feedstock, synthetic rubber, isoprene-monomer, ethylene, ethylene oxide, styrene and polyester resins, oligomers, polystyrene, polyolefins etc.;
- ▶ divisions, centers and general purpose production shops carry out maintenance work in relation to the plants and production units.

All functional groups are united into the hierarchy and are subordinate to the managers of the central office.

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<sup>1</sup> Nizhnekamskneftekhim group of companies includes: Open joint stock company Nizhnekamskneftekhim employing 17,765 people and 20 branch organizations with 6,502 employees. The branch organizations include: OOO Polymer-NKNH, OOO Vtorresursy, OOO Polymerkholodtehnika, OOO Neftekhimagroprom, OOO UOP Neftekhim, OOO CHOP-NKNH, OOO PAP Transport-Express, OOO NKNH-Service, OOO Shop No.4100-NKNH, OOO Sports-and-culture complex Neftekhimik, OOO Trust Tatspetsneftekhimremstroy, OOO NKNH-Divinyil, OAO NefteKhimSevlyen, OOO Mechanical repair plant-NKNH, OOO Motor transport department – NKNH, OAO SOV-NKNH, OY Nizhex Scandinavia Ltd., OOO Hockey Club Neftekhimik, OOO Neftekhimresurs-NKNH, OOO Pest. Nizhnekamskneftekhim group of companies performs its main activities in Russia. OY Nizhex Scandinavia Ltd. Operates in Finland (Helsinki). Number of affiliates and dependent organizations decreased compared to 2010 (OOO Khimik Garage Complex and ZAO Kaminterkhim ceased to exist). The structure of Nizhnekamskneftekhim group of companies is included in the Report at requests of the stakeholders.

**Functional management structure of OAO Nizhnekamskneftekhim**



The product slate includes more than one hundred items. The following products form the basis of the product mix:

- › general purpose and special purpose synthetic rubbers;
- › plastics: polystyrene, polypropylene and polyethylene;
- › monomers, being the feedstock for production of rubbers and plastics;
- › other petrochemical products (ethylene oxide, propylene oxide, alpha-olefins, surfactants, polyethers, glycols etc);

## CORE ACTIVITIES

The key activities of OAO Nizhnekamskneftekhim are as follows:

- › production of petrochemical and chemical products, consumer goods, some energy carriers and other products;
- › operation of production units, process trains (sections, stages), package units;
- › operation of individual process facilities which do not make part of the process units (process units, warehouses, storage facilities, gas holders, purification works, units for waste utilization and neutralization);
- › operation of all types of electrical equipment;
- › training of personnel and staff training for the Company;
- › start-up and commissioning of process systems;
- › erection, installation and construction works for construction and revamping of production units, shops, sections, individual units and big process projects;
- › repair of chemical-engineering systems and manufacture of equipment for repair and operation needs.

## COMPANY'S DEVELOPMENT STRATEGY

Sustainable development is the basis of Nizhnekamskneftekhim strategy. The Company creates competitive advantages through establishment of a balance in economic, environmental and social responsibility.

Strategic program of development of OAO Nizhnekamskneftekhim up to 2020 has been elaborated in conjunction with the main objectives fixed by the Presidential Program for expansion of oil-gas-chemical complex of the Republic of Tatarstan and completely matches its objects and tasks.

The strategic program of development of OAO Nizhnekamskneftekhim corresponds to the basic principles of the Plan for development of the gas-oil-chemistry in Russia until 2030 that is currently elaborated by RF Ministry of Energy which indicated an extremely acute shortage of domestic pyrolysis capacities as a restraining factor to further develop the industry. The plan calls for cluster development of the Russian petrochemical industry and the olefin project of Nizhnekamskneftekhim would be the anchor for the Volga cluster.

The strategy of sustainable development of OAO Nizhnekamskneftekhim over the long term would be:

- › strengthening the position of the Company's domestic and foreign markets as a manufacturer of a wide range of synthetic rubber;
- › transformation into a major player in the Russian and CIS markets for the production and sales of a wide range of plastics, including import-substituting ones;
- › discontinue the sales of products with low processing depth and low added value.

Implementation of the strategy involves:

- › expansion of the range and volume of major products;
- › increase in sales volumes and revenues and profits of the Company;
- › increase of processing depth of hydrocarbons, high added value production, ensure high competitiveness of products;
- › considerable modernization and renewal of capital assets;
- › environmental safety and energy efficiency of the production complex.

## BUSINESS PRIORITIES AND DEVELOPMENT PROSPECTS OF THE COMPANY

- › Implementation of a comprehensive strategic development program until 2020:
  - project for construction of olefins complex up to 1 million tons of ethylene per year;
  - projects on expansion of capacities for production of synthetic rubber: butyl rubber, halobutyl rubber, IR, ND-catalyzed PBR, SKD-L;
  - revamping and expansion of existing facilities producing petrochemical products (butadiene, isobutylene, isoprene).

- › Construction of ABS-plastics plant with capacity of 60,000 tons per year;
- › Construction of polystyrene production line No. 4.
- › Implementation of activities as part of the energy saving program and ecological program.

## CERTIFIED MANAGEMENT SYSTEMS OF THE COMPANY

In order to improve the quality of products (services) and to ensure stable operation in the market conditions of 2000, the system of quality management of Nizhnekamskneftekhim has been certified for compliance with the international standard ISO 9000:1994 with further improvement to meet the requirements of ISO 9001:2008. Integration of the standard added to improvement of the entire enterprise management system.

In 2003 the environmental management system was certified in accordance with MS ISO 14001:1996. This area of work is highly important and helps reduce negative impacts on the environment and comply with environmental legislation.

Since 2007 the system of safety and health management successfully operates in Nizhnekamskneftekhim meeting the requirements of OHSAS 18001:2007, and aimed at ensuring trouble-free operation of production units and the health of workers, and creating favorable conditions for highly productive labor.

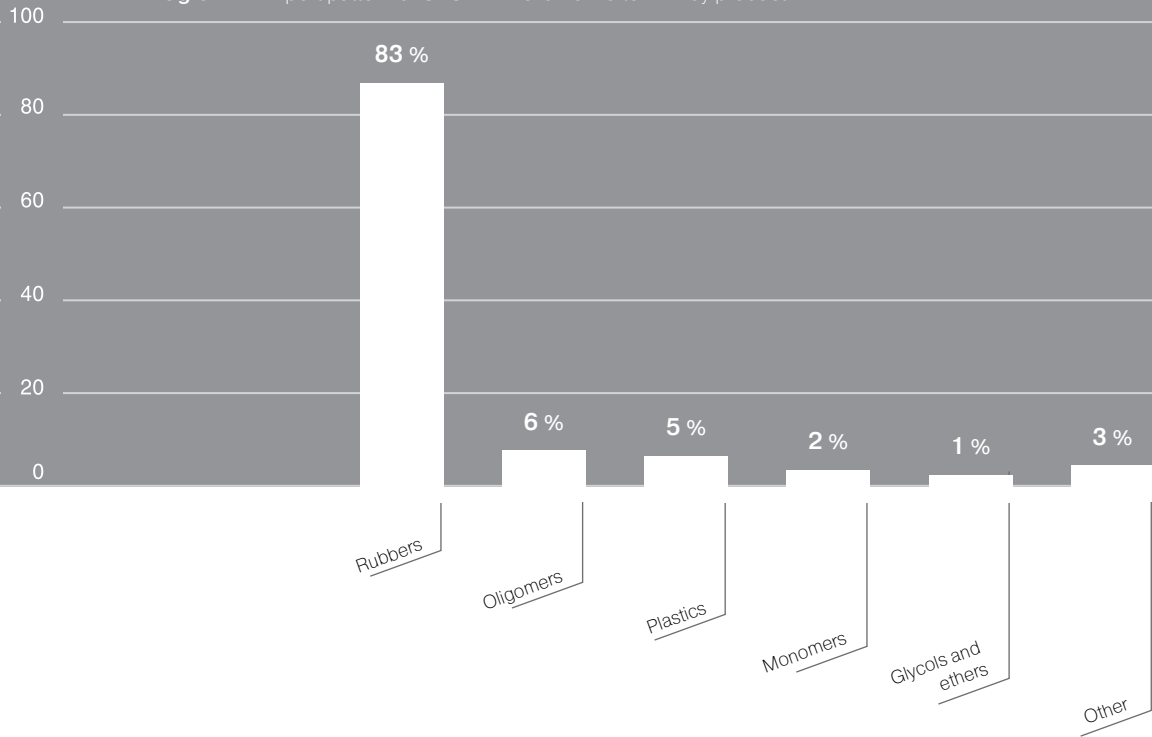
Quality management systems, environmental management and safety management at Nizhnekamskneftekhim are certified by the same certifying agency – CQS IQNet. In September 2010 the «Gold» certificate has been received from the Czech audit firm «IQNet» (Prague) for compliance of the systems with the acknowledged methods of work in these areas in its updated version.

The Company's strategy of sustainable development, the availability of qualified personnel and powerful production facilities guarantee future successful operation of Nizhnekamskneftekhim.

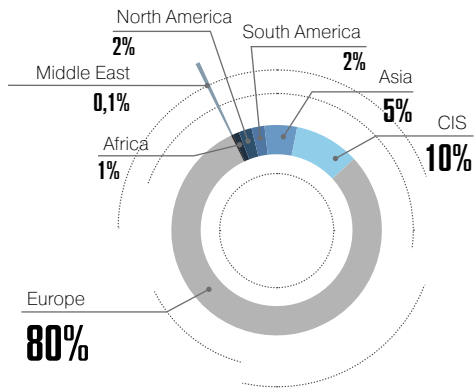
In order to maintain and improve an integrated system of quality control in Nizhnekamskneftekhim in 2011, and based on the schedule approved by the General Director, 32 internal audits were conducted in the Company's departments for compliance of internal Company documents to international standards ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007. Currently a team of 58 internal auditors was organized at Nizhnekamskneftekhim, fluent in the issues of successful operation of the system of quality control in various areas having such professional qualities as competence, communication skills, flexibility, which are involved in conducting internal audits in departments. Based on the results of the work performed the managers of departments that were examined prepare the plans of corrective and preventive actions to define the causes of the revealed discrepancies.

Over the past 10 years the Company has been taking an active part in the competitions that enhance its competitiveness. Thus, in 2004 and 2010 Nizhnekamskneftekhim was the winner of the national competition for the awards of the Government of the Republic of Tatarstan in quality, in 2007 – the winner of the competition for awards of the Russian Federation in the field of quality, and in 2008 – the winner of the competition for the prizes of the Commonwealth of Independent States.

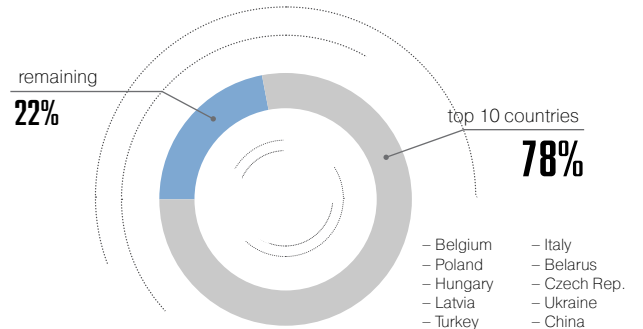
**Diagram 1** Export pattern of OAO Nizhnekamskneftekhim by product



**Diagram 3** Regional export structure of OAO Nizhnekamskneftekhim



**Diagram 4** Country-wise product export of OAO Nizhnekamskneftekhim



**Diagram 5** Export structure of OAO Nizhnekamskneftekhim in regions

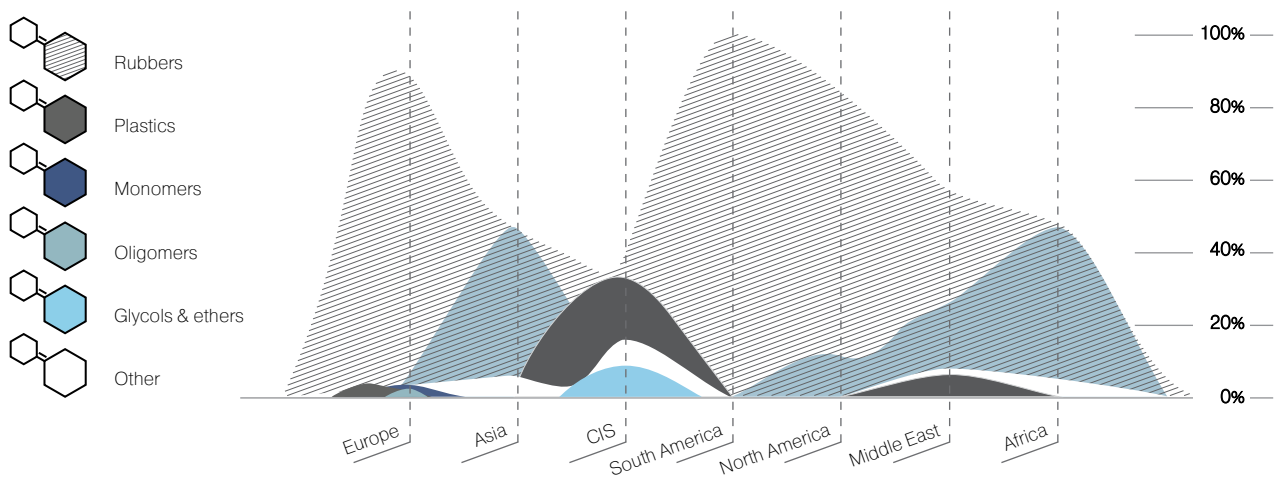
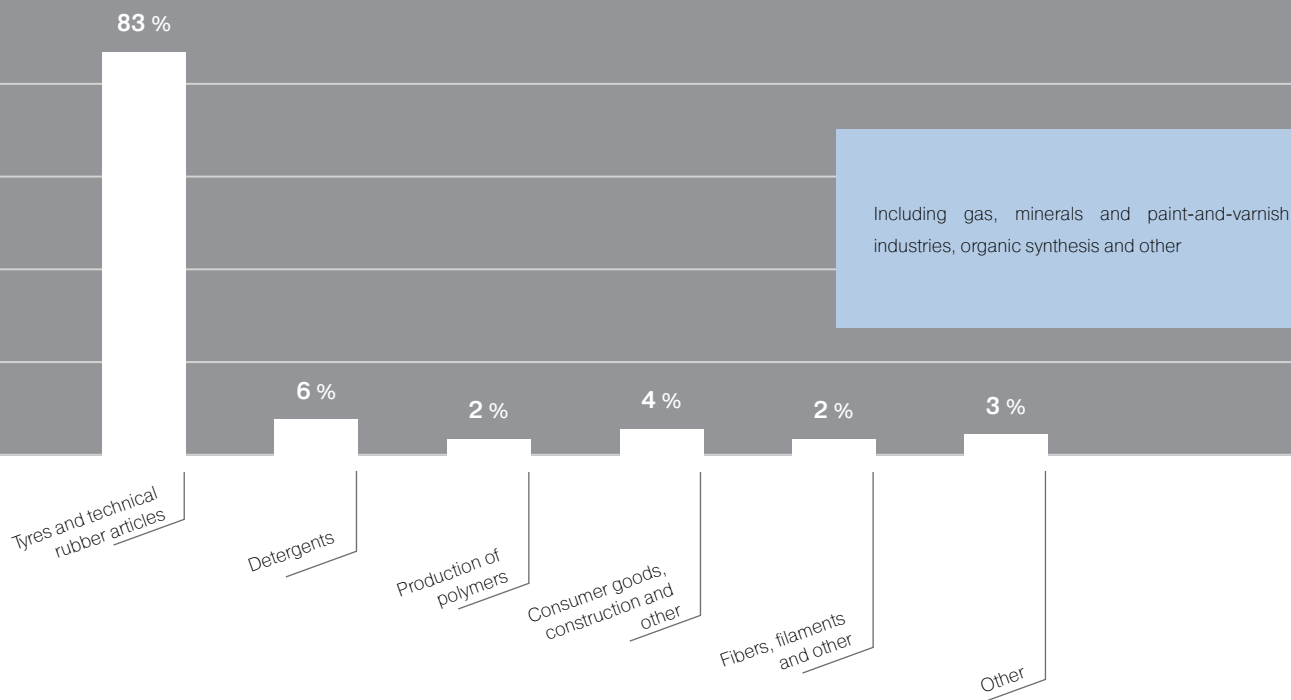


Diagram 2 Market sectors serviced by export



## WORLD MARKET STANDING

In 44 years of its production activity the Company became the largest petrochemical complex in Europe, and it has high export potential. The share of exports in total product sales of the Company is not less than 50%. In 2011 the Company exported its products to 52 countries.

The main route of export shipments of Nizhnekamskneftekhim products is Belgium, whose share of export was 22% in 2011. Product volumes shipped to Poland and Hungary amounted to 12% each, and 7% and 6% to Latvia and Turkey, respectively. 4% each fell on Italy, Belarus and Czech Republic and 3% each for Ukraine and China.

Geographical location of Nizhnekamskneftekhim allows the Company to export successfully to different regions of the globe. This being the case, it is customary that the largest areas of export shipments are Europe, CIS countries and Asia.

The major portion of exports in the structure of the Company's products accounts for synthetic rubbers, which are traditionally the largest segment of the Company's sales abroad.

The Company is successfully developing its **synthetic rubber** sector and has worked well in the international market of these products. For several years it has been supplying its rubber to major international tire companies. In 2011 77% of the total export volume of synthetic rubber was shipped for them, and this proportion tends to increase.

The second important sector in the strategy of development of the Company is **plastics**, being the production segment of the Company focused primarily on the rapidly growing domestic market. Nevertheless, Nizhnekamskneftekhim also actively exports its plastics abroad.

**Oligomers** are the third largest segment of exports. Products in this segment are predominantly surfactants and raw materials used to produce them. The diagram shows the structure of Nizhnekamskneftekhim exports in 2011 (the share of different types of products in total shipments to any given region of the world).

The supplies of synthetic rubber prevail in most regions of the world where the products are exported to, while export to the CIS countries accounted for 40% of the plastics.

The major portion of export deliveries is allocated to tires and technical rubber sector in the market. All other sectors have significantly smaller proportion – from 2% to 6%.

In 2011 Nizhnekamskneftekhim had export contracts with 149 foreign partners. The structure of sales to customers is such that approximately 28% are direct sales to end consumers and 72% – through the traders and distributors. A high proportion of sales through indirect channels is dictated by the following reasons important for the Company:

- ✓ ensure the timely receipt of funds on the accounts of the Company (including the lending activities), minimizing the risk of money indebtedness for shipped goods;
- ✓ ensure uninterrupted export supplies and smooth operation of the Company's production facilities;
- ✓ create high quality service for sales to final consumers in regional markets;
- ✓ ability to provide products to small customers (distribution).

### **THE MAIN PRODUCTS OF AOO NIZHNEKAMSKNEFTEKHIM HAVING THE CHARACTERISTICS OF THE GLOBAL PRESENCE IN MARKETS**

Export portfolio of OAO Nizhnekamskneftekhim is sufficiently diversified. The most heavy-tonnage products shipped for export are synthetic rubbers (isoprene, butyl, halobutyl and butadiene), plastics (polystyrene, polypropylene and polyethylene), styrene, isoprene, neonols and polyethylene glycols, cumulative share of which being equal to 94% of products exported.

In 2011, synthetic rubbers covered 83% of products exported by OAO Nizhnekamskneftekhim<sup>1</sup>. Synthetic rubber shipment volumes to overseas buyers are growing from year to year. In 2011, synthetic rubber exports increased by 13% in physical terms and by 47% in Dollar terms as compared to 2010.

OAO Nizhnekamskneftekhim successfully cooperates with the largest overseas tire companies, including Michelin, Goodyear, Pirelli, Continental, Bridgestone and Belshina Group. In 2011, share of export to said customers constituted 77% of the total rubber export volume.

### **ISOPRENE RUBBER SKI-3**

For many years, OAO Nizhnekamskneftekhim has been supplying isoprene rubber SKI-3 to foreign markets. The main competitors of OAO Nizhnekamskneftekhim in the overseas market are the American Company Goodyear, Russian companies Sintezkauchuk (Togliatti) and Kauchuk (Sterlitamak). Goodyear and OAO Nizhnekamskneftekhim are linked by strong partnership relations.

In 2011, OAO Nizhnekamskneftekhim exported 71% of the total annual volume of SKI-3 output. Export volume increased by 13% as compared to 2010. OAO Nizhnekamskneftekhim's share in the world market amounted to 44% in terms of supplies to the global market (RF included).

### **BUTYL RUBBERS**

Nizhnekamsk Plant for production of Butyl Rubber BK-1675N is widely known all over the world. The main application of butyl rubber BK-1675N is automobile inner tubes manufacture. In the territory of the Russian Federation this type of rubber is produced only in Nizhnekamsk and Togliatti. It should be noted that for many years OAO Nizhnekamskneftekhim maintains the leading positions in Russia both in terms of production and sales of the product. Overseas, the principal demand for butyl rubber is concentrated in the Asian market. Owing to high and sustained quality and active marketing policy the Company managed to strengthen its positions in the overseas market.

In 2011, OAO Nizhnekamskneftekhim exported 96% of the total butyl rubber output. Export volume decreased by 12% against 2010 at the expense of increase of halogenated butyl rubbers production volumes. In 2004, upon startup of Halogenated Butyl Rubber Facility, OAO Nizhnekamskneftekhim became the third producer and supplier of halobutyl rubber. Approximately 90% of halogenated butyl rubbers are used for production of tubeless tire liners. With a yearly-increasing tubeless tire production, the demand for HIR is steadily growing at an average pace of 3.1% globally and by 6% per year in the fast-moving Asian region. Major consumers of OAO Nizhnekamskneftekhim's butyl rubber are overseas large tire producers.

The Company's competitors in the overseas market are ExxonMobil (JV Japan Butyl Company inclusive), Lanxess, Sinopec Yanshan PC, Zhejiang Xinhui Synthetic New Material Co., Sibur.

In 2011, OAO Nizhnekamskneftekhim exported 95% of the total HIR produced. Export volume increased by 30% versus 2010. In 2011, OAO Nizhnekamskneftekhim's share in the global halogenated butyl rubbers market, IIR and HIR inclusive, amounted to 15%.

### **POLYBUTADIENE RUBBER, SKDN**

After SBR, polybutadiene rubber is second-in-volume synthetic rubber consumed worldwide. Its share in the overall structure of synthetic rubber global consumption constitutes 25%. Approximately 70% of PBR is applied to produce tires (treads, buttresses and suchlike). But more preferable for that purpose becomes polybutadiene rubber based on neodymium catalyst.

OAO Nizhnekamskneftekhim put into operation precisely such kind of a production unit in 2004. SKDN Unit fully meets the Company's strategy targeted at setting up a production complex with a complete range of synthetic rubber grades for tire and general mechanical rubber goods industries satisfying the highest requirements of our time. Over the past years, SKDN has been successfully tested and used at production facilities by a number

<sup>1</sup> In dollar terms

of largest customers, and now is shipped mainly to the overseas market. In 2011, the Company exported 95% of said rubber output. Within the total SKDN export volume, 82% was delivered to major overseas customers. Compared to 2010, SKDN export volume increased by 15% in physical terms and by 66% in Dollar terms. In 2011, OAO Nizhnekamskneftekhim's share in the global market of polybutadiene rubbers (SKD-L inclusive) amounted to 5.9%. The Company's main competitors for SKDN in the world market are Goodyear, Lanxess, and Kumho.

### **POLYSTYRENE**

OAO Nizhnekamskneftekhim launched its Polystyrene Plant in 2003, licensed by the American Company Fina Technology, using the original imported equipment packages. Due to high quality and adequately selected grade slate, OAO Nizhnekamskneftekhim occupies leading positions in the Russian market. In 2008, the third Polystyrene Unit was commissioned.

The Company exported 18% of polystyrene produced in 2011. Compared to 2010, polystyrene export volume reduced by 14% in physical terms (due to extension of supplies to the Russian market), but increased by 8% in Dollar terms owing to higher prices. Share of OAO Nizhnekamskneftekhim in supplies to the global market constituted 1.6%. The main competitors in the overseas market are BASF, Dow, IneosNova, and Polimeri Europa.

### **POLYPROPYLENE**

The Polypropylene Plant was commissioned at 2006 year-end. Currently, it is the most up-to-date Polypropylene Plant in the RF. Over the past years, the Company successfully developed the Russian and overseas polypropylene markets.

In 2011, the Company exported 8% of polypropylene produced. Export volume reduced by 34% in physical terms owing to high activity of the Russian market players. Share of OAO Nizhnekamskneftekhim in supplies to the global market constituted 0.4%. The primary polypropylene export markets were Ukraine, Belarus, Uzbekistan, and Kazakhstan. The Company's principal competitors in the export markets are LyondellBasell, Borealis, Total PC, SABIC, Ineos, Stavrolen.

### **POLYETHYLENE**

The Polyethylene Plant is the youngest one. It was commissioned in 2009 crisis year. During these years this product was tested by many consumers, and currently it is actively supplied, primarily to the Russian market. In 2011, 3% of polyethylene produced was exported. Due to enhanced activity in the Russian market, over a half of volume was redirected to the domestic market. Share of OAO Nizhnekamskneftekhim in supplies to the global market constituted 0.3%. The Company's principal competitors in the export markets are LyondellBasell, Ineos, Total PC, SABIC.

### **NEONOL (OXYETHYLATED NONYLPHENOLS)**

Neonol belongs to surfactants applied as a base to produce diverse synthetic detergents. OAO Nizhnekamskneftekhim is a single producer of neonol in the Russian Federation and CIS, and one of the leading players in the world neonol market. OAO Nizhnekamskneftekhim's share in the world market of oxyethylated nonylphenols constitutes nearly 22%. The main competitors are Dow, Honam, Huntsman, Oxiteno.

### Production of basic products in physical terms

Description	Meas unit	2009	2010	2011
Synthetic isoprene rubber	t	150,583	216,751	245,338
EPDM	t	2,636	2,994	812
Polybutadiene rubber, SKDN	t	88,770	113,110	128,015
Polybutadiene rubber, SKD-L	t	19,780	28,483	39,127
Butyl and halobutyl rubbers	t	135,841	138,852	146,009
Butadiene	t	96,883	103,798	117,368
Ethylene	t	563,108	592,751	601,358
Propylene	t	275,412	283,400	299,925
Benzene	t	185,527	186,725	185,601
Styrene	t	200,731	202,643	198,737
MEG	t	68,031	95,053	96,156
Ethylene oxide	t	177,502	212,064	191,589
Propylene oxide	t	55,955	67,280	70,518
Polyethers	t	58,867	76,092	82,374
Propylene trimers	t	23,746	17,251	27,204
Propylene tetramers	t	7,594	5,131	9,123
Neonols	t	86,816	74,109	63,822
Polystyrene	t	155,757	184,353	187,037
Polypropylene	t	189,643	200,006	210,777
Polyethylene	t	130,514	160,002	195,049
Polyethylene glycol	t	26,873	31,884	21,247

## ECONOMICAL EFFICIENCY

Competitive operation of the Company that is determined by the laws of market provides long-term economic benefit and growth. The business of OAO Nizhnekamskneftekhim has a significant economic impact on society. Operating and financial results

achieved in 2011 contribute to the growth of the Company in accordance with the principles of sustainable development and implementation of programs that are of major social and economic importance to the parties involved.

### Proceeds from sales of petrochemical products

Description	Meas unit	2009	2010	2011
Commodity output	mln. rub.	57,291.6	90,487.3	121,268.6
Sales of products, total	mln. rub.	60,262.1	94,407.1	122,699.8
Including export sales of commodity products	mln. rub.	30,976.6	46,903.9	58,859.1
Expenses for 1 ruble of products sold	copecs	95.76	86.05	83.31
Income before tax	mln. rub.	699	10,107.0	18,324.1

In 2011 the commodity products were produced to the sum of 121.3 billion rubles, which is 30.8 billion rubles higher than the previous year. The index of industrial production volume in 2010 amounted to 107.6%. Sales of products and services amounted to 122.7 billion rubles.

**Financial results of OAO Nizhnekamskneftekhim business activities for 2010-2011**

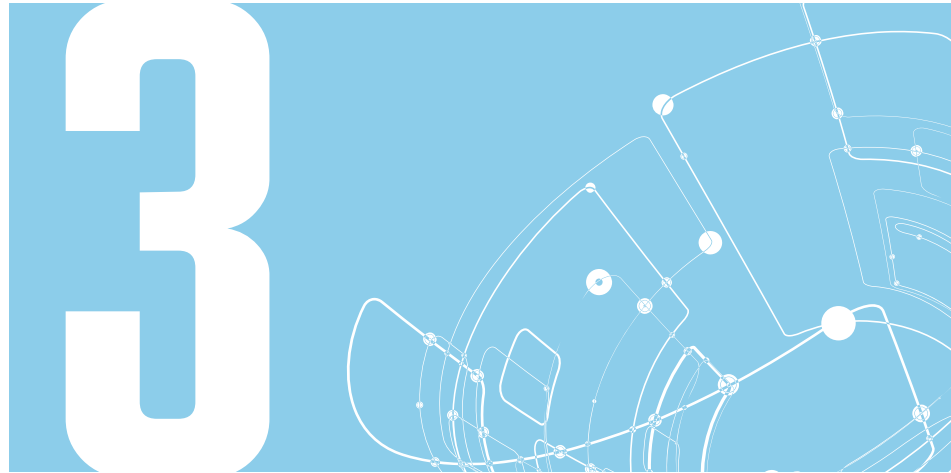
	2009	2010	2011
Overall liquidity ratio	0.8	1.36	2.55
Quick ratio	0.45	0.8	1.55
Absolute liquidity ratio	0.15	0.26	0.55
Depreciation ratio	44.2	48.34	51.09
Coefficient of renewal	4.8	2.74	4.98
Retirement rate	0.3	0.18	0.19
Capital-labor ratio, thousand rubles	1,967.4	1,938.9	1,870.07
Monthly average efficiency of one worker, thousand rubles	304.1	483.1	623.1
Net assets, million rubles	28,484.3	36,190.11	48,454.08

The values of liquidity ratios at the end of the reporting period are within the recommended standards which means, that the Company has sufficient resources to repay its short-term obligations.

**Information on budget payments, thousand rubles**

Description	2009		2010		2011	
	accrued	transferred	accrued	transferred	accrued	transferred
Budget of the Russian Federation	2,378,186	1,915,997	3,975,039	3,699,313	5,640,396	5,617,056
including customs duties	162,401	160,152	214,423	228,076	368,401	404,980
Budget of the Tatarstan Republic, including special purpose budget funds	987,926	319,391	3,189,235	3,328,564	5,013,665	4,671,438
Budget of Nizhnekamsk	608,968	633,583	599,568	607,501	654,948	646,419
Budget of other entities of the Russian Federation	5,568	2,802	18,662	17,714	26,620	26,901
Total	3,980,648	2,871,773	7,782,504	7,653,092	11,335,629	10,961,814





**CORPORATE SOCIAL  
RESPONSIBILITY**

## Section 3

# CORPORATE SOCIAL RESPONSIBILITY

In 2011, the Company joined the Social Charter of Russian Business, comprising 239 companies and industrial and regional organizations. Thus, OAO Nizhnekamskneftekhim declared the commitment to socially responsible business.

Nizhnekamskneftekhim sees its mission in full satisfaction of the customers and in maximizing profits for the Company's development and implementation of all social obligations. The mission of Nizhnekamskneftekhim is indicated in the Quality Policy of the Company

The social mission of the company is to produce the necessary public goods: rubber and other petrochemical products in the most efficient and safe manner, thereby contributing to the social welfare of society and to sustainable development of the territory and well-being of the region's population, and improve the living standards of their employees. The social mission of the Company is closely linked to corporate social responsibility (hereafter CSR). CSR is distributed in relation to society in general, in relation to local communities and in relation to personnel.

## MANAGEMENT OF SUSTAINABLE DEVELOPMENT

General management of Nizhnekamskneftekhim activities in the field of sustainable development and CSR is carried out in accordance with the separation of powers by the Board of Directors, the Management Board and the General Director. The Articles of Association provide for the right of the Board of Directors to establish skill requirements for the General Director and Board members to determine the Company's strategy on economic, environmental and social issues.

Coordination of CSR activities is entrusted to Deputy General Director for personnel and social affairs. The office under his leadership is in charge of the following functions:

- › development and implementation of corporate strategy and policies in the field of personnel management, labor, wages, social programs, social partnership and relationships with external organizations on social issues;

- › development and maintenance of corporate social monitoring and social reporting, including the international standards;
- › arrangement of interaction with government agencies, and with Russian and international organizations on social issues;

First Deputy General Director, Chief Engineer, is responsible for the development and implementation of environmental policies and policies in the field of technical regulation, industrial health and safety, and the quality management. Chief Engineer's office is in charge of the following functions:

- › provision of production activities in the sphere of technical regulations;
- › creation and ensuring the implementation of the basic trends in the corporate environmental policy;
- › interaction with the state legislative and regulatory authorities for the protection of the environment;
- › the maintenance of corporate integrated quality management system and environmental management in accordance with the requirements of ISO 9001, ISO 14001 and OHSAS 18001;
- › development, implementation and monitoring of policies in the field of industrial health and safety, and arrangement of operation of a unified system of industrial safety and health of the Company;
- › interaction with the state legislative and supervisory authorities, and public organizations on the issues of occupational safety.

In accordance with the practice adopted in the Company, reports on the effectiveness of the departments of the Company and its management in the social, environmental and economic spheres are submitted for consideration and assessment of relevant higher authorities of corporate governance.

Maintenance of interaction with shareholders and investors in the Company is assigned to the Deputy General Director – Head of Department for corporate property and strategic development. The main activities of this office are:

- › implementation of a unified information policy in relation to shareholders and investors, disclosure of relevant information about the activities of the Company in accordance with applicable law;

- › ensuring compliance with the requirements of current legislation with regard to the rights and lawful interests of shareholders and investors;
- › implementation of the Company's interaction with government authorities of the Russian Federation on issues within the competence of the department;
- › implementation of a unified policy of the Company on corporate governance (in collaboration with relevant departments of the Company).

Public Relations office is responsible for information policy and the development of an effective system of cooperation with Russian and foreign media. Public Relations office:

- › creates the Company's policy for cooperation with Russian and foreign media as part of the development strategy of the Company;
- › elaborates and implements advertising campaigns in Russian and foreign mass media to promote certain areas of activity and business development of the Company in general as part of development strategy of the Company;
- › monitors the observance of the corporate style and performs its perfection, and organizes manufacturing of printing, advertising and presentation of products of the Company.

## RISK MANAGEMENT

### MAJOR RISKS FOR ОАО НИЗНЕКАМСКНЕФТЕХИМ

The most significant risk groups<sup>1</sup> that could have a significant impact on the fulfillment of social obligations of the Company include environmental, financial and social risks.

#### Financial risks

Exposure of issuer to the risks associated with change of the interest rates, exchange rate of foreign currencies, in connection of business of the issuer or in connection with hedging conducted by the issuer for the purpose of reduction of adverse consequences of impact of above risks.

#### Risk of change of the interest rate

Some long-term transactions of the issuer use floating interest rates (based on LIBOR or EURIBOR) therefore there is a risk of cost increase of such borrowings. Factor of decrease: such transactions (credit transactions, where floating interest rates are used) provide for the mechanism of switching to fixed interest rate.

#### Environmental risks

These risks include the risk of air pollution on the site and in nearby towns, the risk of water pollution.

#### Social risks

The main social risks are the risk of provision of production staff of required quality, the risks of occupational safety and health of workers.

### METHODS OF RISK MANAGEMENT

Risk management is an integral part of the corporate management system of the Company, and it provides for active participation of departments and employees in identification and assessment of risks, and continuous expansion of studies of potential threats and opportunities, the systematic use of information about risks when taking managerial decisions.

Risk management at Nizhnekamskneftekhim represents a continuous and evolving process encompassing the entire Company. Risk management at Nizhnekamskneftekhim is exercised by employees on all levels of the Company. The results are used to adjust the strategy and tactics of the Company, and are aimed at selection of the most effective possible way of taking into account the available resources to achieve the general goal of Nizhnekamskneftekhim.

#### Currently ОАО Nizhnekamskneftekhim adopted the following methods of risk management:

**1. Transfer of risk** is achieved by conclusion of contracts for execution of works by the third parties for the repair of buildings, structures, instrumentation, diagnostics of technical devices, etc. Transfer of risk is also performed by insurance.

In order to ensure a reliable insurance coverage of production facilities and property interests of shareholders, Nizhnekamskneftekhim concluded the contracts of Company's property insurance for the cost of a full recovery from fire, explosion, natural disasters, acts of third parties, aircraft crashes and other dangers. Considerable part of risks is successfully placed by leading insurance companies in foreign reinsurance companies.

Due to the fact that operation of hazardous production facilities is the licensed activity of Nizhnekamskneftekhim, and also there are production facilities of other business entities in the territory of the Company (which may be damaged), Nizhnekamskneftekhim has insured its civil liability for operation of 200 hazardous industrial facilities.

To date, Nizhnekamskneftekhim has no provision for property underinsurance in order to arrange proper insurance scheme.

<sup>1</sup> Major risks are described in the Annual Report of the Company

Foreign reinsurance companies pay particular attention to arrangement of insurance activities in the companies, and there are special requirements to the quality of substantial risk, as in the case of loss (loss occurrence) reinsurance companies will need to fund the losses in full, i.e. on actual expenditures for the restoration of the facility.

Voluntary accident insurance was arranged for employees in performance of their duties, and also insurance against harm to health of disablement for all employees of OAO Nizhnekamskneftekhim.

**2. Risk reduction** is the reduction of the probability of occurrence of an event or its consequences or both them simultaneously. By reducing the level of risk the strategy of preventive measures is taken into account:

- › elimination of adverse effects and impact of factors (for example, replacement of equipment);
- › reducing the harmful effects and the influence of dangerous and harmful factors (for example, prevention of personnel access to the source of dangerous or harmful factors – the transfer of equipment to the area with few people);
- › arrangement of collective protection equipment (for example, installation of acoustic insulation);
- › use of personal protective equipment (for example, use of earmuffs and light filters);
- › organizational measures to ensure safe working conditions and occupational safety (training, briefings, coaching, alarms, information distribution);
- › reducing the damage (for example, medical examinations, provision of therapeutic nourishment, milk, etc);

**3. Keeping (holding) of risk** is justified if:

- › there is no way of elimination or reduction of this risk at the current level of technical progress;
- › the cost of reducing risk is much greater than its possible consequences;

The objectives of risk management is to reduce the dependence of the main indicators of the Company on the risks, and reducing the financial and nonfinancial consequences of risk occurrences, and increase opportunities of Nizhnekamskneftekhim in achievement of its strategic goals, including increasing the Company's capitalization, profits and dividends to shareholders, increasing the stability of the business processes, saving and promoting the image, the implementation of social policy, and also the policy of environmental protection.

## PRINCIPLES OF CORPORATE SOCIAL RESPONSIBILITY

### Principles of corporate social responsibility (CSR) of business towards shareholders and investors:

- › equal treatment of all shareholders owning shares in the Company in accordance with the laws of the Russian Federation;
  - › mutual trust and respect;
  - › openness in corporate decision making;
  - › personal responsibility of the Company's Board of Directors and Management Board and their accountability to shareholders;
  - › adherence to standards of information transparency and openness;
  - › protecting the rights of shareholders and employees of the Company;
  - › continuous improvement of standards of corporate behavior.
- Principles of CSR of business in relation to society as a whole;
- › production of goods needed to the society in the most efficient way, taking into account the interests of business and society in the amount, quality and assortment corresponding to the market demand;
  - › unconditional compliance with the laws of the country, including those related to payment of taxes;
  - › compliance with requirements of international agreements including standards of business conduct developed by the international community;
  - › use of resource-saving technologies and ensure the environmental and industrial safety;
  - › implementation of socially important charitable projects in the social and environmental spheres both at national and international levels.

### Principles of CSR in relation to local communities:

- › providing employment to population;
- › payment of taxes forming local and regional budgets;
- › implementation of projects that promote social and economic development of the area and the social sphere;
- › participation in projects of environmental protection;
- › provision of charitable assistance to socially vulnerable categories of citizens.

### Principles of CSR in relation to personnel:

- › providing efficient jobs with competitive levels of wages and social benefits;
- › unconditional compliance with standards of social and labor relations established by the laws and collective agreements;
- › ensuring safe working conditions and a high level of social conditions at the workplace, based on priorities of safety of employees and their health maintenance;
- › facilitate comprehensive professional and cultural development of employees;
- › development of staff.

## INTERACTION WITH STAKEHOLDERS

Realizing its social mission and strategy, OAO Nizhnekamskneftekhim takes into account the views of all parties concerned. Working in close dialogue with stakeholders allows the Company to quickly learn about the expectations of all stakeholders and society in general and respond to their needs. The Company regularly examines the opinion of key stakeholders through interviews and consultations, round tables, and communicates with them in the form of talks, working groups, standing committees, meetings and conferences on specific issues, etc. The basis for the identification of key stakeholders is to analyze the degree of mutual influence and closeness of interaction, the importance of respecting their interests for the Company, performed on the basis of dialogue with the management of the Company. List and priorities of stakeholders are defined by the extent of their influence on Nizhnekamskneftekhim business, and the degree of influence of the Company on them, and evaluation of these impacts in the future.

The most important stakeholders are the employees and their families, business partners, shareholders and investors, local communities (including local authorities, public and non-governmental organizations), media, professional organizations, stakeholders at the federal, regional and international levels. Methods of communication, feedback and interaction have been developed and implemented for each group.

OAO Nizhnekamskneftekhim aligns its interaction with stakeholders on the following **fundamental principles**: respect for and consideration of interests, opinions and preferences; openness and transparency; trust and sincerity; unconditional compliance with the law and international and Russian accounting standards; responsible fulfillment of the commitments, respect for history, culture, traditions, lifestyle and heritage of the residents of the business area.

The Company strives to choose the most efficient, convenient and mutually beneficial forms of cooperation with each of the parties concerned.

## EMPLOYEES AND THEIR FAMILIES

Relations with employees are based on the Company's existing but constantly developing system of social partnership. OAO Nizhnekamskneftekhim recognizes the right of workers to unite and the create organizations representing their interests. Sources of information for employees and managers are briefings, meetings, e-mail, Internet, departmental media, orders, instructions and scientific and technical papers, and documents developed in joint-stock company. Every year, the Company's plans are presented at the press conferences, and also the annual general meetings of shareholders are held. Complete information is available on the website of Nizhnekamskneftekhim. The system of internal corporate communications is aimed at informing employees about the Company's development strategy, bringing to their notice the goals, objectives, long-term and current plans, the results of

productive activity of Nizhnekamskneftekhim and its business units, identifying the views and interests of workers.

The Company operates the laboratory of sociological and psychological research and analysis, which is responsible for the study of social well-being of employees, their level of job satisfaction and various aspects of working life. Knowing the views of the employees and individual social and occupational and demographic groups allows carrying out targeted work with the staff of Nizhnekamskneftekhim, and take into account the interests and needs of each employee of the Company, and to develop measures to improve work with the staff.

## BUSINESS PARTNERS

The Company seeks to cooperate with business partners, suppliers and customers on the principles of transparency, fairness and impartiality in compliance with the ethics of business. The Company implements a socially responsible approach to the selection of suppliers and consumers. Selection of potential partners by the Company is based on market research, taking into account the public reputation of companies regarding human rights and their shared principles of corporate governance and social responsibility. OAO Nizhnekamskneftekhim conducts preliminary qualification of bidders for the supply of goods and services, paying particular attention to ethics of suppliers.

The Company carries out procurement of essential resources consumed on a tender basis, guided by the principles of open procurement procedures.

The Company determines the range of consumers of its products based on criteria that take into account reliability rating of buying companies and their reputation in the world market. The Company's relationships with consumers are based on the development of standards in the marketing, related to consideration of consumer claims and evaluation of their satisfaction. Based on the Company Standard, the Company conducts annual surveys of all customers in the domestic and foreign markets in order to identify their views on the conditions of delivery and quality of product and its packaging. In order to improve the efficiency of cooperation with consumers and provide the interested parties with relevant information electronic databases are formed and maintained for customer complaints for all types of Company's products and inconsistencies associated with the supply of goods. In 2011, the Company has not been subjected to any legal proceedings in connection with counteracting to competitiveness, and there were no legal investigations against the practical approaches for prevention of monopolistic practices and their results.

In order to obtain competitive advantage and strengthen business relationships with strategic customers of finished products, an automatic exchange of electronic data was organized between ERP systems of Continental company and Nizhnekamskneftekhim through the portal Rubber Network.

To date, OAO Nizhnekamskneftekhim has the technical ability to fully integrate with the rest of the world's consumers of chemical

products and participants of Elemica trading platform (Michelin Goodyear, Pirelli, etc.).

## SHAREHOLDERS AND INVESTORS

Relations of OAO Nizhnekamskneftekhim with shareholders and investors are based on the principles of direct constructive dialogue in accordance with applicable law and generally accepted international practice. The Company seeks to maximize the transparency of its activities and provide equal and timely access of shareholders and investors to information about the Company. Business management information system was introduced using SAP tools of ERP-system, which allows top management to improve competitiveness and investment attractiveness of the Company by optimization and standardization of business processes with the use of global best practices and provision of transparency of the operating and financial performance and application of IT-tools. The use of this system provides the ability to manage the Company on the basis of the constantly reliable and relevant information necessary for making sound decisions.

Department of corporate property and strategic development of OAO Nizhnekamskneftekhim is responsible for interaction with shareholders and investors.

## LOCAL COMMUNITY

The Company's activities in the field of social and economic development of local communities are part of the interaction with the local authorities, regional government authorities and public organizations.

Representatives of the Company are involved in the activities of the working groups and commissions established by the administration of the area on social policy issues, in which the activities of government are coordinated. An example of interaction between the Company and local government is participation of Company managers in the weekly meetings of Nizhnekamsk municipal district «Business Monday», and the work in the Standing Committee of Nizhnekamsk City Council on Local Government Rules and deputy ethics.

While taking into account the interests of the population and business areas, OAO Nizhnekamskneftekhim implements special programs that promote development of social sector – education, health, municipal housing economy, transport and communications. The Company also collaborates with community organizations carrying out their activities in the economy, including the organizations representing the interests of socially disadvantaged groups.

The work of OAO Nizhnekamskneftekhim with local regional executive authorities is based on agreements on social and economic interaction.

## INTERACTION WITH MASS MEDIA

The Company tries to maximize the responding to requests of journalists, representing media of local and regional levels, foreign publishers, in order to inform all interested parties on the events and current activities of the Company, and prospects of development. Press service of the Company organizes the work with the media representatives. Press Service maintains communication with the federal mass media (Rossiyskaya Gazeta, Kommersant, Izvestiya), Republican media (newspapers The Republic of Tatarstan, Vatanym Tatarstan, TV channels TNV, GTRK Tatarstan), and local media (the newspaper Nizhnekamskaya pravda, Tugan Yak, Vasha gazeta, Nizhnekamsk time, and TV companies – NTR and Efir). The Company publishes the corporate newspapers Neftekhimik and Hezmettesh Avazy (in Tatar language), and organizes the work of departmental radio and TV stations. Newspaper articles, radio and television programs are very popular both among employees and other stakeholders. The most important task of departmental media is creation of corporate unity in solving common problems. The materials published in the corporate media describe the activities of the Company and its divisions, as well as about individual workers.

A social research among the Company employees was conducted as part of monitoring of departmental radio Neftekhim in 2011. 652 people were interviewed, and the rating of Neftekhim radio studio was defined among students, and information preferences of employees. Petrochemists appreciated the openness and professionalism of the radio studio masters. Creation of the common information space, and participation in shaping and supporting corporate values of the Company – these priorities are solved by the departmental radio according to respondents. 95% of them listen to radio Neftekhim. Most people obtain the required information from the broadcasts, many noted that workers of Neftekhim radio were able to accommodate the interests of a bilingual audience.

One form of dialogue with stakeholders has become the forum of the corporate official site of OAO Nizhnekamskneftekhim which opened in June 2006. Through this tool the Company tries to maintain a dialogue with the audience actively using the Internet not only as a source of information, but also as the modern means of communication.

## PROFESSIONAL ORGANIZATIONS

The Company strives for professional improvement and innovations. OAO Nizhnekamskneftekhim is a member of the following organizations:

- › Chamber of Commerce and Industry;
- › Association of gas turbine technology for power generation and industry;
- › The Russian Union of Chemists;
- › The Russian Union of Industrialists and Entrepreneurs;
- › Association Sintezkauchuk;

› Association of enterprises and entrepreneurs of the Republic of Tatarstan;

› Self-Regulatory Organization Regional Non-Profit Partnership «Builders Community of the Republic of Tatarstan»

Interaction with professional organizations occurs repeatedly to discuss important issues. Vladimir Busygin, General Director of the Company is a member of the Board of the Russian Union of Industrialists and Entrepreneurs, and is a member of the Commission on the chemical industry. Employees of OAO Nizhnekamskneftekhim are represented as experts in the Committee on environmental, industrial and technological safety.

#### STAKEHOLDERS AT THE FEDERAL AND REGIONAL LEVELS

OAO Nizhnekamskneftekhim coordinates its activities with the main guidelines of the state policy in the social and economic sphere. The Company cooperates with federal legislative and executive authorities in preparation of proposals aimed at improving the social and labor relations, social insurance, pensions, contributing to implementation of socially significant projects at the national level. In collaboration with the authorities the Company considers it a priority to balance the interests of business, workers, the community in the area of economic activity and society in general. In 2011, the Company did not undertake lobbying in respect of national policy.

#### STAKEHOLDERS AT THE INTERNATIONAL LEVEL

Being one of the largest petrochemical corporations, the Company sells most of its products in foreign markets. In this regard, special attention is given to cooperation with international non-governmental organizations. Interaction with international public organizations is mutually advantageous in sharing the best practices in the industrial, environmental, social and other spheres of activity.

OAO Nizhnekamskneftekhim is a member of the following international organizations:

- › International Academy for Quality;
- › Association for Automatic Identification «UNISCAN / GS 1 Rus»;
- › International Rubber Study Group (IRSG);
- › International Institute of Rubber Manufacturers

Membership in international organizations opens up new opportunities for expanding the Company's business, both in terms of attracting foreign investments and in terms of expansion of access of Russian companies to international markets.

Stakeholder	MODE AND FREQUENCY OF INTERACTION
Employees and their families	<ul style="list-style-type: none"> <li>– collegiate bodies of employers and employees (permanent commissions for the collective agreement, labor safety and labor disputes);</li> <li>– permanent reception on the production issues and weekly reception on social and labor issues;</li> <li>– annual corporate forum;</li> <li>– social monitoring (annually);</li> <li>– monthly corporate cultural and sports events;</li> <li>– constant interaction with the trade union committee and other unions of workers;</li> <li>– regular interviews of employees of the Company (once per month);</li> <li>– a permanent «hot line» for employees.</li> </ul>
Business partners	<ul style="list-style-type: none"> <li>– business meetings and discussions as needed;</li> <li>– selection of suppliers on a competitive basis;</li> <li>– a permanent record of the views of consumers about the quality of products;</li> <li>– development of standards for the marketing of products;</li> <li>– regular market research;</li> <li>– participation in exhibitions;</li> <li>– continued involvement in electronic trading on the manufacturers' websites;</li> <li>– procurement using electronic trading platforms;</li> <li>– regular business conversations by telephone.</li> </ul>
Shareholders and investors	<ul style="list-style-type: none"> <li>– monthly meetings of the Company's management with shareholders and investors;</li> <li>– participation of the Company's management in the Russian and international conferences on invitation;</li> <li>– general meeting of shareholders (once a year);</li> <li>– responses to the applications of shareholders and investors (continuing);</li> <li>– trips to the Company's facilities (if necessary);</li> <li>– disclosure of information on the Company's business in accordance with the requirements of the legislation (quarterly).</li> </ul>
Local community	<ul style="list-style-type: none"> <li>– constant participation in working groups and commissions created by the administration of the business area;</li> <li>– continued cooperation with the institutions of professional education;</li> <li>– regular public opinion polls;</li> <li>– conducting public hearings and consultations, as necessary;</li> <li>– participation in regional exhibitions and forums (depending on business needs);</li> <li>– continued involvement in the implementation of social programs in cooperation with community of Nizhnekamsk;</li> <li>– continued cooperation with educational institutions (sponsorship, meetings, polls, reviews of graduates that have become young specialists).</li> </ul>
Mass media	<ul style="list-style-type: none"> <li>– permanent placement of information about important events of the Company;</li> <li>– visits of Company's production facilities by media representatives;</li> <li>– invitation of the media representatives to press tours, press conferences, the celebrations and sports events held at Nizhnekamskneftekhim;</li> <li>– press coverage of annual conferences of the labor collective.</li> </ul>

Stakeholder	MODE AND FREQUENCY OF INTERACTION
Professional organizations	<ul style="list-style-type: none"> <li>– participation in thematic meetings, conferences whenever they are organized;</li> <li>– representation and participation in PTK activities;</li> <li>– continued cooperation with the Academy of Sciences;</li> <li>– permanent representation and participation in working groups of associations and employers (RUIE, Coordination Board of employers association of Russia, AMP etc);</li> <li>– continued cooperation with institutions of higher education.</li> </ul>
Federal and regional authorities	<ul style="list-style-type: none"> <li>– continued participation in governmental working groups, socially significant events, conferences and forums;</li> <li>– annual agreements on cooperation with regional authorities;</li> <li>– Constant participation in the work of the Russian Union of Industrialists and Entrepreneurs.</li> </ul>
International organizations	<ul style="list-style-type: none"> <li>– Continued involvement in the work of international HKO;</li> <li>– representation in relevant international organizations;</li> <li>– continuous cooperation with MOT, MOP.</li> </ul>

Stakeholder	KEY CORPORATE DOCUMENTS GOVERNING THE INTERACTION
Employees and their families	<ul style="list-style-type: none"> <li>– Personnel management policy</li> <li>– Occupational health and safety policy</li> <li>– Internal work rules</li> <li>– Regulations on personal data of Nizhnekamskneftekhim employees</li> <li>– Company standard «Certification of managers and specialists of Nizhnekamskneftekhim»</li> <li>– Company standard «Selection, placement and adaptation of staff. The procedure for determination and preparation of reserve staff for the posts of managers and specialists of OAO Nizhnekamskneftekhim»</li> <li>– Company standard «Procedure of preparation and development of personnel at OAO Nizhnekamskneftekhim»</li> <li>– Regulations on awarding workers of OAO Nizhnekamskneftekhim</li> <li>– Regulations for incentive of OAO Nizhnekamskneftekhim employees for the work and contribution to development</li> <li>– Regulations on bonus payment for OAO Nizhnekamskneftekhim employees based on the main results of economic operations for one month</li> <li>– Regulation on the competition for vacant positions at OAO Nizhnekamskneftekhim</li> <li>– Regulation on the organization of training and examination of the workers of OAO Nizhnekamskneftekhim</li> <li>– Regulation on the moral and material incentives of labor protection and industrial safety at OAO Nizhnekamskneftekhim</li> <li>– Regulations for the organization of training on labor protection and verification of knowledge of labor protection requirements at OAO Nizhnekamskneftekhim</li> <li>– The collective agreement between workers and management of OAO Nizhnekamskneftekhim for 2011</li> <li>– General policy of development of physical culture and sports at OAO Nizhnekamskneftekhim</li> <li>– Regulations on payments of social nature to OAO Nizhnekamskneftekhim employees</li> <li>– The main directions of youth policy at OAO Nizhnekamskneftekhim</li> <li>– Regulations on Committee for occupational safety at Nizhnekamskneftekhim</li> <li>– Regulation on the procedure of registration, examination, and use of innovative proposals and payment of compensations</li> </ul>
Business partners	<ul style="list-style-type: none"> <li>– Instruction «On the procedure for acceptance of goods for industrial purposes and consumer goods by quantity» (approved by Resolution of the USSR State Arbitration of 15.06.65, No. P-6 (as amended on 29.12.1973, 14.11.1974, and 22.10.1997)</li> <li>– Instruction «On the procedure for acceptance of goods for industrial purposes and consumer goods by quality» (approved by Resolution of the USSR State Arbitration of 25.06.1966, No. P-7 (as amended by provisions of the USSR State Arbitration No. 81 of 29.12.1973, No. 98 of 14.11.1974, and No. 18 of 22.10.1997)</li> <li>– Implementation provisions for internal control for the purpose of combating money laundering and terrorist financing</li> <li>– Regulation procurement using electronic trading facility</li> <li>– Provision on operating procedures of Department for chemical and hydrocarbon feedstock supply</li> <li>– Regulation on contractual tender committee</li> <li>– Regulations on drawing up documents for payments against contracts and control of settlements</li> <li>– Guidelines on the order of contractual work</li> <li>– Standard «Procedure of taking corrective and preventive measures»</li> <li>– Provisions on the procedure for receiving foreign delegations and individual foreign experts coming to OAO Nizhnekamskneftekhim, and departure of the Company's representatives to foreign countries and to negotiations in other cities of Russia</li> <li>– Regulations for the registration, handling and storage of documents containing commercial secrets at OAO Nizhnekamskneftekhim and when working with other organizations</li> <li>– Standard «Analysis of inquiries and responses to commercial proposals of potential buyers and analysis of the execution of contracts for sale of products in the domestic market»</li> <li>– Standard «Guidelines for complaints management of external consumers. Monitoring and analysis of satisfaction»</li> <li>– Standard «Procedures of claim administration»</li> <li>– Standard «Requirements planning, purchase of spare parts for equipment, bearings and tools according to the nomenclature of the chief mechanical engineer office, and evaluation of suppliers»</li> <li>– Standard «Procedure of concluding contracts to perform R&amp;D and services. Organization of control of the execution of work under the contracts and the introduction of their results in the production»</li> <li>– Instruction «Procedure of shipment by motor transport»</li> <li>– Regulations on access and interplant modes</li> <li>– Instruction «Procedure of work of OAO Nizhnekamskneftekhim departments, services and divisions with business units located in the territory of the Company»</li> </ul>

Stakeholder	KEY CORPORATE DOCUMENTS GOVERNING THE INTERACTION
Shareholders and investors	<ul style="list-style-type: none"> <li>- Charter of OAO Nizhnekamskneftekhim</li> <li>- Regulations for executive powers</li> <li>- Regulations for the Board of Directors of OAO Nizhnekamskneftekhim</li> <li>- Regulations for the General Shareholders Meeting of OAO Nizhnekamskneftekhim</li> <li>- Provision for operating procedure of the Audit Commission of OAO Nizhnekamskneftekhim</li> <li>- Provision for information policy of OAO Nizhnekamskneftekhim</li> <li>- Regulations for dividend policy of OAO Nizhnekamskneftekhim</li> <li>- Provision for independent directors of OAO Nizhnekamskneftekhim</li> <li>- Code of corporate ethics of the OAO Nizhnekamskneftekhim Board members</li> <li>- Code of corporate conduct at OAO Nizhnekamskneftekhim</li> <li>- Regulation on the Committee of auditing of OAO Nizhnekamskneftekhim Board of Directors</li> <li>- Regulation on the Personnel and Reward Committee of the Board of Directors of OAO Nizhnekamskneftekhim</li> </ul>
Local community	<ul style="list-style-type: none"> <li>- Ecological policy of OAO Nizhnekamskneftekhim</li> <li>- Occupational health and industrial safety policy</li> <li>- Information security policy of OAO Nizhnekamskneftekhim</li> <li>- Guidelines for waste management at OAO Nizhnekamskneftekhim</li> <li>- Collective agreement between employees and management of OAO Nizhnekamskneftekhim for 2011</li> </ul>

## IDENTIFICATION OF ASPECTS THAT NEED TO BE DISCLOSED IN THE FINANCIAL STATEMENTS

In preparation of the Annual Report for 2011 in collaboration with stakeholders topical issues were defined for stakeholders that are comparable to current topics of the Company:

- › production efficiency;
- › development strategy of the Company;
- › position in the global market;
- › information policy;
- › research and development;
- › corporate governance;
- › occupational safety;
- › energy saving;
- › interaction with local community;
- › minimizing the impact on the environment;
- › role of Nizhnekamskneftekhim in construction of water treatment station;
- › informing on environmental issues;
- › social programs for employees;
- › social programs for the public;

- › social benefits;
- › support for education;
- › support for sports;
- › support in organizing small businesses.

The degree of attention to particular subjects in the Report for 2011 is proportional to the significance and the interest and wishes of stakeholders.

In particular, after a preliminary discussion of the content the following issues were included in the Report for 2011:

- › information on establishment of jobs in Nizhnekamsk Industrial District,
- › inclusion of public participation meetings on environmental issues,
- › detailed description of environmental monitoring,
- › detailed information for public of the area concerning environmental issues and actions taken in response to complaints of general public.





## **THE COMPANY AND SHAREHOLDERS**

## Section 4

# THE COMPANY AND SHAREHOLDERS

### CORPORATE MANAGEMENT

OAO Nizhnekamskneftekhim in its corporate activity is guided by the Code of Conduct of OAO Nizhnekamskneftekhim approved by the Board of Directors on November 23, 2007. The list of corporate documents in effect in the Company, information on share capital and the share capital structure, including the list of Nizhnekamskneftekhim shareholders who own five and more percent of its shares are included in the Company's Annual Report and in the quarterly reports of the Company for 2011 (see the corporate website <http://www.nknh.ru>).

### MANAGEMENT BODIES OF THE COMPANY

The current system of corporate management of Nizhnekamskneftekhim is focused on compliance with accepted international standards and is aimed at effective implementation of the Company's business. Corporate policy and business processes are based on the principles of maximum transparency and openness to all stakeholders, and prevention of the risks of conflict of interests.

Management of the Company pays particular attention to improvement of corporate governance, it constantly studies and adapts the best Russian and international practices in this area. In accordance with the Charter of Nizhnekamskneftekhim the Company's management bodies are as follows: General Meeting of Shareholders, the Board of Directors, the Management Board, General Director. Albert Shigabutdinov, General Director of PSC TAIF, is the chairman of the Board of directors of OAO Nizhnekamskneftekhim. The Management Board is headed and managed by Vladimir Busygin, the General Director, elected by the Board of Directors. The General Director reports to the shareholders and the Board of Directors about the implementation of development strategy and financial results of the Company's business.

Principles of corporate management of the Company are based on the regulatory and legal framework that includes legislation of the Russian Federation and internal documents of OAO

Nizhnekamskneftekhim approved by the General Meeting of Shareholders and the Board of Directors of the Company.

### GENERAL MEETING OF SHAREHOLDERS

Under the Federal law «About joint stock companies» and Charter of OAO Nizhnekamskneftekhim, the supreme management authority of the Company is General Meeting of Shareholders. The issues which can't be delegated to the Board of Directors, General Director or Management Board of the Company fall within the competence of General Meeting of Shareholders.

Over the year under report, one ordinary general meeting of shareholders was held on April 15, 2011. The following issues have been reviewed at the meeting:

- ✓ on approval of annual report, annual financial statement, including profit and loss account of OAO Nizhnekamskneftekhim by the results of fiscal year of 2010;
- ✓ on allocation of profits of OAO Nizhnekamskneftekhim, including payment (declaration) of dividends by the results of fiscal year of 2010;
- ✓ on election of Board of Directors members of OAO Nizhnekamskneftekhim;
- ✓ on election of Auditing Commission of OAO Nizhnekamskneftekhim;
- ✓ on approval of auditor of OAO Nizhnekamskneftekhim;
- ✓ on insertion of changes and additions to the Charter of OAO Nizhnekamskneftekhim and approval of its revised version;
- ✓ on insertion of changes and additions to the Regulations for the Board of Directors of OAO Nizhnekamskneftekhim and approval of its revised version.

Shareholders may direct the activities of the highest governing body of the Company through representation at the Board of Directors. Employees may provide recommendations to the supreme governing body through the reports of the Company's management at the meetings of the Board of Directors, in the Committee on personnel and rewards and the Audit Committee.



## BOARD OF DIRECTORS

The Board of Directors is the regulatory body of the Company. It has overall charge over the Company business except for the issues resolution referred to the competence of General Meeting of Shareholders by the Federal law and the Company Charter.

The members of the Board of Directors are elected by annual Meeting as set forth by the Federal law for the period till the next annual Meeting. 11 members form the Board of Directors of the Company (including one woman). Number of independent members is 5 (all men).

For preliminary review of the most important challenges facing the Company the Board of Directors forms the following committees: on personnel and rewards and the Audit Committee. If necessary, the Board of Directors may establish other committees. The committees operate on the basis of regulations approved by the Board of Directors. Members of the Committees are formed by the Board of Directors. Committees of the Board of Directors shall hold the meetings in accordance with the plan of work approved by the Board of Directors or as required. Committees may hold joint meetings.

9 meetings of the Board of Directors of the Company were held in 2011. More than 35 issues were discussed at the meetings, such as:

- ✓ the progress of implementation of the business plan under the strategic program of Nizhnekamskneftekhim development for the period of 2011-2020;

- ✓ Implementation of the environmental program of OAO Nizhnekamskneftekhim in 2007-2015;

- ✓ Review of consolidated results of financial and economic activities, and implementation of the plan, utilization and financing of capital investments of OAO Nizhnekamskneftekhim, and of the group of Nizhnekamskneftekhim companies in general in the first half of 2011;

- ✓ Marketing activities and addressing the issues of raw materials supply for OAO Nizhnekamskneftekhim etc.

Payments to members of the supreme governing body, representatives of top management and senior management are based on the performance of the Company.

There is a provision on bonus payments at OAO Nizhnekamskneftekhim for the employees by the results of economic performances on a monthly basis with due account of interrelation between the payments and results of operations, including social and environmental activities. Paragraph 4.4. The amounts of monthly premium payments to executives of OAO Nizhnekamskneftekhim are assigned in clause 4.4 of this regulation. Under the Code of Corporate Conduct of Nizhnekamskneftekhim the remuneration of Board of Directors members shall be determined based on an assessment of their contribution, and depend on the performance of the Company, as well as the activity appraisal of each Board member. The Company's annual report reflects information on the total amount of remuneration and compensation paid to members of the Board of Directors and members of the Management Board.

## RESPONSIBLE BUSINESS PRACTICE

In implementation of its activities the Company tries to maintain the responsible business practice based on the following provisions:

- › conducting business practices in an ethical manner based on the principles of decency and justice and honesty in relationships with its partners and competitors;
- › nonproliferation either directly or through third parties of information known to be false or unverified;
- › counteraction and elimination of corruption;
- › faithful observance of legislation of the Russian Federation;
- › maintaining the reputation of OAO Nizhnekamskneftekhim as a responsible taxpayer, contributing to strengthening of the financial stability of the Russian Federation;
- › maintaining the principles of fair competition;
- › respect of human rights;
- › preventing the use of child labor and forced labor;
- › prohibition of discrimination in any form;
- › compliance with principles of fair pricing and advertising;
- › respect for property rights, including intellectual property rights.

Security functions at the Company are performed by the Company's own security officers (192 persons) and the subsidiary security service (572 people, including 75 managers, professionals and office staff and 497 workers). However the functional responsibilities of security officers do not imply the use of force against offenders. Suppression of violations of the order by use of force is solely within competence of the security company staff, and 98.5% of the guards (489 people) have been trained on human rights issues and have the licenses of due form.

In order to counteract corruption, any contracts with suppliers, contractors, consumers and other counterparties are reviewed when they are received for approval at Nizhnekamskneftekhim.

Verification is conducted on contracts of all divisions and business units that are involved in contractual activities. A total of 11,029 contracts were analyzed in 2011, and 13 of them were rejected on the grounds implying a possible corruption component (forgery of documents, signs of fly-by-night companies, fraud, collusion, etc.). In 2010, 9,236 contracts were checked (36 of them rejected), and 7,009 contracts in 2009 (42 contracts rejected). Verification of contracts is carried out by officers of the department for study of partners who have received training on profile of economic security. Training of security personnel on anti-corruption practices is conducted mostly in the field seminars and conferences on economic security. In 2011, four employees were trained in anti-corruption practices and twelve people in 2010 and 2009. Complex of evaluation activities includes searching for information about the founders and managers of the counterparty in various information bases. Terms of signing the contract are determined by tender commission that takes into account all risks including corruption. Candidates for senior positions are checked on the loyalty (in 2011, 99 employees of the Company were tested, and

128 people in 2010, and 101 people in 2009). The Company has introduced the practice of monitoring and analysis of reports on the «hotline».

In 2011, the Company has not been subjected to lawsuits in connection with the anti-competitive activities, and there were no legal actions against the practical approaches for the prevention of monopoly behavior.

## INFORMATION POLICY OF THE COMPANY

In 2011, the Company continued to implement a policy of transparency, aimed at providing all stakeholders with accurate and comprehensive information on all key areas of activity. The Company seeks to make the best use of all means for delivery of information to interested parties. It is customary that special attention is given to improvement of transparency and improvement of quality of information disclosed.

Development of corporate communication channels is one of the priority activities. Information on key events in the life of the Company and its performance is available to all stakeholders through press releases and media: corporate website, annual and non-financial reports, newspapers, radio and television.

Development of the policy and strategy and plans for the exchange of information based on identified needs is done by sharing information, and is defined in the Regulations of the Company's Information Technology Department. An important role in informing employees and in development of their productive and social activities is played by a large circulation press, radio and television of the Company.

Two large-circulation newspapers: Neftekhimik (in Russian, published weekly since 1968, circulation of 11,986 copies) and Hezmettesh Avaza (in the Tatar language, published from 1992, circulation of 2,642), the radio Neftekhim (wire broadcasting is in Russian and Tatar languages, 3 times a week, coverage of about 17.5 thousand petrochemical employees) and on-air broadcasting (broadcasts daily from 7 to 23 hours, covering the population of surrounding regions and cities: Nizhnekamsk, Naberezhnye Chelny, Yelabuga, Mamadysh, Mendeleevsk), departmental television studio (frequency – 5 times a week in Russian and Tatar languages, the coverage of about 120 thousand people), a museum of Nizhnekamskneftekhim history and a well-equipped photo laboratory, all of them write the history, the chronicle of the development of the Company and actively assist the administration and the trade union and workers.

Media promptly inform of the decisions, resolutions of the Management Board meetings (weekly) and the Board of Directors. Annually prior to the shareholders' meeting, annual report is published in the press, as well as the balance sheet and the income statement (in the national newspapers The Republic of Tatarstan

and Vatanym Tatarstan, in the municipal ones – Nizhnekamsk truth and Tugan Yak), and on the Company's official website (<http://www.nknh.ru>). In order to improve the efficiency of information exchange various forms of material presentation are used: the press conference, «hot line» with the managers, reporting, interviews, monologues (in almost every issue and broadcast), and essays and sketches are published in the standing heads «About people who are close to us» and «The man and his work» etc.

In 2008, OAO Nizhnekamskneftekhim adopted the policy on information security.

Internal communication and management, analysis and updating of documentation are carried out in accordance with the regulations of the Company. The electronic database of normative documents was established and introduced that includes: the Company standards, plantwide instructions, certificates of an integrated system of management quality, international standards, specifications, building codes, statutes on structural subdivisions and plantwide job descriptions. This database is updated regularly. Currently more than 800 employees of Nizhnekamskneftekhim have access to electronic database of regulatory documents (managers and specialists of departments). Electronic document control «Business» has been introduced in the Company.





## **THE COMPANY AND BUSINESS PARTNERS**

## Section 5

# THE COMPANY AND BUSINESS PARTNERS

### THE COMPANY ACTIVITIES IN THE FIELD OF PRODUCE QUALITY AND SAFETY

Sustainable Development Strategy and social mission of the Company require guarantees of high quality of produce supplied and reliability of its deliveries. To do this, OAO Nizhnekamskneftekhim undertakes activities in the following areas:

- › implementation, enforcement and continuous improvement of compliance with the requirements of international standards for quality management, environmental management, occupational and industrial safety management, information security management;
- › evaluation of impacts of the Company produce and services on health, safety and environment;
- › safeguarding of the Company assets and property;
- › monitoring and analysis of satisfaction of customers and other stakeholders – shareholders, government, society and the Company employees.

The Company is very active in achievement of specified Objectives and performance of undertaken voluntary commitments with regard to implementation of Quality and Environment, Occupational and Industrial Safety Management Systems, using the whole possible range of effective methods and tools in accordance with the requirements of International Standards ISO 9001:2008, ISO 14001:2004, OHSAS 18001:2007.

As part of the Quality Management System, processes and procedures have been defined and documented, which are required for effective functioning of quality management, environmental aspects, occupational and industrial safety, including: production, infrastructure and working environment management, logistics, produce sales and delivery, project management, identification and assessment of significance of environmental aspects associated with the Company production activities, documentation management, external and internal audits, management review, staff and resources management, relationship with consumers and other interested parties.

### EVALUATION OF COMPANY IMPACT ON HEALTH, SAFETY AND ENVIRONMENT

In order to ensure the required – both by domestic and international legislation – level of human health and environment protection, establishment of mandatory requirements to produce / services safety, all the life cycle stages pass the procedure of assessment of the potential adverse impact on human health and environment.

Requirements to safe implementation of manufacturing processes for production, transportation, sale of products and rendering services are formalized in the Company in the relevant technical documentation – from design technical assignments to existing process instructions / maps of operational parameters for specific processes and operations, including permit-like documents (licenses, SDSs, expert opinions, etc.).

Information about installed consumer properties of produce, including safe / dangerous properties, is contained in the regulatory, technical and contractual documents for specific types of produce. Compliance with the established requirements is confirmed through produce quality control accompanied by formalization of required documents.

## SYSTEM OF MANDATORY REQUIREMENTS TO PRODUCE SAFETY

Produce impact on health and safety is assessed, and information on the established requirements provided for 100% of significant products manufactured by the Company. Deliveries of produce are accompanied by MSDSs (Material Safety Data Sheets), mandatory in the countries of EU, the USA and others, which set out safety measures when handling a product. The task of MSDS is to spread information on the product safety, including possible dangerous aspects.

### Life cycle stages, for which mandatory safety requirements are set with regard to products / services and possible impact on consumer health evaluated with a view of their future improvement

Life cycle stages	Yes	No
Development of produce / services concept	+	
Research and development	+	
Certification	+	
Production	+	
Marketing and promotion	+	
Storage, distribution and supply	+	
Use and maintenance	+	
Disposal of, reuse or recycling	+	

### Types of information about produce safe properties

Types of information	Yes	No
Sources of produce components	+	
Composition	+	
Safe use of produce	+	
Disposal of produce and impact on the environment / society	+	

All products of OAO Nizhnekamskneftekhim are dangerous for the environment and intended for industrial processing by consumers in accordance with the licenses for certain types of activities. All stages of processing liquid and gaseous products require use of individual and collective equipment for personnel protection, safe operation training, development of emergency response plans, process regulations and instructions. The customer is provided with the approved safety data sheet according to the RF legislation,

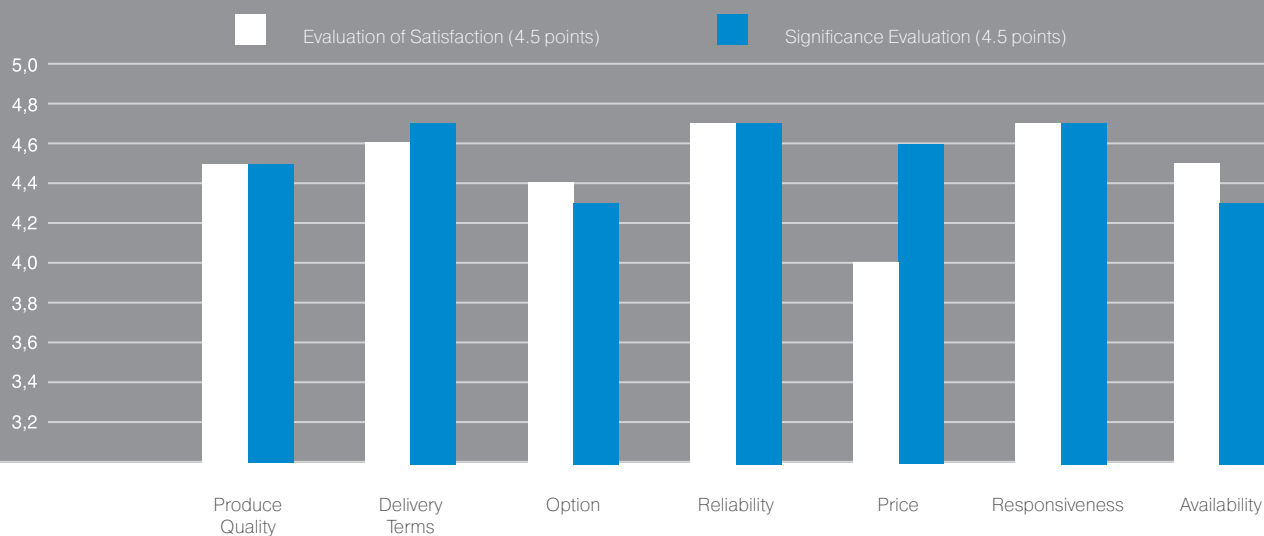
Customs Union and REAH regulations. Warning, product handling marks and danger signs are indicated on the transport packaging in accordance with the regulations for specific products. The entire range of products produced by OAO Nizhnekamskneftekhim is used for production of finished products (tires, consumer goods, medicines, cosmetics, agriculture, etc.). In this regard, no incompliances with regulations and voluntary codes related to impact of products and services on health and safety have been registered. In turn, both products sold and packaging materials are not returned to OAO Nizhnekamskneftekhim for processing. In 2011, no incompliances with regulatory requirements relating to information and labelling of produce properties have been recorded.

Requirements to labelling of the Company produce are regulated by relevant regulatory documents (GOST Standards and Produce Specifications) and specified and complemented during elaboration of contractual supply terms and conditions. In connection with entry into force of the EU Regulation on Registration, Evaluation and Authorisation of Chemicals (REACH), in 2006, the Company proceeds with activities on implementation of requirements of European statutory documents relevant to produce circulation in the markets of EU countries. Successfully completed is planned for 2010 registration of the Company produce in compliance with the requirements of EC Regulation (REACH) № 1907/2006. In total, 28 substances (commodity products and monomers in polymer composition) were registered within the framework of REACH Regulation. All registered products were issued certificates confirming registration by the European Chemicals Agency, which testify their conformity with REACH Regulation. Those certificates allow OAO Nizhnekamskneftekhim to continue free export of chemical products to the EU market and maintain its competitiveness. At the second stage of registration, before June 1, 2013, the Company intends to register 10 more chemicals related to substances supplied to the EU market in quantities not exceeding 1,000 tons. Preparation of technical dossiers is in progress for chemicals intended for delivery to EU countries without pre-registration, as pre-registration deadline ended on December 1, 2008.

In 2008, a less complicated CLP Regulation was adopted relevant to classification and labelling of chemical substances being circulated in EU. All products supplied to EU have been completed with safety data sheets elaborated in accordance with REACH and CLP Regulations. In September 2011, the Manual on Elaboration of Safety Data Sheets was amended. New style safety data sheets will be complemented with the description of methods for use of exposure scenarios and information on the procedures of risk management, known as «exposure scenarios». In line with the new Regulation, any member of the supply chain, which is to provide the chemical safety report (CSR), should attach the exposure scenario to the new style safety data sheet.

Next year, OAO Nizhnekamskneftekhim plans to continue activities on registration of its products within the framework of REACH. As

Diagram Customers' Satisfaction



a dynamic developing company, OAO Nizhnekamskneftekhim is constantly working on increase of sales volume.

#### PRACTICAL APPROACH TO PROCUREMENT

OAO Nizhnekamskneftekhim cooperates with the major Russian companies such as OAO Gazprom, OAO LUKOIL, OAO NK Rosneft, OAO NOVATEK, etc. The Company is a regular participant of the Inter-Republic Cooperation Program supervised by the Government of the Republic of Tatarstan aimed at 100% production capacity utilization in the Republic. In 2011, 50% of raw materials delivered to OAO Nizhnekamskneftekhim fall on the producing companies of the Republic of Tatarstan. Local suppliers deliver: naphtha in the amount of 100%, propane-propylene fraction – 100%, propane and butane – 100%, packaging film for rubbers – 100%, isobutane – 37%, phenol – 20%, etc.

OAO Nizhnekamskneftekhim is guided in its activities by the most advanced global requirements and standards. Constant evaluation of suppliers is ongoing in terms of such significant indicators as quality of materials supplied, price of goods, services. The Company specialists carry out external audits of suppliers for compliance with the international standards, issue recommendations on improving the Quality Management System at such enterprises.

## CUSTOMER SATISFACTION

The Quality Management Policy of the Company is directed at maximum meeting the consumers' demands. In accordance with the Company requirements, customer wishes and satisfaction are studied and evaluated using the following methods:

- › preparation to awarding contracts for produce supply;
- › yearly questioning of produce consumers;
- › analysis of customer satisfaction;
- › development, implementation and evaluation of effectiveness of measures aimed at increasing the customer satisfaction.

At various stages of produce movement from the manufacturer to the consumer, the required control is undertaken over fulfillment of customer requirements related to packaging, delivery dates, formalization of required documents, etc. The comments received are analyzed in accordance with the documents which regulate conduct of business with the customers and corrective and preventive measures of the Company QMS (Quality Management System).

The comments received are resent to the manufacturer and analyzed with subsequent elaboration (if necessary) of corrective and preventive measures. One of the methods of implementing the principle of «customer focus» in the Company is to maintain feedback with the produce consumers and monitoring their degree of satisfaction.

The Company Sales and Export Departments, as well as the Laboratory of Sociological and Psychological Research undertake annual survey of consumers in the domestic and foreign markets to determine their wishes in terms of produce quality and Company services. Questionnaires in order to determine the degree of

satisfaction with product quality and service level make it possible for the Company management to define how the customers perceive OAO Nizhnekamskneftekhim and to what extent they are willing to pursue and develop cooperation with the Company in future. In 2011, the questionnaire covered 127 companies consuming the products.

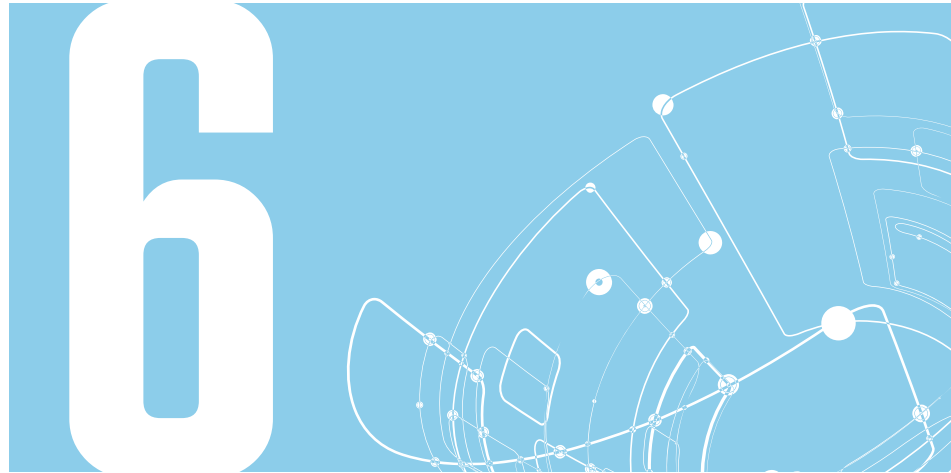
The customers' satisfaction was evaluated based on the following criteria: produce quality, delivery time, possibility to choose, reliability, price, responsiveness, and accessibility.

According to the study results, the Company strategy aimed at complete customer satisfaction, continuous improvement of product quality and development of creative collaboration with suppliers based on mutual benefit, promotes the Company positive image in the domestic and international markets for petrochemical products. End-users who participated in the annual survey, praised the cooperation with OAO Nizhnekamskneftekhim in seven areas. The score was 4.5 points out of 5 possible. Most respondents (80%) are long-term partners of OAO Nizhnekamskneftekhim.

In order to improve cooperation performance with consumers and ensure awareness of interested parties, electronic database of customer complaints are created and maintained for all types of the Company's products and inconsistencies associated with the supply of goods. All these actions are related to the Company's corporate social responsibility to consumers and contribute to its sustainable development.

OAO Nizhnekamskneftekhim pays great attention to consumers' privacy and data security about them. In 2011, no complaints from the consumers thereabout have been reported.





**THE COMPANY AND  
EMPLOYEES**

## Section 6

# THE COMPANY AND EMPLOYEES

OAO Nizhnekamskneftekhim in its current activities and future development plans takes into account the fact that the Company's most important resource is its people. The Company implements high standards of occupational safety and encourages development of employees' competencies, improvement of their skills, including through mechanisms of internal staff rotation. One of the factors of the Company successful development is an open and trusting dialogue with the society, customers, partners, and employees.

### HUMAN RESOURCE MANAGEMENT

In 2010, the Company adopted the Human Resource Management Policy, which is a part of its entire management and production policies. It is the human capital assets, and not just equipment and modern technologies, which constitute the main factor of the Company competitiveness, economic growth and efficiency. In general, the Company effectiveness depends on the qualifications of employees, their arrangement and utilization.

The Human Resource Management Policy of OAO Nizhnekamskneftekhim is aimed at:

- › respecting rights and provision of social guarantees for employees in line with the requirements of the labor and pension legislation and Collective Bargaining;
- › improving quality of production by involvement of skilled employees having higher and secondary professional education and continuous professional training of personnel;
- › rejuvenation of the Company staff;
- › liberation of women of childbearing age from work in hazardous and dangerous conditions;
- › consolidation of staff by creating environment for professional growth and increased wages;
- › unity of wage system and labor motivation for the Company subdivisions;
- › use of flexible systems of bonuses for the most complete account of individual staff contribution;
- › establishment of working environment which favors stability of the socio-psychological climate in order to increase stability of the Company personnel.

The Company Human Resource Management Policy also ensures social protection for workers. In this regard, the Company developed and operates the Collective Bargaining, which establishes the system of additional social benefits. As part of this agreement the employees are granted:

- › payment of expensive treatments and social support to families with many children and parents with disabled children;
- › vouchers for medical treatment in the Company sanatorium and purchase of vouchers for sanatorium treatment in other hospitals on favorable terms;
- › vouchers for children to have a rest in the camps;
- › organization of regular preventive check-ups;
- › provision of all employees with the voluntary health insurance, voluntary accident insurance;
- › non-state pension provision;
- › financial assistance at the birth of children;
- › lump sum payment to employees who have reached retirement age;
- › share in the corporate network of voluntary medical insurance (VMI).

The purpose of the Human Resource Management Policy is creation of the labor collective, which would in the best way help to combine the goals and priorities of the Company and its employees.

The package of social programs is generated and changed in the light of industrial tasks, financial condition and current objectives of the Human Resource Management Policy. In the management of social programs, the balance of the Company and employees interests is maintained.

## COMPLIANCE WITH COMPANY ETHICAL STANDARDS

The Top Management has formulated and supports corporate values and ethical standards. Based on the Mission, the Top Management generates the basic principles of business culture and rules of conduct for all managers and employees. The managers have developed documents which set out standards of business ethics in the internal and external communications, such as: Collective Bargaining, Company Work Rules, Charter of OAO Nizhnekamskneftekhim, Regulations for Registration, Handling and Storage of Documents Containing Trade Secrets, Working Order of Departments, Services, Divisions of OAO Nizhnekamskneftekhim with the Organizations Located in the Territory of the Company, Instruction on Reception of Foreign Delegations, Individual Foreign Experts and Specialists and Departure of Specialists to Foreign Countries and to Negotiation to other Cities of Russia. Maintaining by the Managers using their own example, ethic standards and values, implementation of the principles that form the Company value system, is realized with participation in social programs, widely reported in the media – the departmental newspaper and television studio «Neftekhimik», in personal messages and interview with the General Director, Company chief specialists, Plant Directors, managers of all levels of structural units to the Company employees and other stakeholders.

In 2011, in order to protect privacy of employees, Regulation «About Personal Data of OAO Nizhnekamskneftekhim Employees» was approved, which determines the procedure of processing personal data of employees, as well as methods and techniques of personal data protection, rights and liabilities of officers and employees of OAO Nizhnekamskneftekhim on the matters relating to processing personal data.

The Company sociologists continually evaluate the socio-psychological climate in the units, including relationships that are taken into account in further work by Managers of Departments in development of measures focused on improvement of stability in the collective. Over 26 years, the quality of working life in different social groups is being evaluated, including minority groups. For the Republic of Tatarstan, two dominant ethnic groups are characteristic – Tatar and Russian. At the same time, representatives of national minorities, such as the Chuvashes, Germans, Ukrainians, Belarusians, Maris and others are also pleased with ethnic relations and equal conditions for everybody. It has been revealed that satisfaction with ethnic relations is 91%.



## STAFFING

Staffing policy support is based on modern technology of staff training, selection and adaptation of young workers, search of highly qualified specialists, training of staff reserve, working with focus staff groups, development of corporate culture and internal communications. Hiring local population is the established practice for the Company.

At OAO Nizhnekamskneftekhim, 17,765 employees of more than 300 occupations (men – 10,778, women – 6,987) work. Of the total number of employees of OAO Nizhnekamskneftekhim, 17,225 employees are employed under an employment contract

for an indefinite period, that is, on the ongoing basis (96.9%), the number of employees employed under the fixed-term employment contract, that is, for a certain period, is 540, (3.04%). In addition, the Company provides the opportunity to work and provides work for the employees of its subsidiaries, as well as construction companies.

### Personnel of OAO Nizhnekamskneftekhim

Personnel grade	2009		2010		2011	
	persons	%	persons	%	persons	%
Managers	2,213	12.5	2,235	12.7	2,254	12.7
Specialists	2,558	14.5	2,586	14.7	2,639	14.9
Officers	274	1.6	267	1.5	265	1.5
Workers	12,591	71.4	12,532	71.1	12,607	70.9
All grades	17,636	100	17,620	100	17,765	100

The Company Human Resource Management Policy provides activities to work with different social groups: in terms of age, education, gender, socio-professional belonging.

### Personnel Structure of OAO Nizhnekamskneftekhim by Education Level

Personnel grade	Education														
	higher			secondary vocational			initial vocational			secondary general			main common (lower secondary)		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
Managers	1,688	1,749	1,800	448	416	388	47	44	44	29	25	22	1	1	0
Specialists	2,078	2,149	2,244	410	374	341	28	28	24	41	34	30	1	1	0
Officers	101	112	115	69	62	56	53	52	52	49	40	41	2	1	1
Workers	1,107	1,178	1,401	3,003	2,987	2,945	5,749	5,801	5,841	2,494	2,342	2,211	238	224	209
All grades	4,974	5,188	5,560	3,930	3,839	3,730	5,877	5,925	5,961	2,613	2,441	2,304	242	227	210

In 2011, the Company had 38 candidates and 4 doctors of sciences (in 2010 – 41 employees having science degree, in 2009 – 37 employees). Currently, 131 employees are engaged in research and development, including 2 doctors, 20 candidates, 20 graduate students and applicants. During the reporting year compared to 2010, the trend of staff intellectual level growing persists: in the Company the number of employees having higher education equals to 31.3%, secondary vocational education – 20.9%. A minor number of managers having basic vocational education is defined, first of all, by functions performed (e.g. Storeskeeper – Manager), and secondly, the Company intention to retain experienced managers being good practitioners and

having considerable experience, who are capable to transfer their knowledge to young workers.

The share of managers having higher education has grown by 1.6%, specialists – by 1.9%, the share of managers with secondary vocational education decreased by 1.4%, specialists – by 1.6%. In 2011, among workers, employees with higher education amounted to 11.1%, which is 1.7% more compared to 2010, the proportion of employees with secondary vocational education was 23.4%.

#### Personnel Structure of OAO Nizhnekamskneftekhim by Gender (persons)

Personnel grade	men			women		
	2009	2010	2011	2009	2010	2011
Managers	1,774	1,789	1,805	439	446	449
Specialists	709	725	748	1,849	1,861	1,891
Officers	1	1	1	273	266	264
Workers	8,136	8,106	8,224	4,455	4,426	4,383
All grades	10,620	10,621	10,778	7,016	6,999	6,987

The ratio and representation of men and women in various categories of personnel has been retained at the same level for several years.

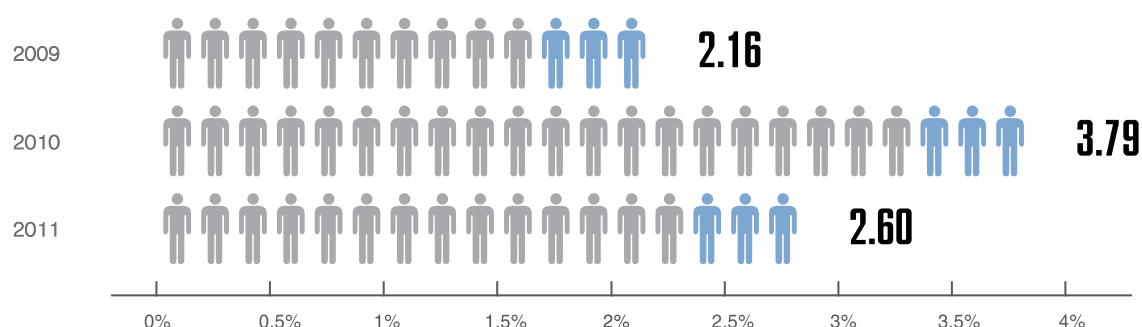
#### Age Personnel Composition of OAO Nizhnekamskneftekhim

Personnel grade	Number by age groups								
	up to 30 years old			30-50 years old			above 50 years old		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Managers	253	275	268	1,225	1,213	1,234	735	747	752
Specialists	746	733	732	1,319	1,344	1,367	493	509	540
Officers	109	116	111	119	102	102	46	49	52
Workers	4,072	4,128	4,280	5,626	5,249	5,044	2,893	3,155	3,283
All grades	5,180	5,252	5,391	8,289	7,908	7,747	4,167	4,460	4,627

Availability in the workplaces of employees with higher education is justified by several factors: introduction of modern information systems, automated workstations, formation of reserve of competent specialists and managers having manufacturing experience. Thus, it is necessary to take into account the general tendency of young specialists striving to pursue higher education

in the country. The average age of employees in the Company is 38.78 years. The average age of managers – 42.73 years, specialists – 37.85 and workers – 38.32. The number of young employees under 30 years tends to rise and equals to 5,391 persons or 30.3% of the total headcount. This is facilitated by purposeful work on recruitment.

**Diagram** Staff Turnover (%)



In 2011, among all retired employees due to employee turnover, 78% were men, 22% – women.

**Data on Age of Employees Retired Due to Personnel Turnover**

Year	Total persons	Number Retiree by Age Groups									
		from 18 to 20	from 20 to 25	from 25 to 30	from 30 to 35	from 35 to 40	from 40 to 45	from 45 to 50	from 50 to 55	from 55 to 60	above 60
2009	375	10	92	92	66	41	35	27	10	1	1
2010	647	13	184	180	90	72	49	39	10	7	3
2011	447	3	133	121	72	56	22	16	19	5	–

Analysis of retirement reasons by means of sociological survey revealed that the most mobile category of employees retires more often – young employees who were not prepared for the existing labor conditions at the plant and production requirements, with overstated expectations from work.

women), which is 2.9% of the authorised staff size. In 2011, in line with the Collective Agreement lump sum payments were made to the women-employees of the Company in the amount of 7,950 thou. rubles.

The number of employees on maternity leave, leave for child care as of December 31, 2011, amounted to 542 employees (all

**RECRUITMENT**

The Company management carries our systematic work on the collective replenishment mainly with the young specialists: graduates from professional schools, colleges, and universities. At OAO Nizhnekamskneftekhim, employment of young people has a beneficial effect on reducing tension on the labor market of the city. To ensure stable qualification of staff required for the Company, the system of recruitment has been developed, which includes:

- › vocational guidance at the city schools;
- › staff training at the basic institutions;
- › hiring based on free employment;

› hiring based on assignment from the city employment center. Within the framework of regional laws about quotas and reservation of jobs for disabled and people with particular need of social protection (RT Law № 60-ZRT of 24.07.06), OAO Nizhnekamskneftekhim hires graduates from primary and secondary vocational institutions seeking job for the first time (in 2011 – 190 employees were hired) and citizens who have returned after military service (in 2011 – 164 employees). In 2011, no new employees with established disabilities were hired. The number of employees of this category in staff was 118 people.

The main sources of the Company replenishment with young specialists and workers are the basic institutions:

- › Kazan National Research Technological University (KNITU);
- › Nizhnekamsk Institute of Chemical Technology (NHTI);
- › Nizhnekamsk Petrochemical College;
- › Nizhnekamsk Professional Lyceum PL-44;
- › Nizhnekamsk College of Technology.

In 2011, 351 institution graduates were hired (of which according to the quota – 190 people). 1,550 students and pupils had externship at OAO Nizhnekamskneftekhim. The profession of petrochemist is prestigious in the city. Competition in basic institutions is the highest in the city.

For 10 years (since 2001), a particular form of engineers training has been practiced. The contract was concluded with NHTI about establishment of the Federal experimental site on the basis of OAO Nizhnekamskneftekhim for a one-year internship at the workplaces of the 5th year students. Each year, according to this contract, 50 students of NHTI on various professions are trained at the Company. Upon successful completion of training, the graduates obtain guaranteed job at one of OAO Nizhnekamskneftekhim plants. The experiment allows to solve a number of tasks: improvement of quality and relevance of the final qualifying works of students associated with the production problems and solution of important social objectives – employment of college graduates.

## PERSONNEL SELECTION

Personnel is carefully selected, which determines compliance of objective characteristics of the applicants with the production needs, including through psychodiagnostic testing of current employees and re-employed workers moving to the shops, whose activities are related to the operation of dangerous industrial facilities. For this purpose psychodiagnostic tests are performed. In 2011, 861 employees were tested, each was issued recommendations to improve psychological security, that is ability to avoid provoking and in the event of emergency to respond appropriately. At OAO Nizhnekamskneftekhim, the Regulation on Competition for Substitution of Manager Vacancies is also in place.

## STAFF DEVELOPMENT

Vocational training, retraining and advanced training of workers, managers and specialists at all levels of the Company structural units is deemed by OAO Nizhnekamskneftekhim's Management as one of the most important social programs of staff development. Besides, OAO Nizhnekamskneftekhim creates programs for development of skills and education throughout the professional career of employees, which are intended to maintain employee compliance with current requirements.



For organization of vocational training, the Training Center is functioning at OAO Nizhnekamskneftekhim for training personnel, which is licensed by the RT Ministry of Education for preparation and training on 100 professions and fields. The Company has two education-training grounds for developing practical skills in preparation of slingers and for industrial training of both factory workers (main professions) and pupils and students.

Staff training is financed in accordance with the annual estimated costs of training. Thus, the cost of training in 2011 totalled 24,150 thou. rubles, which is 2.9% more than in 2010. The average number of training hours per employee per year was as follows: for workers – 93 hours, managers and specialists – 41 hours.

OAO Nizhnekamskneftekhim personnel training system includes the following: general education at high schools, colleges, vocational schools, training within the President's program, training of personnel reserve of the Company; advanced training of managers and professionals, retraining of managers and specialists (second higher education); training of workers, retraining of workers, development of the second (related) profession.

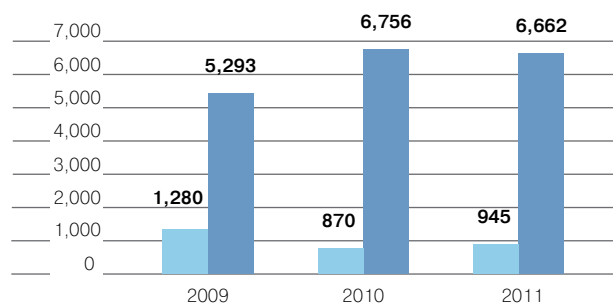
Upon completion of training in 2011, 740 workers increased their grades; 2,470 managers and specialists were trained for industrial, energy, and occupational safety, 102 employees underwent certification procedure in Volga Region Department of Federal Service for Ecological, Technological and Nuclear Supervision. 1,952 employees of the Company study at higher and secondary special educational institutions based on part-time forms.

### STRUCTURE OF EDUCATIONAL SYSTEM

When training the staff, the Company applies innovative (active) teaching methods. The teachers are appointed from among the managers and specialists with higher education in the training field. For employees involved in carrying out lessons, series of lectures, consultations, seminars to explore the topical issues of economic and scientific-technical policy, best practices, teaching the foundations of education and psychology are organized. During the period from 2006 to 2011, 343 specialists involved as teachers were trained.

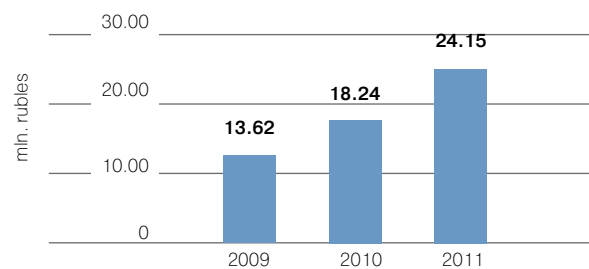


**Diagram 1** OAO Nizhnekamskneftekhim Personnel Training



- Advanced vocational training of managers and specialists
- Advanced professional training of workers (technical industrial courses, specialized courses, refresher courses and career changing)

**Diagram 2** Staff training expenses, MIO rubles



Further training is conducted both at the Company and at the branch and interbranch further training institutes. Major educational institutions, engaged to train the staff of OAO Nizhnekamskneftekhim in 2011:

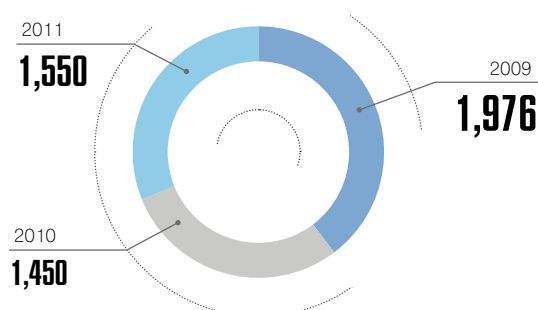
- › Institute for Extended Education FGOU VPO «Kazan National Research Technological University»;
- › GOU DPO «Novomoskovsk Institute of Advanced Training of Chemical Industry Specialists»;
- › State Academy of Industrial Management named by N.P. Pastukhov, Yaroslavl;
- › Kama Branch of FGOU DPO «PEIPK», St. Petersburg;
- › NNOU «Volga Regional Centre for Staff Training» Energetic», Kazan;
- › Moscow Institute of Economics and Management in Industry;
- › NOW «Further Training Institute «Neftekhim», Moscow;
- › GOU DPO «Academy of Standardization, Metrology and Certification», Kazan.

### INTERNSHIP ORGANIZATION

The main indicator of the staff expertise is the level of common and special knowledge, which is quite high in the Company employees, which allowed OAO Nizhnekamskneftekhim to become a powerful testing ground for production internship and externship of students and pupils, who subsequently join the ranks of petrochemists.

According to the contracts with the basic institutions of the city (Professional Lyceum № 44, College of Technology, Petrochemical College, Nizhnekamsk Institute of Chemical Technology), 1,550 students and pupils had internship and externship in the divisions and departments of OAO Nizhnekamskneftekhim. In line with the Collective Bargaining, all the students and pupils undergoing internship at the Company, are provided with protective garment and personal protective equipment.

**Diagram 3** Number of Students and Pupils Undergoing Internship



Young men and women under the age of 23, first employed, are assigned to mentors – progressive workers having high level of professional skills, lateral thinking, advanced teaching qualities and abilities, who respect working professions and desire to work with young people. In 2011, mentor labor costs amounted to 2,072 thou. rubles.

Thus, close correlation of production and training system, retraining and further training, is observed ensuring its vital functions. Thus, the high level of staff professionalism contributes to development of both production and society as a whole.

### PERSONNEL EVALUATION

The entire staff of OAO Nizhnekamskneftekhim is constantly evaluated in terms of results related to common objectives set forth in the corporate regulations: «About bonus payment to OAO Nizhnekamskneftekhim employees for main outcomes of operations based on results of the last month» and «About promotion of employees for labor and contribution to development». At the same time, appraisal of managers and specialists is constantly in place to validate their compliance with the position occupied, certification for occupational and industrial safety and health, knowledge assessment of operating personnel (workers) by way of admission examination, that contributes to the staff skill management, and, finally, to the development of the Company human assets. Target performances and evaluation criteria have been communicated to all OAO Nizhnekamskneftekhim employees.

The company standard was developed and in 2011 updated at OAO Nizhnekamskneftekhim for appraisal of managers and specialists for compliance with the position occupied, which establishes the procedure for preparation, conduct and implementation of appraisal results across the Company. 53 Appraisal Committees are in place. In 2011, the share of specialists who have undergone the evaluation procedure for compliance with the position occupied amounted to 27.2%, managers – 26.4%.

The basis for the Appraisal Committee's decision is opinion of the manager, answers of the person being appraised, the results of experts assessment from among the managers, subordinates and colleagues of the appraisee, as well as psychological testing. For assessment of medium and top level managers (starting from the head of shop level and higher), the method of expert evaluation is used. The expert evaluation is carried out using two methods. The first one allows to determine the level of business skills in the following areas: personal leadership qualities, production management, and staff management. The second method allows to estimate the level of managerial competence. During appraisal comparative data are provided: the appraisee data change (personal growth) on the year-by-year basis within the professional and staff groups, etc. In 2011, 2,256 employees of the Company were involved as experts.

In 2011, the commissions issued 877 recommendations for further professional growth and development of staff (in 2010 – 804, in 2009 – 803). The results of implementation of recommendations issued to the managers and specialists from 2009 to 2011, were as follows: among those who were issued recommendations, now, 53% were trained in training courses, 50% changed their position (upward trend), 62% experienced increase in wages.

As a result of appraisal for compliance with the position occupied, a rating list of managers is generated, that allows to reasonably compose the personnel reserve.

Year of appraisal	Actually appraised (persons)	Decision of the Appraisal Committee			
		comply with the position occupied (persons)	comply with the position occupied to be reappraised in a year (persons)	do not comply with the position occupied (persons)	
2009	Total	1,188	1,159	28	1
	– managers	492	473	18	1
	– specialists	696	686	10	0
2010	Total	1,239	1,206	32	1
	– managers	584	562	22	0
	– specialists	655	644	10	1
2011	Total	1,315	1,286	29	0
	– managers	596	576	20	0
	– specialists	719	710	9	0

## WORK WITH RESERVE

One of the most important areas of work with the staff is career development and assessment of its efficiency. In 2011, 800 employees improved their positions.

Great importance is paid to formation of OAO Nizhnekamskneftekhim Management, for which purpose the personnel reserve has been composed. Developed and in 2011 approved is the Company Standard «Staff Selection, Distribution, and Adaptation. Procedure for Determining and Preparing Personnel Reserve to Substitute Managers' and Specialists' Positions». The principle of candidate selection for the reserve is based on the aggregate qualities of the applicant and requirements raised to him/her in terms of his/her new position. The reserve is completed by position categories and with due account of specific features of production.

The list of management reserve for 2009-2013 includes 797 employees. The list of reserve advancement personnel is annually updated and approved by the General Director. Individual work is being performed with each employee, being on the reserve list, and tests carried out to determine its managerial and professional potential. The reserve is trained over target areas, in

accordance with approved programs. Regarding this group, career development is constantly assessed. In 2011, 65 employees were advanced from the reserve, including 57 employees as managers, 8 employees as specialists. From 2009 to 2011, 257 employees were advanced from the reserve (or 32% of the approved reserve personnel list).

## ADAPTATION MANAGEMENT

At the current stage of socio-economic development, one of the major areas of the Human Resource Policy of OAO Nizhnekamskneftekhim is involvement and consolidation within the Company of young specialists meeting the employer's requirements to young professionals – graduates from higher and secondary special educational institutions. The Company recruits young professionals who can occupy vacant positions based on the open competition. Programs addressing this category of employees, are aimed at their adaptation, successful professional development and implementation of creativity. Adaptation management is an important area of work with the staff, because in the course of interaction

between an employee and organization, their mutual adaptation takes place, which is based on the gradual entry of an employee in new professional, social and economic working conditions.

In 2011, within the framework of cooperation with higher schools, survey of young specialists was conducted employed by OAO Nizhnekamskneftekhim after graduation from NHTI (KNITU) during last 5 years. It was revealed that the group of specialists with higher education is in the field of view of managers and Human Resources Department officers: during five years 30% improved their positions, 25% upgraded their grade or category within the position. Development and adaptation of young people is also attended – 68% have been trained. 200 Managers of young specialists were interviewed, their estimate of young specialist was high enough. According to Company managers, the principal points in issue of training young specialists are, in addition to special knowledge, formation of personal qualities of the future employee (sensitivity, dynamism, willingness to learn, start with the simpler level). Results of investigation of the group of young specialists were handed over to high schools. A good example of interaction between high schools and the Company is the «experimental ground», i. e. internship followed by employment in the Company. As a result, adaptation of young employees is more efficient and takes less time.

In 2011, as part of professional adaptation, OAO Nizhnekamskneftekhim held competitions of professional skills among young drivers, electricians, operators, design and process engineers, turners, milling-machine operators, welders, instrumentation fitters, shift managers, etc. The annual contests of professional skills promote staff development, attract interest to working occupations, increase the prestige of highly skilled labor representatives, advocate their achievements and best practices. The next stage of excellence improvement and demonstration of skills and abilities for the winners of corporate competitions of professional skills is their participation in city and national competitions. In particular, on May 19-20, 2011, in Kazan the II National Contest of Professional Skills took place among young workers for the title of the «Best in Profession within Industry» devoted to the International Year of Chemistry, organized by Tatreskom of the Trade Union of chemical industry workers jointly with the industry department of the Ministry of Energy of the Republic of Tatarstan, OAO Tatneftekhiminvest Holding and OAO Kazanorgsintez. Young representatives of OAO Nizhnekamskneftekhim were worthy of the contest and won prizes.

To implement social adaptation, each year competitions are held between shops and plants in various sports, tourist rallies, amateur contests, KVN games. Management of the personnel professional and social adaptation contributes to personnel restraint and reduces the risk of staff turnover.

## FORMATION OF INDIVIDUAL APPROACH TO EMPLOYEES OF OAO NIZHNEKAMSKNEFTEKHIM

At OAO Nizhnekamskneftekhim, great attention is paid to internal aspects of personnel management, therefore, in addition to professional skills, knowledge in the field of personnel management becomes demanded. The fundamentals of individual relation to the employee's personality are taught at the training courses for workers and specialists upgrade in the Training Center of OAO Nizhnekamskneftekhim, this area is also demanded at the Trade Union School.

At the same time, the Company performs analysis of the Company employees' needs using several ways: interview prior to employment, meetings, brief meetings, where mutual exchange of information between management and staff takes place, case studies in various fields, which identify the needs of all staff on the whole, as well as certain age, gender and socio-professional groups, and analysis of the degree of interaction between social and professional groups.

Polls of opinion reveal the employees' attitude to various aspects of the Company life, to community events, politics, the Company management, provide information support for management decisions on different aspects. On the whole, in 2011, 8,174 employees participated in various studies (in 2010 – 4,089 employees). Including, by areas:

- ▶ Study of the quality of working life. In order to determine the quality level of the working life at OAO Nizhnekamskneftekhim, employee satisfaction with various aspects of working life is being monitored. In the subdivisions, meetings have been held based on the results of the study. The level of employee satisfaction is high. Positive dynamics has been revealed in the course of evaluation of satisfaction with the level of mechanization and automation, sense of stability in the Company, ability to influence managerial decision-making, noise level, lighting, vibration, aesthetics of working places, the state of the atmospheric air on site compared to the previous parameters.
- ▶ Determining the level of employee satisfaction with working conditions.
- ▶ Water supply in residential areas of the city.
- ▶ Work of departmental radio studio «Neftekhim».
- ▶ Research of OAO Nizhnekamskneftekhim management opinion with respect to the level of training of graduates.
- ▶ Quick polls of petrochemists on the following topics: «Defining the role of meteorology in the petrochemists' life», «For the Cosmonautics Day», «For the Victory Day».
- ▶ Assessment of satisfaction of Russian and foreign consumers with sales and export of OAO Nizhnekamskneftekhim's products.
- ▶ Together with the structural units of the Company 16,277 petrochemists were polled about demand in special transportation routes for delivery of employees to and from work.
- ▶ According to the research results, activities, social programs of labor collectives development are elaborated.



## SOCIAL PARTNERSHIP

The Company recognizes the right of workers to union and establishment of organizations representing their interests, which is an integral part of the right to freedom of association and bargaining.

In the Company, the system of representation of interests of workers in the social and labor sphere is in place. Trade Unions intervene in the social dialogue with the employer. The Trade Union organization was established at OAO Nizhnekamskneftekhim in 1961. At the moment, its headcount is approximately 32,000 people. Among them, employees of OAO Nizhnekamskneftekhim, being union members equal to 16,489 persons (93% of the total number of OAO Nizhnekamskneftekhim employees).

The Collective Bargaining in force in the Company has a long tradition in regulation of relations in the social and labor sphere. The Collective Bargaining regulates the employee rights (right to work, education, freedom of expression, social protection, attainable health standard, etc.). All OAO Nizhnekamskneftekhim employees are involved in the Collective Bargaining. In 2011, OAO Nizhnekamskneftekhim was acknowledged the winner of the IV Republican Competition «The Best Collective Bargaining» in the nomination «For Active Development of Human Resources».

In the Company, local regulations are in place governing provision of employees with benefits, guarantees, and compensations. The Collective Bargaining Commission is a permanent body of social partnership in the Company. The system of privileges established by the Collective Bargaining applies to all employees and does not depend on the status and conditions of employment. During 2011, the Company did not initiate any new substantial activities or projects in the field of human rights. The Company is monitoring violation of human rights through the active Commission on Labor Disputes.

In order to maintain the ratio between the standard wage of the initial level and established minimum salary in the region of the Company operation, para 3.3. of the Collective Bargaining of OAO Nizhnekamskneftekhim sets forth the following: «The Employer agrees ... to maintain the base rate of the first rank of RSOT, OAO Nizhnekamskneftekhim, not less than the minimum subsistence

level, and the level of the minimum wage – not less than the minimum consumer budget of the Republic of Tatarstan, and maintain this level within the term of the Collective Bargaining».

In the Industrial Agreement between the Tatarstan Republican Organization of the Russian Federation Trade Union of Workers in the Chemical Industry, the RT Ministry of Industry and Trade, the RT Employers and Undertakings and OAO Tatneftekhinvest Holding, para. 4.8, Section 4 «Wages» stipulates that the base rate of the 1st grade worker operating under normal working conditions should be established above the subsistence minimum of able-bodied population in the Republic of Tatarstan, and the minimum wage level (with additional payments, allowances, bonuses, etc.) in the sectorial companies – up to the level of the minimum consumer budget (MCB) per a typical family member and maintains this level during the term of the agreement. In 2011, the subsistence minimum in the RT amounted to 5,703 rubles; the base rate of the 1st rank at OAO Nizhnekamskneftekhim amounted to 6,250.6 rubles. For 2011, MCB was set at the level of 9,142 rubles, the minimum wage at OAO Nizhnekamskneftekhim – 9,375 rubles.

The Collective Bargaining of OAO Nizhnekamskneftekhim provides the following: warranties and social benefits in the field arrangement of wage payment, working and leisure time, guarantees of occupational safety, health and legal protection, guarantees of protection of socio-economic interests of workers, guarantees of growth of professional skills of workers and protection of socio-economic interests of young people, creating conditions for development of mass-cultural and sports-recreation activities. Agreements are accepted and lists are approved as follows:

- › «Agreement on Occupational Safety between Management and Trade Union Organization»
- › «The list of professions, shops, positions, having the right to shorter working hours».
- › «The duration of annual leave by departments and categories»
- › «Internal Code Of Conduct».

The collective agreement includes the procedure for informing employees about significant changes in the organization activities. Thus, the Company shall notify the Trade Union Committee of upcoming headcount reduction and possible termination of employment contracts no later than two months before the start of appropriate activities.

Information about joint activities of OAO Nizhnekamskneftekhim administration and Trade Union Committee is regularly communicated to labor collectives at the meetings and conferences, highlighted in national, regional and corporate mass media. The Internet portal of OAO Nizhnekamskneftekhim Trade Union is functioning (<http://www.nknh.ru/profkom/>).

OAO Nizhnekamskneftekhim creates all necessary conditions for the Trade Unions organization, providing necessary premises with all equipment, heating, lighting, cleaning, as well as vehicles, communications equipment and stationery free of charge. It guarantees to elected and full-time employees of the Trade Union organization on a par with OAO Nizhnekamskneftekhim employees, provision of all the rights and benefits relevant to bonuses, payouts, extra payments, compensations and other benefits provided to the Company employees. Upon expiration of the term of powers

of the elected trade union, the workers are provided their previous or equivalent job, during the period of education and advanced training the average salary of the Trade Union core group is maintained.

Improvement of mechanisms of social partnership in the Company is provided by way of development of direct dialogue between employees and employer, direct communication of employees with the management, which allows to promptly take decisions on vital issues directly at the levels of their occurrence.

### **OBSERVANCE OF EMPLOYEE RIGHTS**

OAO Nizhnekamskneftekhim affirms its commitment to human rights in accordance with the RF Constitution and RF legislation. On the basis of commonly recognized international principles and norms, the legal regulation of labor and other associated relations in the Company are effected in accordance with the standards of the International Labour Organization and Russian Federation legislation. The Company ensures protection of workers' rights, which are an integral part of the rights to freedom of association and bargaining. Each OAO Nizhnekamskneftekhim employee has equal opportunities to exercise their labor rights regardless of gender, race, nationality, origin, material, social, and employment status, age, residence, religion, political beliefs, as well as of other circumstances not associated with the employee's professional qualities.

The Company aims to provide all employees with equal opportunities to realize their potential in the workplace, impartial and fair assessment of the results of their work, selection and promotion of official workers solely on the basis of professional abilities, knowledge and skills. OAO Nizhnekamskneftekhim complies with the requirements of the RF Labor Code, which prohibits employment of persons under the age of 18 years old for works with harmful and (or) dangerous labor conditions, as well as observes the rules prohibiting employment of women for jobs with difficult and dangerous conditions in the refining industry.

In its activities, the Company is guided by provisions of declarations and conventions of international organizations, the RF Constitution regarding prohibition of forced labor. The Company has a system of prevention, detection and, if necessary, taking actions to address violations of economic and social rights of workers. The instrument for regulation of relationship is the Labor Dispute Committee. In 2011, no appeals and complaints on the part of workers to the Labor Dispute Committee were reported. Violations of human rights were not identified, including the rights of native minorities.

Anti-discrimination policy is one of the main requirements of international agreements, social legislation and relevant guidelines. No lawsuits, complaints, and claims officially registered by the organization or competent authorities, as well as no violations identified by the organization by means of procedures established at OAO Nizhnekamskneftekhim have been reported. Human rights

issues are covered in the training of union members; in 2011, 1,871 employees were trained.

To better represent the interests of workers, 11 Commissions of the Trade Union Committee are permanently in force: occupational safety, health and environmental protection, organizational and mass work; wages and employment, pension issues, transportation services, work among women; cultural-mass work, work with young people; control over catering, sports work, family and school issues. Joint Administration and Trade Union Committees: for social insurance, labour disputes and occupational safety and health.

### **SOCIAL PROGRAMS FOR COMPANY EMPLOYEES**

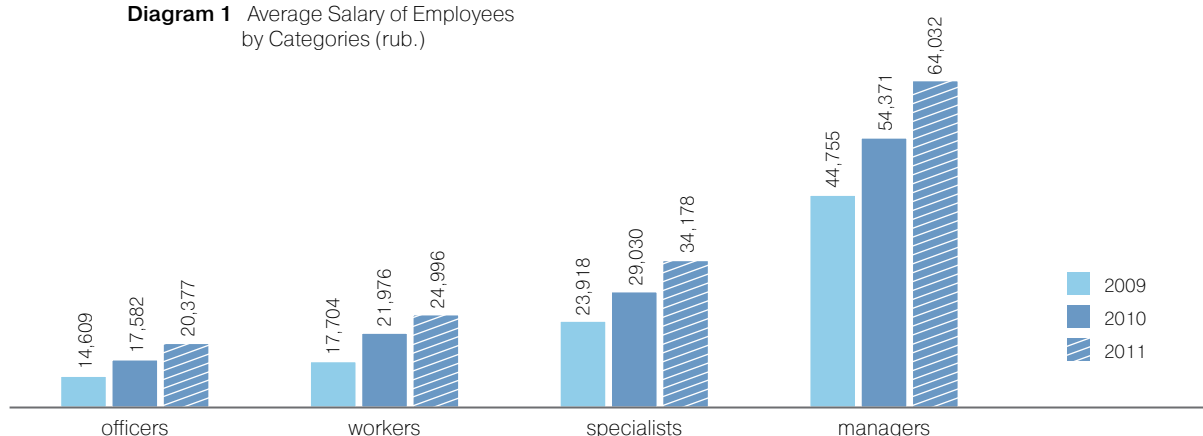
#### **STAFF MOTIVATION**

In view of importance of work in the field of corporate social responsibility as well as in effort towards sustainable development, the Company is pursuing an active policy focused on better meeting direct demands of labor collective, its former employees and younger generation. This policy contributes to creation of a highly qualified team, capable to work effectively under conditions of tough competition.

Since 1995, OAO Nizhnekamskneftekhim has a rank salary system in place. All professions and positions are distributed according to ranks, depending on labor complexity and intensity. The basis of salary calculation is composed of rank coefficient assigned to each workplace and basic norm rate. The rank payment system excludes discrimination in labor payment based on any features: gender, age, etc. The Collective Bargaining sets surcharges and allowances to the basic salary: for work in particularly hazardous working conditions, work during night hours (from 22 pm to 6 am), overtime in excess of schedule, high professional skills of workers, multi-skilling, expansion of service area, foremanship, inter-rank difference in individual piecework, mentoring, personal stigma, scientific degree, proficiency and car washing. Extra payments are used for fulfillment of duties of a temporarily absent employee (sick leave, business trip, administrative leave, annual leave with no substitutions) to workers, engineers.

In 2011, Regulations on Bonuses for Employees of OAO Nizhnekamskneftekhim were introduced for the main outcomes of operations based on results of the last month. The Regulations were introduced in order to improve material interest and encourage employees to achieve performance, that ensure compliance by the Company, as a whole, with monthly plans of income, sales of products, reduction of cost of production, including reduction of consumption rates of raw materials, energy resources, as well as saving other types of material, labor and financial resources, trouble-free operation, fulfillment of contractual obligations to

**Diagram 1** Average Salary of Employees by Categories (rub.)



Base wage rates for same types of jobs for men and women do not differ

supply products, achievement of labor quality, ensuring production of competitive products and sustainable profit. The salary fund is the source of bonus payment.

In addition to the Collective Bargaining, based on approved provisions, payments are made by the anniversary dates of employees and in connection with the first marriage. Remuneration payments are made on the basis of the year outcome; the Provision is adopted relative to the material assistance for leave. In December, 2011, employees of OAO Nizhnekamskneftekhim were paid remuneration based on the year outcome for the year in the amount of 329.4 million rubles. Financial assistance in addition to leave according to the appropriate Provision amounted to 173.7 million rubles. The average salary in the Company in 2011 amounted to 31,270 rubles. Tariff rates for the same type of positions for men and women do not differ.

**Ratio of the minimum employee rate and the level of minimum monthly wage (MMW) in the key regions (Nizhnekamsk) in 2011**

Occupations	Minimum rate (3 grades with hazardous working conditions)	MMW* (rub.)	MMW exceedance, (%)
Operator	9,066	4,611	196.6
Machine operator (pump and compressor stations)	9,066	4,611	196.6
Maintenance technician	9,066	4,611	196.6

\*The minimum monthly wage (MMW) is established as of June 1, 2011, in the amount of 4,611 rubles per month, Federal Law № 106-FZ of June 1, 2011.

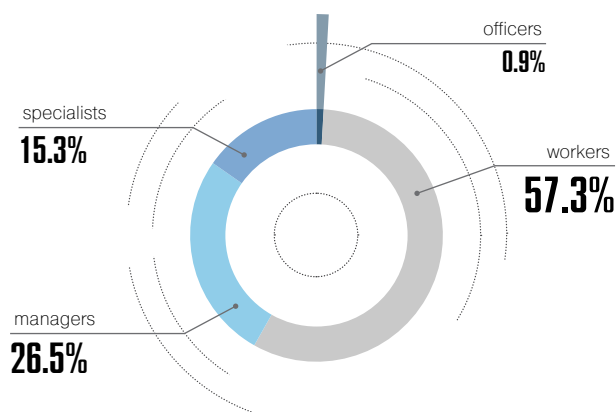
In order to improve motivation to work, the Provision about award of OAO Nizhnekamskneftekhim employees is in place. In 2011, 228 employees were awarded the title of «Hero of Labor of OAO Nizhnekamskneftekhim»; 32 employees were displayed on the Company Board of Honour, 1 employee was brought into the Book of Honor, 22 employees were encouraged by a letter of thanks of the General Director; 888 employees were awarded a diploma, 157 employees were issued gratitude. Awarded by the state, departmental and municipal awards, are a total of 62 employees, including those assigned the honorary title of the «Honored Chemist of RT» – 3 employees, the «Honored Worker of Culture of RT» – 1 employee, awarded by the RT Medal «For Valiant Labor» – 4 employees, the Commemorative Medal «90 years of TASSR Establishment» – 1 employee, Diploma of the RT Ministry of Energy – 7 employees, Diploma of the Manager of Nizhnekamsk Municipal Area – 31 employees, distinguished by the RF Ministry of Energy – 1 employee; encouraged by letters of thanks: of the President of the Republic of Tatarstan – 3 employees, of the Cabinet of Ministers of the Republic of Tatarstan – 5 employees, of the Ministry of Energy of the Republic of Tatarstan – 5 employees, of the Head of Nizhnekamsk Municipal District – 1 employee.

**YOUTH POLICY**

Implementation of targeted youth policy has become one of the priorities of OAO Nizhnekamskneftekhim's Management. Developed and implemented are the basic directions of the Company youth policy, the department of work with youth is functioning.

The Collective Bargaining provides for a number of benefits for young people. Every year 150 Company employees go to the army service and come back. Employees returning after the army service are paid allowance in the amount of 5,000 rubles, and new employees recruited within three months after army service are paid appointment allowance in the amount of 3,000 rubles. In 2011, OAO Nizhnekamskneftekhim allocated 753 thousand rubles

**Diagram 2.** Salary Fund in 2011



for allowances of those returned to the Company after the army service. Young families are given loans in the amount of 50,000 rubles to purchase essential goods. In 2011, loans were granted for the amount of 10 million rubles.

In 2011, the Department of work with young people held over 50 events:

- › professional skills competitions on major occupations (more than 30 competitions);
- › competition among young innovators;
- › military-technical race, dedicated to the International Year of Chemistry, where 38 teams participated;
- › competition of patriotic songs, festivals of KVN games, propaganda teams;
- › trip of search group «Neftekhimik» is organized to hold the Memory Watch;
- › the group «Island of Courage» is organized on the basis of the pioneer camp «Yunost»;
- › entertaining parties and parties honoring veterans of the Great Patriotic War and labor;
- › Parties of communication and acquaintance in the Tatar language, corporate leisure parties;
- › games «What? Where? When?», «KVN», «Meeting of generations», the Day of memory of victims in local wars, tourist meeting;
- › the smart club, the club of young scientists, literary club, etc. are functioning.

For the purpose of engaging in active production and social activities, solving problems of young families, the Committees for work with young people are organized in the Company subdivisions. In 2004, the Youth Organization of OAO Nizhnekamskneftekhim was recognized the best in the Republic of Tatarstan, and since then every year it confirms the title of winner of the republican competition «The Best Implementation of Youth Policy of the Republic of Tatarstan». In 2011, the Youth Organization of

OAO Nizhnekamskneftekhim obtained the highest score of the Republican Contest Jury and was awarded the Grand Prix, proving once again that young people working in the Company are active, indifferent to their future, they have a lot of real interesting ideas and suggestions, they compose intellectual, labor, creative potential of the Company.

## PENSION PROGRAM

The major component of the Company Corporate Policy is maintaining the high level of quality of life for workers and veterans of the Company. OAO Nizhnekamskneftekhim has always been focused on maintenance of such values as compassion, family support, worthy standard of living.

The Company does not neglect its former employees. Interests of more than 7,000 retirees are represented and work with them is performed by the Council of War and Labor Veterans. The Company has developed a number of provisions to provide financial and social assistance to former employees.

### › Benefits and payments to pensioners:

Starting from April 1, 2001, the Regulation entered into force «About Non-State Pension Coverage of OAO Nizhnekamskneftekhim Employees», which defined the terms and conditions of appointment of non-state pensions, formed at the expense of the Company funds. Non-state pension is granted to employees, retired after reaching the retirement age (women – 55 years old, male – 60 years old). The amount of a non-state pension depends on seniority and wages. In 2011, the Company allocated 50 million rubles for monthly supplements to pensions (including monthly bonuses to the pensions of employees laid off prior to 2001).

› Lump-sum allowance at the time of retirement. The amount of allowance depends on the labor input. In 2011, such allowances were paid in the amount of 47.1 million rubles.

› Bonus by holiday dates: Victory Day, Day of Fatherland Defenders, Day of Old People, by Anniversaries. The total amount of payments to pensioners by holiday dates amounted to 7.3 million rubles.

› Health care of retirees at the expense of the Company. Pensioners and veterans are assigned to the hospital for medical care at the expense of the Company. In 2011, 3 million rubles were allocated for medical treatment of pensioners. Veterans are also issued preferential vouchers for sanatorium treatment.

› According to the Collective Bargaining, in the event of death of a pensioner all the funeral services are paid at the expense of the Company, financial assistance is paid. In 2011, payments totalled 3.4 million rubles.

› Every year, the annual free subscription to large-circulation newspapers «Neftekhimik», «Hezmettesh Avazy» is organized for the veterans.

In 2011, a ceremony in honor of the elderly people was held in the House of Folk Arts which included a celebratory concert and buffet

for 1,200 people. In all the Company subdivisions, meetings, tea parties, home visits of non-ambulant and terminally ill veterans, excursion trips, concerts were organized for the veterans, food and gift baskets bought. A lump sum was paid in the amount of 600 rubles to each of 7,526 pensioners, registered in the Council of War and Company Labour Veterans, a ceremonial dinner was organized for the Board of activists. Vouchers to sanatorium «Korabelnaya Roshcha» were issued to 30 veterans, to sanatorium «Izhminvody», «Varzi-Yatchi», «Bakirovo» – to 7 veterans.

Care on the part of the Company and Trade Union administration encourages the elderly people, they are happy to take part in rehearsals and concerts of the Veterans Chorus «Nadezhda», take an active part in the leisure parties, organized in the House of Folk Art for them. Maintaining the quality of life of former workers at the decent level is an integral part of the traditions existing in the Company.

#### STAFF REHABILITATION AND RECREATION

To ensure high-quality and timely treatment of employees, OAO Nizhnekamskneftekhim's Management concluded treaties of compulsory and voluntary health insurance with ZAO Insurance Medical Society «Spaseniye».

At the cost of the Company profit, the recreation center «Dubravushka» and children's health camps «Yunost» and «Olimpiyets» are supported.

OAO Nizhnekamskneftekhim has always paid the utmost importance to the issues of health resort treatment and rest of its employees. In 2011, 3,698 petrochemists and their families had a rest and improved their health in the sanatorium OAO «Korabelnaya Roshcha». The Company also allocates significant funds for purchase of sanatorium vouchers. The Company employees have an opportunity to attend preventive treatment in sanatoriums of the Republic of Tatarstan and Russia («Uva», «Zhemchuzhina», «Bakirovo», «Izhminvody», «Varzi-Yatchi», «Zvyozdochka», «Zelyonaya Roshcha», etc.), where climatotherapy, treatment with natural mineral waters are carried out based on specially developed treatment programs.

2,583 employees and their families had a rest at the recreation center «Dubravushka» during the season. The Company skiing lodge «Almash» was attended by approximately 12,000 petrochemists and their families during winter season, 2,050 children of the Company employees rested in the children's camps.

#### MORTGAGE PROGRAM

OAO Nizhnekamskneftekhim's Management pays great attention to solution of critical social problems – provision of comfortable housing to its employees.

Starting from 2005, 950 apartments were sold to employees in need of housing, including 401 apartments within the Company own program, 549 apartments – according to the system of Republican Social Mortgage. In 2011, in view of social support, 69 families of employees who do not have their own housing and living in the hostels, were issued loans for the total amount of 27.7 million rubles for purchase of apartments.

For the same purpose, in 2010, a new Provision was developed and approved; that assumes annual payment of 20 thousand rubles on the account of payment for the apartment purchased under social mortgage of housing after five years of acquisition of an apartment by a person waiting on list.

For temporary accommodation of employees, the Company has on its balance sheet hostels designed for 3,600 families.

The peculiar feature of the Company is not only availability of housing stock for temporary accommodation, but also funding of construction of apartments for employees waiting on list by the Company. Employees purchase apartments built under terms and conditions of the Social Mortgage (term of installment payment is up to 20 years at the rate of 7% per annum; for workers living in the hostel, a loan is issued in the amount of up to 30% of the cost of purchased housing).

In connection with the Company adopted Regulation on provision of benefits under the program of sale of housing at OAO Nizhnekamskneftekhim, works are started on implementing in the system SAP ERP of «write-off» of such benefit, as well as computation and deduction of income tax from the wages of the employee from the amount of partial redemption by the Company of the employee's apartment purchase price and amount of loan granted to the employee to pay a down payment under the mortgage.

Provision with housing is one of the main factors of stability of the labor collective and social attractiveness of the Company.



### **CATERING SYSTEM ON PRODUCTION SITE OF OAO NIZHNEKAMSKNEFTEKHIM**

Catering of all employees is performed in 32 canteens, located in the industrial area and in 10 refreshments in remote sites. The existing catering system on the production site is the largest one not only in the Republic of Tatarstan but also in the petrochemical industry in Russia. The Company's employees who work directly in the primary production area, are provided with free healthful and dietary meals (HDM). HDM menus are composed based on recommendations of the Institute of Nutrition of the Academy of Medical Sciences, and their price is revised as far as food-stuff becomes more expensive. Each year the order of the General Director determines the scope of repair works of canteens. In 2011, 3 canteens were renovated: at the Butyl Rubber Plant, Styrene and Polyester Resins Plant, and Ethylene Plant. Currently renovation works are under way in two more canteens.

### **PROGRAM OF CULTURAL AND EDUCATIONAL WORK AT OAO NIZHNEKAMSKNEFTEKHIM**

2011 was a specific year for the Company, including in the field of cultural and educational work, which was planned in the light of the following dates:

- ▶ In accordance with the initiative of the International Union of Pure and Applied Chemistry – IUPAC, supported by UNESCO, 2011 was announced the International Year of Chemistry;
- ▶ Nizhnekamsk celebrated its 45th anniversary of the assignment of the status of the city;
- ▶ In connection with the 125th anniversary of the birth of the Tatar poet G. Tukay, the RT President signed a decree declaring 2011 the year of G. Tukay in Tatarstan.

To organize cultural and educational work at OAO Nizhnekamskneftekhim, the House of Folk Arts (HFA) possibilities were actively used. The leaders of all creative groups are experienced professionals, nine of them were awarded the title of «Honored Worker of Culture of the Republic of Tatarstan». During the year 2011, creative groups of HFA organized 338 concerts and performances for petrochemists and residents of the city (among them 260 activities were of travelling character, while 78 activities were held on the stage of HFA).

In order to promote achievements of OAO Nizhnekamskneftekhim, house of petrochemists to active labor and social life of the Company, development and promotion of artistic and creative activity, innovation of young workers, the Trade Unions jointly with the Department on work with youth, HFA and Corporate Events Department of the Company held the festival of KVN teams and propaganda teams. Creative performances were devoted to the 45th anniversary of Nizhnekamsk and International Year of Chemistry.

In order to perpetuate the memory and creative heritage of G. Tukay, the great Tatar poet, and in connection with his 125th anniversary, the concert «Kelemde kon haman Ayaz – haman da yaz» at the high level was organized and conducted.

Meetings and concerts in the relationship clubs «For those who are beyond...», «Ochrashu-tanyshular» and veterans are of great success among the Company employees. Employees and groups of HFA have traditionally taken an active part in organizing and conducting a series of events dedicated to the Day of Victory in the Great Patriotic War. More than 70 concerts and entertainment programs with the participation of groups of HFA were prepared for the petrochemists and their families in the sanatorium «Korabelnaya Roshcha» and at the recreation center «Dubravushka».

Young workers of OAO Nizhnekamskneftekhim within the dance ensemble «Yashlek», Youth Theatre «Art comedians», group «Funny Guys» participated in the Republican Festival of Young Workers Amateur and became the winners of I and II levels in five nominations.

#### **PROGRAM OF SPORTS AND RECREATION ACTIVITIES AT OAO NIZHNEKAMSKNEFTEKHIM**

OAO Nizhnekamskneftekhim has once again confirmed its reputation as the most active sports collective in Tatarstan: based on the results of the Republican Review-Competition for 2011, the Company was awarded a diploma and a cup for the best arrangement of physical-recreational and sports-mass work among industrial companies.

At OAO Nizhnekamskneftekhim, favorable conditions are created for development of mass sports and sports and recreation activities, and the program «Main Directions of Development of Physical Culture and Sport» approved by the General Director is in place.

#### **Sports Base**

At the disposal of the Company are powerful sports facilities intended for organization and conduct of recreation activities:

- › Sports Complex «Neftekhimik» (which includes a football field, weight lifting room, aerobics room, fitness center);
- › two Ice Sports Palace (with 5,000 and 2,000 seats);
- › Sports Complex «Druzhba» (which includes a swimming pool, gym, sports hall, chess and checkers club, football and hockey court);
- › gym «Fakel» with the health-recreation center;
- › training base «Almash» (young sportsmen have year-round training meetings here, during winter period the ski lodge is used. At the ski base «Almash», both interplant competition and primacy of the Company for skiing, family sports competitions and sports events are held);
- › sports camp «Olympiyets» (during summer season it accepts young sportsmen from sports schools of the sports club «Neftekhimik». Under the guidance of coaches a continuous training process is in place that allows for 600 sportsmen to achieve good results during 3 shifts.

For organization of the training process, 3 football fields, 2 volleyball courts, a tennis court, 2 outdoor swimming pools, sector for recreative gymnastics, recreation center, ski-roller track) are provided.

The total area of sports halls and rooms is 35,453 sq. m, swimming pool and mini-pools – 750 sq. m, indoor sports facilities – 38,545 sq. m, the number of sports grounds equals to 7 pcs., the area of sports grounds – 17,825 sq. m, the stadium with stands for 1,500

seats – 7,700 sq. m; other sports facilities, including adapted premises (ski resorts – 2 pcs., a shooting range – 1 pc.).

#### **Sports of Records**

The material base of the Company allows to support and finance two professional teams: the team «Neftekhimik» playing in the Continental Hockey League and the team having the same name which plays in the Second Division of the football championship of Russia. On the basis of the sports club «Neftekhimik» the center of higher sports skill is established.

#### **Work Sports**

At OAO Nizhnekamskneftekhim, 19 professional trainers and 20 voluntary trainers of Physical Culture and Sports are employed, who are responsible for introduction of physical training during working hours (production gymnastics, micro-pauses, physical training minute, physical training breaks, which are broadcasted by the interplant radio at 10:10 and 14:10) to improve efficiency and productivity, as well as organization of production sports events during off-hours on the sports grounds, both with employees and their family members.

In many Company subdivisions, sports corners and mini-rooms are arranged and constantly functioning, where competitions are held on darts, checkers, chess, arm wrestling, table tennis and other sports. The Company has organized 11 sports groups (football, men's and women's volleyball, cross country skiing, athletics, checkers, chess, basketball, swimming, weightlifting, table tennis).

Systemic approach which provides for organizing sports clubs based on sports facilities of OAO Nizhnekamskneftekhim for the Company employees under the guidance of coaches of the sports club «Neftekhimik», helps to build picked teams in such sports as football, women's and men's volleyball and basketball, table tennis, weightlifting, cross-country skiing, athletics, chess, checkers, swimming.

During more than fourteen years, the team of OAO Nizhnekamskneftekhim is an absolute winner of the sports contest of the Trade Union of workers of chemical industry in the Republic of Tatarstan. As a rule, the strongest athlete-petrochemists, are part of ricked teams of the city to participate in national competitions.

#### **Formation of Healthy Lifestyle**

One of the most striking examples of promoting the idea of healthy lifestyle through physical activity is the annual sports competition among OAO Nizhnekamskneftekhim employees. In 2011, the program of sports competition included 57 types of sports and athletics competitions, more than nine thousand people took part



in it. In the subdivisions, parallel factory and shop competitions and tournaments are held, and additionally, Military-Technical Race and tourist rallies for young petrochemists are annually held.

In order to encourage activity in physical culture and sports, annually the review-competition «The best organization of mass sports and recreation activities» is held among the Company subdivisions during which the best athlete of OAO Nizhnekamskneftekhim is recognized. Winners and prize-winners of these competitions are awarded with cups and give bonuses when the Chemist's Day is celebrated.

Petrochemists demonstrate good mass scale in the national sports movement as well. In 2011, 950 petrochemists participated in the start of the All-Russian run day «Cross of Tatarstan», and 221 people took part in «Nizhnekamsk Ski-Run». 1,569 employees and their families attended the annual ski competitions of OAO Nizhnekamskneftekhim under the motto «Everybody to Ski-Run!».

#### **Children Sports**

Great attention is paid to the children and teenage sports in the Company. Totally, more than 1,873 children from all over the city attend different sports groups of the Children Sports School and other sports facilities.



## MOTHER AND CHILD WELFARE

In the Company, 39% employees are women. Many of them work in the Company more than one year, have families and children. Given the special role of a woman in the society, up-bringing of children, the Management and Trade Union Committee endeavour to ensure more favorable conditions of work and leisure for them.

At OAO Nizhnekamskneftekhim, women are provided with one-off welfare assistance:

- › at birth of a child – in the amount of 10 thousand rubles;
- › at birth of two children at a time (twins) – in the amount of 70 thousand rubles;
- › at birth of three children at a time (triplets) – in the amount of 100 thousand rubles.

Mothers with children under the age of 16 years are granted a one day leave each month with the 50% payment. During school holidays the vacation sanatorium «Korabelnaya Roshcha» and recreation centers operate in the mode of «Mother and Child», which is very convenient for the women employees. All Company subdivisions are provided with women's hygiene bathrooms. Employed women can make use of the Breast Center services (consultations, surgery, treatment) and the Center of Family Planning at the Company costs. Money payments for birth of children in 2011 amounted to 7,950 rubles.

The Company has a lot of family dynasties, the total work experience of which exceeds 100 years. Staff is replenished, mainly, by local Nizhnekamsk youth, children of hereditary petrochemists.

Considerable resources are allocated to address social and domestic issues and organization of employees' leisure: on the Company balance are 30 well-equipped hostels, where 3,600 young families are dwelling, 2 children's recreation camps, a recreation center, a sanatorium, two ice palaces, stadium «Neftekhimik», sports complex «Druzhba» with a swimming pool, the House of Folk Arts and other social facilities.

Every year, Christmas gifts are bought for children of employees (in 2011 – for the amount of 7.5 million rubles), New Year performances are organized for the Company employees and their families. Celebration is organized in the Company subdivisions in connection with the International Women's Day, the 8th of March with gifts distribution to the employed women, mothers with many children, women, caring for foster children and children with disabilities.

### **ORGANIZATION OF TRANSPORTATION SERVICE FOR OAO NIZHNEKAMSKNEFTEKHIM PERSONNEL**

Provision of transport services is a significant component of social welfare of petrochemists. Annually, OAO Nizhnekamskneftekhim allocates funds for free shipment of employees to/from the working place and in the territory of the Company.

Every day, transportation companies deliver OAO Nizhnekamskneftekhim employees in three shifts via different routes. Bus circulation is also provided in the Company territory.

The employees' satisfaction with transport services is constantly monitored. Wishes of employees are transferred to carrier companies. Most of petrochemists are satisfied with the transportation services, both between the city and industrial zone, and in the Company territory. Petrochemists denote good control on the part of the Company Transportation Department and Trade Union over carriers and positive changes within transportation services: good order in the passenger compartments, availability of luminous bus numbers, «crawler» in the trams, improvement of driver professionalism. Solution of transport issues is an indicator of daily care of the Administration and the Trade Union of employees.

### **PROGRAM OF MEDICAL SUPPORT OF OAO NIZHNEKAMSKNEFTEKHIM PERSONNEL**

The Company has insurance practice in place relevant to its employees and retirees who are registered with the insurance company «Spaseniye» within the Company Council of Veterans based on the systems of mandatory and voluntary medical care insurance.

In the hospital workers and pensioners get free treatment at the expense of the Company. In addition, at the expense of the Company, funds are allocated for medicines required for treatment of petrochemists or pensioners outside the hospital. After hospital treatment, petrochemists are sent to the sanatorium based on the doctors' recommendations. Annually, OAO Nizhnekamskneftekhim purchases new types of modern medical equipment for the hospital and sanatorium. In addition, each plant and the Company Headquarters have their own health centers. Every year, several items related to health care are included in the Collective Bargaining. The current system of medical support of OAO Nizhnekamskneftekhim personnel allows to obtain timely medical care by the employees and retirees, including the most complex and expensive operations at the Company costs in all medical institutions of Russia.





## **SAFETY AND HEALTH OF EMPLOYEES**

## Section 7

# SAFETY AND HEALTH OF EMPLOYEES

### OCCUPATIONAL AND INDUSTRIAL SAFETY POLICY

The Company strives to continually improve and develop its activities in the field of occupational and industrial safety on the basis of regular monitoring and control over results.

In 2006, OAO Nizhnekamskneftekhim adopted and in January, 2011, revised the «Policy of OAO Nizhnekamskneftekhim» in the Field of Occupational and Industrial Safety», which obligations are aimed at ensuring safe working conditions and protection of health of staff by improving the Safety Management System of OAO Nizhnekamskneftekhim based on the best international standards, including through international cooperation in the field of occupational and industrial safety. Within the framework of the Policy of Occupational and Industrial Safety, OAO Nizhnekamskneftekhim declares to ensure preservation of life and health of workers as one of the main corporate priorities and determining factor of the Company development.

#### Occupational Safety Costs (thou. rubles)

	2009	2010	2011
Occupational Safety Costs	288,089.5	362,080.16	499,177

In order to improve the Safety Management System in place at OAO Nizhnekamskneftekhim, starting from 2006, in August, 2011, the specialists of CQS «IQNet» (Prague, Czech Republic) carried out a supervisory audit to confirm compliance with the directive of the international standard OHSAS 18001:2007.

The Occupational and Industrial Safety Management System of OAO Nizhnekamskneftekhim meets public recognition. For example, in 2011, the Company won the competition «Industrial and Environmental Safety – 2011» in the nomination «For Contribution in Improving the Level of Environmental Safety,

Environmental Protection, Safe Operation of Hazardous Facilities, and Informational Openness».

OAO Nizhnekamskneftekhim is fully aware of its responsibility for preservation of life and health of employees. That's why the Company monitors and measures occupational and industrial safety parameters, publicly demonstrates plans and results of such activity, including through the Company reports available to interested parties. Developed and put into effect is the Company standard «Safety Management System», set are objectives and targets for monitoring risks and reduction of their level, developed is the «Occupational and Industrial Safety Management Program for 2010-2012».

The Safety Management System covers all organizational aspects of the Company in terms of establishment of safe working conditions in the workplace. Among them are preventive maintenance, planning, training, review of work results and moral incentives in terms of occupational and industrial safety of personnel.

In order to improve sustainable development of the Company, specific attention is given to provision of safety at hazardous production facilities. Since 2001, the Company operates the Department of Production Control over Industrial Safety. Besides, in order to monitor implementation of the complex of measures aimed at ensuring safe operation of dangerous industrial facilities, as well as prevention of accidents, incidents, elimination of their consequences, the Commissions of Production Control has been set up at OAO Nizhnekamskneftekhim, which through monthly meetings, summarizes the results of work of subdivisions in terms of industrial safety, and hears the leaders, in the subdivisions of which incidents and accidents were admitted. The Committee members are guided in their work by the «Regulations about Commission of Production Control and Organization of Controlling (Supervision) Activity of Administration and Technical Departments of OAO Nizhnekamskneftekhim on Issues of Industrial, Environmental, and Energy Safety».

## OCCUPATIONAL AND INDUSTRIAL SAFETY TRAINING SYSTEM

As part of occupational and industrial safety training, OAO Nizhnekamskneftekhim regularly carries out training seminars for pre-qualification training followed by certification of the Company managers and specialists for the occupational and industrial safety rules and regulations. The Management of OAO Nizhnekamskneftekhim, Rostekhnadzor, and the Institute of Staff Training for Petrochemical and Refining Industries, Moscow, organize appropriate trainings. In 2011, a total of 2,154 Company managers and specialists were trained.

In 2011, in accordance with the plan of training and advanced training of the Company employees within the course of «Occupational and Industrial Safety Management per OHSAS 18001 and Internal Audit», 39 employees were trained from among newly hired engineers, senior authorized and re-trained experienced specialists in the field of occupational safety and 27 employees – among chief specialists of plants, centers, offices, general purpose shops – within the course of «Improvement of the Company Safety Management System».

In 2011, 199 members of the contingency rescue units (NASF) were trained. NASF members are trained by teachers of OOO Center of Environmental Certification, Insurance and Auditing (CESSA, Kazan), NPOU IC Tekhnika (Ufa), State Educational Institution of Further Education, Novomoskovsk.

Annually, at OAO Nizhnekamskneftekhim, competitions are held according to the approved Regulations about Conduct of Competitions among Fire Prevention Brigades of Plants, Divisions of OAO Nizhnekamskneftekhim. In August, 2011, final exercises were conducted between the best teams of fire-prevention units of plants and divisions on the training ground of Fire Station No. 33. The teams that won the first five places were awarded money gifts. In September 2011, on the training ground of IP-4, final trainings were carried out between NASF teams of plants and administrative departments. Such trainings showed commitment to localization and elimination of probable emergency situations, namely: to carry out rescue works, to gas protection equipment, to provide first aid. 14 teams took part in the trainings. The teams that won the first five places were awarded money gifts.

In order to test the ability of employees to provide first aid, training and subsequent competition are carried out between sanitary brigades of the Company at OAO Nizhnekamskneftekhim. In particular, in 2011, OOO «Educational Medical Center «First Aid» (Kazan) trained 1,454 Company employees to practical skills in first aid. The sanitary brigade of OAO Nizhnekamskneftekhim won the Cup and Certificate of Honor for the first place in national competitions for contingency rescue units in 2011.

## EMPLOYEES' LIFE AND HEALTH PRESERVATION IS THE COMPANY PRIORITY

In 2011, in order to ensure timely and full provision of OAO Nizhnekamskneftekhim's employees with overalls, safety footwear, and other personal protective equipment, a complex of programs for automatic purchase plan, accounting and provision of overalls and safety footwear, in SAP ERP system, has been put into commercial operation. This task allows to create a more accurate and reasonable plan of the Company employees provision with personal protective equipment, taking into account the anthropometric data of workers, wear life and dates of actual receipt. Development of this task allows to qualitatively improve awareness of the employees about provision of personal protective equipment.

OAO Nizhnekamskneftekhim's management pays great attention to employees' opinion about personal protection equipment. Thus, systematic public opinion polls show that satisfaction with provision of personal protection equipment is still very high.

As part of the ongoing annual «Show of the state of safety and organization of works on creation of healthy and safe working conditions in the production collectives», incentives are in place for the collectives that achieved certain performances. In 2011, 1,850 thousand rubles were allocated for such purposes.

A significant part of the Company employees is engaged in production under hazardous and specifically harmful working conditions. This category of workers is given milk and healthful and dietary meals according to the prescribed procedure. Catering at OAO Nizhnekamskneftekhim is given great attention, sanitation and hygiene of canteen meets the established norms.

One of the trends in the social partnership is organization of preventive and therapeutic recreation activities in the working collective. Successful collaboration between administration and trade union organization with the medical staff, activities of engineering and medical commissions, as well as work under social insurance leads to reduction of morbidity and loss of days of labor ability.

In order to prevent occupational diseases for the categories of employees exposed to harmful production factors, a strict procedure has been established for mandatory medical examination during employment, and periodical medical examinations during regular activities. Every year, a contract is concluded with the medical establishment to conduct medical examinations, including allocation of narrow profile experts to perform medical examinations of workers employed in jobs with exposure to occupational hazards, in the clinic, located in the territory of OAO Nizhnekamskneftekhim and health centers in the Company subdivisions. In 2011, 11,033 Company employees were examined, the coverage amounting to 100%. In 2011, experts of FBUN «Ufa Research Institute of Occupational Medicine

and Human Ecology» carried out an in-depth medical examination using a variety of functional and laboratory methods of examination of staff of OAO Nizhnekamskneftekhim subdivisions exposed to harmful substances and production factors. Totally, 2,610 workers were examined. Besides, annual vaccination of workers is in place.

During 2011, in comparison with 2010, in terms of per 100 workers, total disease incidence decrease was noted for all groups: in terms of cases – by 13.55% , in days of disability – by 18.09%.

According to the agreement on health insurance of employees with the insurance company «Spaseniye», diversified health care has been organized for all employees. All health centers are equipped with physiotherapy equipment and fitted with qualified medical personnel. In accordance with the agreement, attendance of petrochemists is free of charge, on the basis of the insurance policy under which payment for medical services is guaranteed. Particular attention is paid to the health of women working at OAO Nizhnekamskneftekhim.

In order to prevent tuberculosis, biennial fluorographic examination of workers is conducted in the clinic, which is located in the Company territory. Fluorography is conducted by low dose photofluorograph.

As part of ensuring occupational safety, the Commission for prevention of drug addiction and formation of healthy lifestyle has been established in the Company. Developed and approved is a comprehensive program for prevention of drug addiction with an appropriate series of lectures held in all OAO Nizhnekamskneftekhim subdivisions. In 2011, the coverage amounted to 4,000 employees of the Company (72 lectures were held). Complete ban on smoking in administrative buildings of OAO Nizhnekamskneftekhim is in place. Regular informing about the facts of detention of workers with symptoms of alcohol intoxication via departmental TV-channels «VTS-Neftekhim», visual propaganda is in place in the form of stands, sanitary bulletins in the factory clinic and in health centers at the plants. During visits to the plants, workshop physicians hold lectures, discussions, debates on prevention of drug addiction, alcoholism and tobacco dependence.

## **SOCIAL CONTROL**

In accordance with the requirements of the Federal Law «About Sanitary and Epidemiological Welfare of Population», production control of the factors of industrial spheres is underway in the workplaces of personnel by sanitary and industrial laboratories, and laboratories of gas rescue brigades. Laboratories are equipped with the necessary equipment for measuring a number of chemical factors, as well as measurement of microclimate parameters, light, noise, and general vibration, electromagnetic radiation and other harmful production factors. The list of controlled factors of the production environment is determined annually. Sanitary and

industrial laboratory has been accredited within the Accreditation System of Analytical Laboratories.

All divisions of the Company engineering and medical commissions (EMC) have been established. Specialists from the technical departments of the divisions, workshop physicians, representatives of Trade Union organization, and workers participate in EMC work. In 2011, at the meetings of EMC with the representatives of administration, Trade Union, OOO Medical Company «Spaseniye», results of periodic medical examinations, x-ray screenings, analysis of morbidity, morbidity status, working conditions, progress reports of EMCs of the divisions, implementation of proposals given in final acts of medical examination results (including provision with vouchers for health resort treatment) are reviewed. For personnel social protection in the sphere of health care, in the 2011, vouchers were allocated to the sanatorium «Korabelnaya Roshcha» for the Company employees.

All the preventive work on occupational safety at OAO Nizhnekamskneftekhim is conducted with the active participation of trade union organization representatives. 269 people are responsible for issues of occupational safety. In the Company divisions, Occupational Safety Committees are functioning, that are created on a parity basis with the equal number of representatives of the administration and staff employees.

Share of personnel represented in the official joint Committees on health and safety with participation of representatives from the management and employees involved in monitoring and development of recommendations with regard to programs on health and safety in the workplace equals to at least 20%.

## **PROGRAM OF IMPROVEMENT OF EMPLOYEES WORKING CONDITIONS AND SUPPORT**

Through detailed analysis and regular adjustment, OAO Nizhnekamskneftekhim is constantly improving performance indicators in the field of occupational safety. Management means a process that begins with the prediction and assessment of major risks to employees' life and health, risks of accidents, as the Company is fully aware of its responsibility for performance of measures on occupational safety, environmental protection and industrial safety.

Implementation of social programs, including through improving working conditions of petrochemists, is reviewed annually when the results of fulfillment of the Collective Bargaining are summarized. At the same time, to ascertain the wishes of employees, petrochemists are interviewed.

As part of study of the quality of working life in the Company divisions, interviews are held about the quality of work of health centers, health services in the Company (in 2011, 1,528 people were interviewed). Most often, workers are treated for vaccinations, injections, first aid, as well as physical therapy. Employees of health

centers know from their practice about the problems of employees of supervised plants and promptly undertake preventive measures.

The results of social studies were discussed in collectives and published in the corporate newspaper. Interviews were also held relevant to services provided by the sanatorium «Korabelnaya Roshcha». Most respondents have no difficulties in obtaining vouchers, but at the same time the petrochemists expressed their wishes to increase the number of procedures and recommended to purchase new equipment. Suggestions of petrochemists were heard. Now the sanatorium offers an extended range of provided services, new specialists have been employed, the children's playground has been fitted.

Simultaneously with the study of the quality of medical services, satisfaction with production environment factors is monitored. Separately, the level of satisfaction of garment and personal protective equipment provision is monitored. Monitoring has been in place for 20 years. Every year, up to two thousand of petrochemists are involved in such research. For a certain number of working condition indicators, satisfaction of petrochemists exceeds 80%: noise level, light, clean and tidy workplace, ventilation of industrial premises, room temperature.

Feedback, attention to the labor collective wishes on the part of administration allows to continuously improve activities on health care, working conditions, support of the Company employees.

### **SOCIAL BENEFITS SET FORTH IN THE COLLECTIVE BARGAINING**

Activities on improvement of working conditions and occupational safety of employees, their health care, addressing other social issues are conducted within the Collective Bargaining.

In accordance with the Law «About Collective Bargaining and Agreements», the Draft Collective Bargaining is discussed in all the Company divisions. A separate section of the Collective Bargaining «Guarantees on Occupational Safety, Health and Legal Protection» has been added with the «Agreement on Occupational Safety», which includes measures aimed at prevention of occupational

diseases, accidents in the working place, improving conditions and occupational safety, sanitary and domestic support of workers.

Activities included in the «Agreement on Occupational Safety», are developed taking into account suggestions of supervising authorities, employer, and employees based on analysis of the causes of occupational accidents and occupational diseases, based on the results of examination of the technical condition of manufacturing equipment, as well as on the basis of the results of appraisal of jobs in terms of working conditions for compliance with occupational safety requirements.

According to the Collective Bargaining, OAO Nizhnekamskneftekhim provides compensation of moral damage to the Company employees, caused to him/her in connection with an accident at work or occupational disease in accordance with the degree of disability of the insured person: for permanent disablement – based on the amount of 85,000 rubles, for temporary disability – in the amount of 100 rubles for each day, but no more than 15,000 rubles. In case of employee death as a result of accident at work, moral damage is compensated with the amount of 100,000 rubles.

A family member (husband, wife) of the person died at work as a result of an accident, is annually paid lump sum material assistance by the Chemists Day in the amount of an average monthly salary across the Company. Thus, in 2011, by the Chemist's Day, 48 families were paid a lump sum amount of 26,514 rubles per each victim, totally, 1,272,672 rubles were allocated for such purposes.

Starting from 2006, no accidents have been registered in the Company. In 2009, two cases of occupational injuries were registered at the Company facilities, three cases in 2010, and three cases in 2011 (one – with fatal outcome). Since 2009, cases of occupational diseases have not been registered at OAO Nizhnekamskneftekhim (on the whole 18 occupational diseases are registered at OAO Nizhnekamskneftekhim).



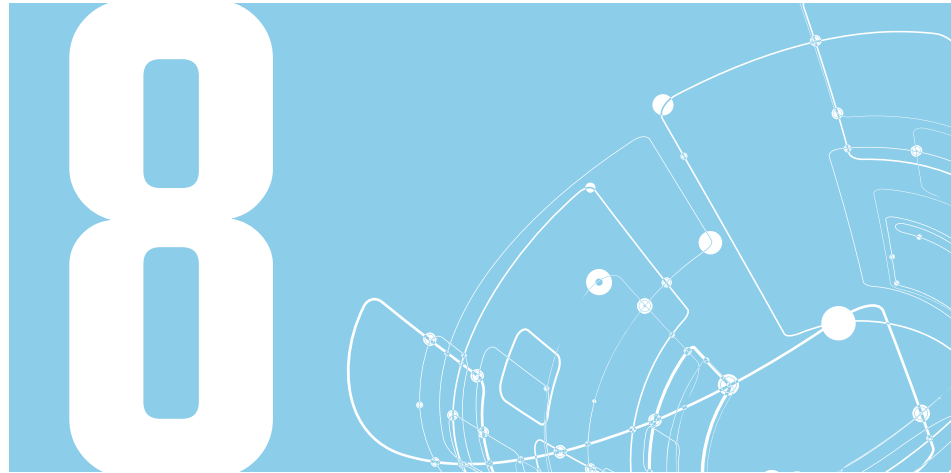
**Data on Occupational Accidents Status**

№	Name of Indicator	2009	2010	2011
1	Number of accidents, including	2 (1*)	3 (3*)	3 (0*)
2	Frequency ratio	0.12	0.18	0.17
3	Severity ratio	65.5	34.7	115.33
4	Injury ratio	7.86	6.25	19.6
5	Disability	131	104	346

\* – among them women







**ENVIRONMENTAL ACTIVITIES  
OF THE COMPANY**

## Section 8

# ENVIRONMENTAL ACTIVITIES OF THE COMPANY

### ARRANGEMENT OF ENVIRONMENTAL ACTIVITIES

OAO Nizhnekamskneftekhim focuses its efforts on production activity, and at the same time pays increased attention to environmental protection. All environmental activities of OAO Nizhnekamskneftekhim are aimed at implementation of Environmental Policy adopted in 2003, the main objective of which is improvement of environmental efficiency. The Environmental Management System functions in accordance with the International Standard ISO 14001:2004.



Environmental management is realized at OAO Nizhnekamskneftekhim in accordance with the laws of the Russian Federation and the Republic of Tatarstan, state documentation, as well as Statute, standards, regulations, instructions, orders, or Company arrangements.

The Company has the required normative documents in place:

- › license for collection, use, neutralization, transportation and disposal of hazardous wastes;
- › draft standards for maximum allowable emissions of harmful substances into the atmosphere;

- › water Management Contract with the department of water resource of NVBVU (Nizhnekamsk-Volga Basin-Water Department) of the RT;
- › decisions to grant water bodies (the Kama River, the Tungucha River, the Strelochny Log Riverp. Analog log) for use;
- › permits to discharge pollutants into water bodies and terrain;
- › licenses for use of groundwater from wells in the branch of Guests' House «Korabelnaya Roshcha», recreation center «Dubravushka», hunt society «Osha»;
- › license to use products that contain radioactive substances;
- › license for use of ionizing radiation sources: operation and storage of X-ray flaw detectors;
- › permit to use hydraulic facilities.

In terms of environmental safety, our Company meets up-to-date requirements.

OAO Nizhnekamskneftekhim implements the precautionary principle, carefully evaluating possible consequences when taking certain decisions, in order, if possible, to avoid serious or irreversible environmental impacts. Due to rapid growth of production, the planned program of strategic development of OAO Nizhnekamskneftekhim for 2008-2012, to ensure sustainable development of the Company, the prospective Environmental Program has been developed for 2007-2015. Among specific tasks solved by the program are increase of environmental efficiency and emergency tolerance of production, development of environmental protection facilities, establishment of the effective system for monitoring and improving the environmental management system, solution of environmental problems of Nizhnekamsk municipal formation.

In 2011, **47 activities** were implemented under the perspective Environmental Programme for 2007-2015 and environmental protection plans for implementation of which **500 million rubles** were spent.

In 2011, the costs for environmental protection amounted to 2,834,055 thousand rubles, including:

- › **current costs – 2,309,465.6 thousand rubles:**
  - for protection and rational use of water resources – 2,048,351.8 thousand rubles;
  - for air protection – 197,010.4 thousand rubles;
  - for protection of the environment (lands) from the impact of production and consumption wastes – 50,453 thousand rubles;
  - for land restoration – 13,650.4 thousand rubles.

- › **costs for overhaul of fixed assets relevant to the environmental protection – 524,589.4 thousand rubles.**

In 2011, fee for negative impact on the environment amounted to 41,136.7 thousand rubles.

## MAIN EVENTS RELEVANT TO ENVIRONMENTAL PROTECTION

### ENERGY SAVING

OAO Nizhnekamskneftekhim is the largest utilities consumer among industrial companies of the Republic of Tatarstan, and consumes 9.2% of electricity and 29.2% of heat energy generated by the entire energy system of the Republic of Tatarstan.

The energy sources of OAO Nizhnekamskneftekhim are Nizhnekamsk Power Station and Nizhnekamsk substation. The source of heat is Nizhnekamsk Power Station.

Natural gas is supplied to OAO Nizhnekamskneftekhim from the main gas pipelines of OOO Tattransgaz via MDSs (main distribution stations) № 2, № 3. In 2011, OAO Nizhnekamskneftekhim consumed 2.26 billion kW/h of electricity, 10.78 million Gcal of heat energy and 638 million m<sup>3</sup> of natural gas. The amount of indirect use of energy in the form of electricity consumption for lighting and electric heating at OAO Nizhnekamskneftekhim is monitored. The Company makes efforts to careful use of energy in this area. Efforts for systematic monitoring of indirect energy consumption allow to significantly reduce such consumption, for example, by means of careful selection of energy efficient materials, services and production capacities, substitution of trips with telephone and video conferences.

In order to further implement energy saving to reduce energy consumption on the basis of Federal Law № 261-FZ of November 23, 2009, «About Energy Saving and Energy Efficiency Improvement and about Amendments to Certain Legislative Acts of the Russian Federation» and Energy Strategy of Russia until 2020 at OAO Nizhnekamskneftekhim, the third Energy Saving Program comes into effect for 2011-2015 with the perspective up to 2020. It includes

246 energy-saving measures planned. It is assumed to save: 367 million kWh of electricity, 878 thousand Gcal of heat energy, 47.5 thousand tons of fuel equivalent.

### Perspective Trends of Energy Saving Program:

- › replacement of equipment that worked out its service life for less energy-intensive equipment;
- › reduction of specific consumption of electric and thermal energy for production;
- › improvement of energy efficiency at the existing facilities;
- › introduction of advanced energy saving technologies;
- › reduction of energy losses in the steam, heat and electric grids;
- › increase of thermal protection of buildings;
- › reduction of auxiliary energy consumption;
- › replacement of lighting networks for up-to-date energy-saving lights;
- › introduction of accounting information systems;
- › improvement of utilization of secondary energy resources;
- › provision of production facilities with their own energy resources;
- › use of variable speed drives;
- › column reconstruction;
- › replacement of catalysts having higher efficiency and selectivity.

In 2011, within the third Program, 54 energy saving measures were implemented, including the following:

- › **Butyl Rubber Plant:** Replacement of lamps in lighting systems of the BR Plant for less energy-intensive items manufactured by PHILIPS, replacement of the catalyst in the dehydrogenation unit, pos. P-28/1 for more active one;
- › **Synthetic Rubber Plant:** Replacement of power equipment of units LK-8/1, LK-8/2, LK-8/7 for Simoreg converters, use of finned coils in the water heater pos. P-3/1 of IP-6 loop;
- › **Isoprene-Monomer Plant:** Replacement of lights on IF-6, IF-11 for the lights with energy saving lamps manufactured by Philips;
- › **Ethylene Plant:** vapor cooler pos. E-VN 128 on the pyrolysis furnace E-VA-118 for generation of additional heat, replacement of the upper row of the module for raw materials of convection coils on the pyrolysis furnace E-VA-105 SRT-II type;
- › **Water Supply, Sewage and Waste Water Treatment Department:** Replacement of metal fan blades in the cooling tower A2 of water block B-4 for glassfiber. Saved: 190 thousand Gcal of thermal energy, 19.2 million kW/h of electricity, 30.8 thousand tons of fuel equivalent. The economic effect of implementation amounts to 147.5 million rubles.

In order to improve reliability and technical and economic efficiency of the power distribution grids with the voltage of 110 kV, 6 kV and below, reduce transmission losses, improve reliability and stability of electricity supply of consumers, as well as reduce excess burden of electric grid elements, caused by reactive power flows, as one of

the priorities, the Program of Control over Flows of Reactive Power in Grids of OAO Nizhnekamskneftekhim has been adopted. The use of capacitor banks for reactive power compensation will offload the feeding transmission lines, transformers and switchgear, lower costs for electricity, when a certain type of plant is used, reduce

the level of higher harmonics, suppress power line disturbances, reduce phase asymmetry, make the distribution grids more reliable and efficient. This program is still in progress (22 installations still to be mounted).

## WATER CONSUMPTION

The source of water supply is surface water of the Kama River and ground waters from artesian wells in the recreation center «Dubravushka», in the branch of Guests' House «Korabelnaya Roshcha», hunt society «Osha».

### Auxiliary Water Consumption of OAO Nizhnekamskneftekhim

Source of water supply	Units	2007	2008	2009	2010	2011
Total water consumption:	thousand m <sup>3</sup>	54,811.720	54,226.728	57,276.362	71,022.536*	71,889.506**
1. The Kama River	thousand m <sup>3</sup>	54,811	54,226	57,275	71,018.8	71,881.8
2. Artesian wells	thousand m <sup>3</sup>	0.720	0.728	1.362	3.755	4.706
including:						
2.1 Recreation center «Dubravushka»	thousand m <sup>3</sup>	0.479	0.454	1.083	3.473	4.553
2.2 Guests' House «Korabelnaya Roshcha»	thousand m <sup>3</sup>	0.114	0.132	0.139	0.72	Well plugging performed
2.3 Hunt Society «Osha»	thousand m <sup>3</sup>	0.127	0.142	0.140	0.210	0.153
Consumption of clarified water for make-up of recycling water supply systems	thousand m <sup>3</sup>	27,054.34	30,062.47	33,751.53	43,727.45	47,330.19
Recycle water consumption	million m <sup>3</sup>	1,444.70	1,546.09	1,503.28	1,632.55	1,740.61

\*increased water consumption is associated with increase (by 9,975.9 thousand m<sup>3</sup>) of fresh water used as make-up for recycling water systems (due to increase of drop entrainment from cooling towers due to abnormally hot summer of 2010 and change in the accounting system of water consumption); increase in water consumption for domestic and potable needs of employees (by 868.7 thousand m<sup>3</sup>) due to hot summer; increase of water consumption for process purposes (by 1,270.5 thousand m<sup>3</sup>), as well as the expansion of the recreation center «Dubravushka» and increase of the number of holidaymakers.

\*\*a slight increase (by 866.97 thousand m<sup>3</sup>) of water consumption from the Kama River, due to increase in produce output.

The advanced system of water recycling system of OAO Nizhnekamskneftekhim allows to reduce the demand for fresh water used as coolant. OAO Nizhnekamskneftekhim is constantly working on improvement of efficiency of recycled water utilization through introduction of advanced technologies of water treatment

and reconstruction of cooling towers. In 2011, two cooling towers B-9/2 A1 and B-4 A2 were repaired, maintenance was conducted on cooling towers tit. 792/4, B-7 A1, B- 8/2, B-9/1, B9/2, B5.

## WATER DISPOSAL

All contaminated industrial and household sewage effluents of the Company jointly with effluents from other companies and municipal effluents are treated at the biological wastewater treatment plants owned by OAO Nizhnekamskneftekhim.

unit with the buffer ponds on the Tungucha river – to the Avlashka River, downstream the buffer pond – to the Strelachny Log Brook, via the Strelachny Log Brook – to the Kama River. Wastewaters have no impact on the biodiversity of water bodies.

For pre-treatment or decontamination of extremely polluted effluents directly in the process shops, dedicated local treatment plants are provided. Rain and melt waters formed in the territories of petrochemical plants, before being discharged into the water courses are also clarified in buffer ponds and at the dedicated station.

In 2011, wastewater discharges from OAO Nizhnekamskneftekhim to the water bodies after four discharges remained almost at the level of 2010 and totalled 47,062 thousand m<sup>3</sup>.

Downstream biological treatment plants, waste waters are discharged to the Kama River, downstream purge water treatment

### Quantity of Treated Wastewaters Discharged into Water Bodies::

Units	2007	2008	2009	2010	2011
thousand m <sup>3</sup>	41,944*	37,562	37,157	47,096**	47,062**

\* due to increased runoff downstream the pond on the Strelachny Log River due to increase of wash and blow-down water discharge in the process of preparation of the water treatment plant for start-up by OOO SOV-NKNK.

\*\*due to increased water consumption due to abnormally hot summer in 2010 and increase of produce output in 2010-2011.

Quality of wastewaters discharged into the Kama River after treatment at the BTP (Biological Treatment Plant) in 2011 is better than in 2010, as evidenced by the pollution index. The water pollution index in 2011 and 2010 amounted to 3.71 and 4.85, respectively. Improvement the effluents quality is attributed to more efficient operation of the waste water treatment plant in 2011, due to improvement and overhaul of a number of facilities at the BTP, more favorable weather conditions, the temperature of the incoming flow to the biological treatment plant was 2-3 degrees lower compared to 2010. In 2011, compared to 2010, concentration of suspended solids, oil, ammonium, aluminium, iron, copper, zinc, surfactants, formaldehyde, phenols, benzene, toluene, styrene, ethylbenzene methanol in the treated effluents discharged after the BTP decreased.

suspended matter, ammonium ion, phosphates, zinc, petroleum products, but deteriorated based on such parameters as: dry residue, nitrites, nitrates, aluminum, iron, manganese, sulfates, copper.

Quality of wastewaters discharged into the Tungucha River after clarification in the buffer ponds in 2011 was better than in 2010, the pollution index was 1.88 and 2.93, respectively.

The quality of wastewaters discharged into the Strelachny Log Brook downstream the buffer pond, in 2011 remained almost at the level of 2010. Pollution index in 2011 was 1.27, in 2010 – 1.33. Effluent quality improved in terms of the following indicators:

In 2011 compared to 2010, the quality of purified effluents downstream the buffer ponds on the Tungucha River improved in terms of the following indicators: petroleum products, dry residue, ammonium ion, nitrites, nitrates, aluminum, chromium, chlorides, manganese, sulfates, phosphates, ASS (anionic synthetic surfactant), formaldehyde, methanol; deteriorated based on the following indicators: suspended matter, iron, copper, zinc, phenols.

Effect of discharged biologically treated effluents on water quality in the Kama River, based on the results of analyzes carried out in

the areas of waste discharge is practically not traced: in 2011, the Kama River water, 500 m below the second outlet downstream the biological treatment plant evidenced slightly increased concentration of chlorides, iron, manganese, phosphates, formaldehyde, nitrites, but concentration of sulfates, aluminum, phenols, petroleum products was less than in the Kama River water 500 meters above the discharge point of the 1st outlet. The content of chromium, DMFA, acetonitrile, ammonium ions, nitrites was below the method sensitivity.

In 2011, in the Kama River water 500 meters below the mouth of the Strelochny Log Brook the content of ammonium ions, nitrates slightly increased, but phosphate content decreased. In 2010, the content of phosphate, aluminum, iron, nitrites, petroleum products was below the method sensitivity.

In 2011, the manganese content in the Kama River water 500 meters above the mouth of the Strelochny Log Brook and 500 m below it was 6 times higher than MAC. Consequently, in terms of pollutant that exceeds MAC for fishery water reservoirs (manganese), purified effluents downstream the buffer pond to the Strelochny Log Brook have no influence on the water pond.

In 2011, in the monitored area of the Avlashka River (500 m above the mouth of the Tungucha River and 500 m below it), the content of aluminum, chromium, iron, DMFA, acetonitrile, methanol, phenols, petroleum products was below the method sensitivity. Negligible impact on the treated wastewaters discharged downstream the buffer ponds of the Tungucha River to the Avlashka River, is monitored in terms of such contaminants as chlorides, manganese, ammonium ion, phosphate, formaldehyde, nitrites, and nitrates. Significant influence is experienced from sulfates, the major supplier of which is OOO Nizhnekamsk Power Plant.

## EMISSIONS OF POLLUTANTS INTO ATMOSPHERE

As of the end of 2011, at OAO Nizhnekamskneftekhim, inventoried are 1,871 sources of pollutant emissions into atmosphere, among which 1,434 sources are emissions from defined places. The Company undertakes activities on reduction of pollutant emissions into atmosphere.

Measures are being taken to upgrade and revamp the process equipment, installation of tight pumping equipment, up-to-date technologies are used, flare blowdowns are used as fuel, technological processes are being optimized. It allowed to significantly reduce pollutant emissions to the atmosphere.

### Trend of Total Emissions of Pollutants into Atmosphere

	Units	2007	2008	2009	2010	2011
Authorized emissions of pollutants into atmosphere	kt	46.6296	28.588	28.5096	27.928	27.928
Actual emissions of pollutants from stationary sources, including:	kt	39.832	27.657	26.484	26.832	26.375
Sulfur dioxide	kt	0.133	0.167	0.165	0.150	0.169
Carbon monoxide	kt	4.873	5.091	5.144	5.080	4.965
Nitrogen oxide (as NO <sup>2</sup> )	kt	3.829	6.689	6.493	7.018	6.996
Hydrocarbons without VOC	kt	3.500	2.097	1.674	1.786	1.066
Volatile organic compounds (VOC)	kt	26.019	12.665	12.225	11.961	12.155
Other gaseous and liquid materials	kt	0.557	0.300	0.269	0.279	0.361

Based on the reported data for 2011, gross emissions of harmful substances into the atmosphere were 26.375 thousand tons. Compared to the same period of 2010, gross emissions decreased by 0.5 thousand tons

In 2011, works continued on reduction of pollutant emissions into the atmosphere. In Shop 1307 of the Butyl Rubber Plant, the diagram of the first stage of halogenated butyl rubber devolatilization was modified: the diagram of parallel connection was implemented, repair and commissioning of heat exchanger pos. T1092 in the vacuum devolatilization section of halogenated butyl rubber performed that will allow to reduce emissions of hexane into atmosphere by 10 tons/year. In Shop 1311 of the Butyl Rubber Plant, in order to improve the efficiency of sanitary column K-16 at higher loads during halogenated butyl rubber

production, the concentration of sodium hydroxide was optimized in tank pos. E-17/1,2 of Zh-9 facility, reducing the amount of chlorine gas in purified off-gases. Additional regular structure packing has been installed in the knockout drums of absorbers pos. Kt-15/1,2 in Shop number 1805 of the Isoprene-Monomer Plant that will prevent emissions into the atmosphere. Flange and draw band connections have been replaced on the pneumatic transport pipeline in Shop No. 4906 of the Polystyrene Plant tit. PS-4/2 with the items produced by Zeppelin. In Shop 1415 of the Divinylbenzene and Hydrocarbon Feedstock Plant, pumps pos. N-4491,2, N-4021,2 were switched to double mechanical seals. At the Styrene and Polyester Resins Plant, in Shops №№ 2506 and 2508, works are underway for switching pumps pos. 404/1,2 and 798a/1,2 to double mechanical seals.

### TOTAL DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS WITH MASS INDICATED

At OAO Nizhnekamskneftekhim, greenhouse gas emissions are kept recorded that generate as a result of production activities.

The main direct greenhouse gas emissions are formed at OAO Nizhnekamskneftekhim as a result of:

► fuel burning (natural gas, fuel oil) during generation of electricity and heat energy at its own plant GTU-75 and during steam generation at the installation: liquid waste disposal, IP-4 V/2 (condensate re-volatilization unit) and boilers of water supply, sewage and wastewater treatment, and social development departments;

► fuel burning (natural gas, blowdowns) during produce manufacture;

► fuel combustion by vehicles;

► leakages in the production of ethylene, styrene;

► disposal of wastes on the industrial wastes landfill;

► biological treatment of wastewaters.

#### Dynamics of direct greenhouse gas emissions at OAO Nizhnekamskneftekhim

Name of pollutant	Units	2007	2008	2009	2010	2011
CO <sub>2</sub>	kt	2,047.028	2,253.302	2,422.195	2,393.750	2,307.037
CH <sub>4</sub>	kt	3.275	3.227	3.2	3.545	3.206
N <sub>2</sub> O	kt	0.021	0.021	0.022	0.022	0.021
HFC (in CO <sub>2</sub> -equivalents)	kt	–	–	–	–	–
PFC (in CO <sub>2</sub> -equivalents)	kt	–	–	–	–	–
SF <sub>6</sub>	kt	–	–	–	–	–
Total emissions (in CO <sub>2</sub> -equivalents)	kt	2,122.276	2,327.654	2,496.088	2,474.859	2,380.990

Small reduction in direct greenhouse gas emissions was due to decrease in the amount of fuel consumed by industrial processes.

The main source of indirect emissions of greenhouse gases at OAO Nizhnekamskneftekhim is fuel burning during energy generation by OAO Generating Company – Power Plant, from which heat and electricity are purchased for OAO Nizhnekamskneftekhim needs.

### INITIATIVES ON REDUCTION OF GREENHOUSE GAS EMISSIONS AND REDUCTION ACHIEVED

One of the methods of implementation of the Environmental Policy is rational use of natural resources and reduction of negative impacts on the environment. In OAO Nizhnekamskneftekhim, advanced technologies are introduced and activities developed that reduce greenhouse gas emissions. For example, use and development of one-stage isoprene synthesis allowed to reduce specific feedstock consumption for the production of isoprene by 15%, specific heat energy consumption twice, specific fuel gas consumption 3 times, the amount of waste waters twice, amount of harmful emissions into the atmosphere 10 times, reduction of greenhouse gas emissions by 80 kt of CO<sub>2</sub> equivalent per year.



In 2007, commissioned, and in 2008, fully developed own source of energy – cogeneration gas turbine unit GTU-75, which allowed more efficient use of natural gas, reduce emissions of harmful substances into the atmosphere by 10% and reduce emissions into the atmosphere by 40 kt of CO<sub>2</sub> equivalent per year.

#### Dynamics of Prevention of Greenhouse Gas Emissions through Introduction of Energy Saving Measures

Saving:	Units	2007	2008	2009	2010	2011
– heat energy	thou. Gcal	1,537.4	937.8	324.1	182.4	190
– electric energy	mln. kW/h	35.8	38.9	16.04	10.10	19.2
– fuel	tons of fuel equivalent	16,294	15,653	5,283	13,943	30,800
Prevention of greenhouse gas emissions	kt	360.49	231.6	84.552	61.864	90.457

### WASTE GENERATION AND HANDLING

Activities of OAO Nizhnekamskneftekhim for collection, use, decontamination, transportation and disposal of wastes are performed under license No. OT-43-000639(16) of 28.03.2007. The waste composition is represented by hazard Classes I, II, III, IV, and V. Wastes are generated in the process of production, as well as through use of materials and products purchased from third parties. Most of the resulting liquid and solid wastes (catalysts) do not require temporary storage, as being removed from the production cycle from time to time, and process equipment is used for temporary storage. Dedicated facilities and grounds are arranged for temporary storage of other wastes. III and IV hazard

Class solid and slimy wastes are placed on its own landfill for industrial wastes. Receipt of wastes to the landfill is provided from third parties in accordance with the license.

For liquid waste decontamination, the Company has special units:

- unit for thermal decontamination of liquid wastes from the Ethylene Plant, tit. 120/1;
- sludge incinerator for the Synthetic Rubber Plant, pos. I-5v;
- unit for neutralization of aluminium alkyls from the Oligomer Plant, job 1058.

The main part of liquid wastes generated is used as fuel at own facilities:

- › unit for fire neutralization of petrochemical wastes from the Styrene and Polyester Resins Plant, tit. 120/4;
- › unit for processing of heavy residues and steam generation within alkylphenols production at the Oligomers Plant (furnace S-801);
- › unit for decomposition and recycling of aluminum organic compounds, alpha-olefins and C28 olefins heating at the Oligomers Plant (furnace F-6101);
- › unit for thermal decontamination of chemically polluted wastewaters from the Isoprene-Monomer plant (DB-11);
- › plant for disposal of liquid wastes from the Isoprene-Monomer Plant (UUZhO).

OAO Nizhnekamskneftekhim has no waste recycling facilities, and therefore wastes being secondary resources (ferrous and nonferrous metal scrap, waste paper, waste polyethylene and polypropylene, etc.) are delivered to the dedicated companies. Part of wastes is transferred to third parties for decontamination: mercury-containing products, transformers with oil containing biphenyls and terphenyls, batteries, etc.

#### TOTAL WEIGHT OF WASTES SPLIT BY TYPE AND HANDLING METHOD

In 2011, OAO Nizhnekamskneftekhim generated 83,117.96 tons of total liquid and solid wastes. The amount of wastes generation used in 2011 was 59,751.05 tons (71.88%), of which 27,099.645 tonnes (32.6%) were used for internal production.

Of 16,403.293 tons of generated nonutilizable wastes, 10,359.949 tons (63.15%) were decontaminated and buried at the Company own units and landfill facilities.

The share of wastes generation by hazard class versus the total weight of wastes generated in 2011 is as follows:

- Hazard Class I** – 0.005%;
- Hazard Class II** – 19.155%;
- Hazard Class III** – 28.617%;
- Hazard Class IV** – 44.629%;
- Hazard Class V** – 7.594%.

Hazard Class II wastes generation reduced compared to 2006 from 45.4% to 19.155% due to increased sales volume of commodity products, which in turn led to decrease in the volume of wastes use at own plants as fuel. Increased production has led to growth of hazard Class III wastes generation, compared to 2006 from 24.6% to 27.1%. OAO Nizhnekamskneftekhim does not transport, import or export wastes to other countries and does not recycle wastes in other countries.

#### SHARE OF MATERIALS THAT REPRESENT PROCESSED OR RECYCLED WASTES

The beginning of construction and installation works to increase production capacity of polybutadiene rubber and continued works on ABS-plastics site resulted in increase in the amount of hazard Class IV wastes (construction wastes) in 2011 compared to 2006 from 24.3% to 31.8% which led to increase in share of wastes transported for use by third-party organization. Construction wastes are used for reclamation of T-1 pit as a filler.

Share of recycled wastes is calculated based on the ratio of the total weight of recyclable wastes at own units to the total weight of raw materials used, and amounts to the following: in 2006 – 2.1%, in 2007 – 1.8%, in 2008 – 1.7%, in 2009 – 1.8%, in 2010 – 1.3%, in 2011 – 0.8%. Reduction of the share of recycled wastes is due to reduction of the amount of waste generation from 2006 to 2011 by 16.6%.

In 2011, works were continued on removal of polymer wastes from the existing pits of the industrial waste landfill by outside organizations for further processing. In 2011, 610 tons of rubber were removed, in 2010 – 1,800 tons, in 2009 – 230 tons, in 2008 – 320 tons, in 2007 – 210 tons, in 2006 – 190 tons.

#### EFFICIENT USE OF LAND

Great importance is given to efficient use of land. In particular development of production is carried out without involvement of additional land resources. A new 230 KTA polyethylene plant and a new 180 KTA polypropylene plant were launched in 2008 and 2006 respectively without involvement of additional land resources.

The Company is constantly working on conservation and restoration of natural landscape. Lands disturbed during repair of underground facilities are restored with application of fertile soil layer; coffins are reclaimed and filled with construction waste with following backfilling and tree-planting.

#### ENVIRONMENTAL IMPACT OF TRANSPORTATION

The main environmental impact of transportation of raw materials and OAO Nizhnekamskneftekhim's employees is associated with air emissions and possible soil contamination, as transportation of products, feedstock and materials is carried out mainly by road, railway and by pipelines, while transportation of workers is carried out by motor transport. Motor vehicles are used based on contracts with specialized transportation organizations: for passengers – TransExpress, for product transportation – Trasko and Kamatraks. The organizations ensure annual maintenance of vehicles with checking exhaust gas toxicity. Within OAO Nizhnekamskneftekhim there is a Railway Transport Division which provides relevant services on its own and with the assistance of specialized companies.

## **INITIATIVES AIMED AT MITIGATING ENVIRONMENTAL IMPACT OF PRODUCTS AND SERVICES AND DEGREE OF IMPACT MITIGATION.**

### **LANDFILL**

A specific component of environmental protection work is elimination of detrimental environmental effect of the previous activity of the Company. In this connection the Company faced a complicated problem associated with reclamation of the territory of the closed down industrial waste disposal site. Technical solutions were found jointly with Soyuzhimproject Institute and to date rehabilitation system for the territory has been built: contaminated drainage and surface waste water are collected in a tank and pumped out to biological treatment plants. After removal of contaminated water the landfill area will be reclaimed. At the top and at the bottom sides of the landfill in service there are waterproof vertical diaphragms which prevent spreading of contaminated ground water, 15 wells are provided for ground water monitoring. In 2011, the rehabilitation and reclamation activities in closed down industrial waste disposal site (CIWDS) were continued: a specialized Company pumped out oil sludge from lower areas, about 3,000 tons of oil sludge was removed during 9 months of 2011.

In order to take further measures aimed at mitigation of environmental impact of the closed down industrial waste disposal site, in 2011, geochemical, geodetic and georadar surveys as well as engineering and geophysical and soil investigations were carried out in the territory of CIWDS with the assistance of specialized companies (including ООО Geoline). Based on the results of conducted work the current state of CIWDS was defined, its environmental impact was assessed and recommendations on addressing the environmental safety issues relating to the landfill were given.

In 2011, in order to make assessment of environmental impact of the operating landfill the following engineering investigations were carried out: geodetic, geological, ecological and hydrometeorological.

### **WASTE WATER TREATMENT SERVICES**

Biological wastewater treatment plants of ОАО Nizhnekamskneftekhim are used for treatment of household and industrial effluents of ОАО Nizhnekamskneftekhim, of all industrial enterprises and municipal effluents of Nizhnekamsk. Blowdown water from ОАО Nizhnekamskneftekhim cooling towers and storm water runoff from facilities of ОАО Nizhnekamskneftekhim and TGK-16 are treated in blowdown water treatment unit with buffer ponds on the Tungucha River.

In 2011, works were continued on improvement of certain units of the biological treatment plant. Repair works were completed on the primary settling tank sludge scraper item O9/2, works were carried out for sealing of primary settling tank item O9/2, chemical drain sand traps items 48 1-6; filter material was replaced in gravel-filled filters of the biological treatment plant filtration station; repair of aerotank item 167 and replacement of its air distribution system was completed; waste water sparger to the Kama River downstream biological treatment plant was repaired with removal of alluvial soil.

As a result of the work on improvement of certain facilities of biological treatment plant concentration of suspended solids, petroleum products, ammonium ions, surfactants, formaldehyde and aromatics in treated wastewater discharged into the Kama River in 2011 was reduced as compared to 2010.

In 2011, a positive opinion was issued by Glavgosexpertiza on the project of reconstruction of biological treatment plant developed by the Design Institute Soyuzhimproject, Kazan with the assistance of a specialized Moscow-based organization GIPROkomunvodokanal.

In 2011, sewage wells No. 30 and No. 70 of chemically contaminated water header located near settlements Alan and Nizhneye Afanasovo were equipped with biological filters which will neutralize emissions from the header well. The costs amounted to 2.7 million rubles. In September 2011, excessively contaminated wastewater from storm water and blowdown wastewater collection and distribution unit of shop 3410 WS and WWTD (Water Services and Waste Water Treatment Department) got into buffer ponds on the Tungucha River. Based on the results of investigation measures were taken to prevent the above-norm pollution of the Tungucha River. In 2011, cleaning of tanks of storm water and blowdown water collection unit of shop 3410 was carried out which will allow to reduce the degree of contamination of waste water entering the buffer ponds of the Tungucha river. Buffer ponds' cleaning is scheduled for 2012-2015.

### **PLANTING OF GREENERY**

Great attention is paid to planting of greenery in the territory of the Company and the city. In 2011, 193,800 young pine trees were planted over an area of 51 hectares on the north-east of the biological treatment plant in direction of Nizhneye Afanasovo with the assistance of GBU Nizhnekamskles at the expense of ОАО Nizhnekamskneftekhim.

In 2011, ОАО Nizhnekamskneftekhim planted 220,200 flowers and 4,000 kg of lawn grass seeds over the area of 20 hectares.

## CONSERVATION OF BIODIVERSITY

The Company's production facilities are not located in the natural area of preferential protection and areas of high biodiversity value outside protected areas created or reserved for this purpose based on decisions of the Government or regional public authorities of RF. They are equally not located on wetlands of international importance, main ornithological areas or particularly sensitive sea areas and areas of sea mammals' protection and have no impact on them. In areas affected by the Company's operations there are no IUCN Red List species and national conservation list species.

## PRODUCTION IMPROVEMENT IN ORDER TO ENHANCE ENVIRONMENTAL FRIENDLINESS

In accordance with the applicable laws during development of any new project the Company takes into account nature and severity of all potential impacts of future facilities on the environment and public health, carries out assessment of ecological, economic and social consequences of such impacts and considers the possibility of their preventing or mitigation. The environmental impact assessment is based on the principle of presumption of potential ecological hazard of any planned activity. Based on the assessment results the Company takes environmentally oriented managerial decisions also taking into consideration stakeholders' opinion.

Mastering one-stage isoprene production resulted not only in 230 t/y reduction of emissions and 200,000 m<sup>3</sup>/y reduction of waste water amount during isoprene production but also in higher purity isoprene with lower content of impurities which in its turn improved butyl rubber production polymerization process and helped to reduce by-products generated in the process.

Within the framework of the future-oriented development program for 2008-2012 OAO Nizhnekamskneftekhim is increasing production of synthetic butadiene rubber on lithium catalyst (SKD-L) and halobutyl rubbers. Nizhnekamskneftekhim's halobutyl rubbers are having a great run among tyre producers (Michelin, Goodyear, Pirelli, OAO Nizhnekamskshina). Use of halobutyl rubber instead of butyl rubber allowed to increase the cure rate and to reduce the cure temperature making the curing process less energy-consuming which in its turn has a positive effect on natural resources conservation. Use of halobutyl rubber in tubeless tyre liners due to high gas impermeability helps to increase service life of tyres (aging time) and to reduce waste.

Use of SKD-L in polystyrene production ensures high impact resistance which ultimately leads to the increase of service life of products made of high-impact polystyrene and reduction of waste. In 2011, the Company continued work aimed at improvement of waste water discharged by the plants: a number of measures were taken in styrene and polyether resins plant and in ethylene plant to reduce waste water temperature and to keep it within the specified norms; replacement of T-231 heat-exchanger in shop 2514 of styrene and polyether resins plant allowed reduction of waste water

temperature to 280 °C; in shop 2508 installation of chemically contaminated waste water monitoring circuit was carried out with output of readings to the plant's automated system of operational dispatch control. Cooler item T-13 was installed in shop 2108 of ethylene plant for cooling of neutralized effluents from sulfur-alkaline waste unit item 653, which helped to avoid discharge of «hot» effluents to the sewerage system. Installation of waste water cooling loops downstream E-AD-701 and E-DA-411 in shops 2104 and 2106 is at the finishing stage.

## PARTICIPATION IN SOLVING SOCIAL PROBLEMS OF THE CITY

OAO Nizhnekamskneftekhim is actively involved in solving social problems of the city. In 2007, at the initiative of General Director of the Company OAO Nizhnekamskneftekhim completed the long time construction of a potable water treatment station. At present the city has a unique water purification system that allows the city residents to get drinking water of good quality.

In 2011, for the purpose of uninterrupted water supply of the industrial hub and of the city Nizhnekamsk reconstruction of the water intake of Krasny Kluch settlement was completed which had been started in September 2010 immediately after receipt of Tatarstan Ministry of Energy's unfavorable prognosis for the evolving hydrological and hydroeconomic situation in the Republic of Tatarstan due to low water level in the Volga-Kama cascade. Costs amounted to about 160.2 million rubles.

One of important public events is creation of an automated environmental monitoring system. According to the project the system will consist of two interconnected subsystems: one for the industrial area and another for the city. Starting from June 2008, an automated air pollution monitoring system is in operation: there are four fixed air control station in the sanitary protection zone and along the perimeter of the industrial zone of OAO Nizhnekamskneftekhim which check the content of light hydrocarbons, methane, nitrogen oxides, particulate matter. The control stations are equipped with weather stations. The content of harmful substances specific for Nizhnekamskneftekhim's production plants: toluene, benzene, ethylbenzene, styrene and chloromethane is determined using a portable gas chromatograph, which is a part of the automated monitoring system. Observation data are transmitted to the monitoring center, to the environmental protection department and to the Company's monitoring service. In 2011, there were no spills of chemicals that could have material adverse effect on the environment, presenting potential threat to soil, water, air, biodiversity and human health.

The automated monitoring system allows for fast access to information, identifying the sources of air pollution and taking timely measures in order to prevent environmental pollution, as well as receiving unbiased information regarding the environmental impact of the Company's activity.

In 2011, works were carried out to implement an automated system of monitoring the quality of wastewater discharged from OAO Nizhnekamskneftekhim's plants. At the first stage of this implementation wastewater from combined propylene oxide and styrene production plant (styrene and polyether resins plant, shop 2508, CCWH 393) and isoprene monomer production plant (isoprene-monomer plant, shop 1808, CCWH 774) was selected as the object of monitoring. Within the scope of this work a sanitary and industrial laboratory of Quality Control Department was reequipped. To date, construction and installation works are completed and pilot testing are underway in shop 2508, construction works are started in shop 1808. Completion of these works will allow us to take timely measures to control the discharge of pollutants to biological treatment plants.

In 2011, construction of the company-sponsored park Neftekhimik was completed in the city. OAO Nizhnekamskneftekhim is an active member of the Interindustry permanent working group on environmental security in development of Nizhnekamsk industrial hub established by the RT Cabinet of Ministers' resolution № 904-r dated 08.06.2010. Well aware of the importance of environmental issues for the residents of Nizhnekamsk OAO Nizhnekamskneftekhim's management is taking strong measures to further reduce the negative environmental impact of the Company's operations, as reflected in OAO Nizhnekamskneftekhim's proposed measures to be incorporated in the Republican long-term target program Environmental Protection in Nizhnekamsk and Nizhnekamsk Municipal District for 2011-2015.

The Company promptly responds to residents' and employees' complaints. For instance, in addition to the routine analytical air control in Vakhitov Avenue of the city of Nizhnekamsk and in the settlements, in February-March 2011, sanitary and industrial laboratories of the Quality Control Department of OAO Nizhnekamskneftekhim jointly with Rospotrebnadzor and Zakamsky area office of the Ministry of Environment and Natural Resources of the Republic of Tatarstan arranged additional air monitoring (order № 73 dated 04.02.2011) at the request of the residents of the city and surrounding settlements. Results of the investigations were presented to the public through the mass media (weekly summary of environmental issues broadcasts of the company-sponsored television station and in the company newspaper Neftekhimik).

Furthermore, as part of the dialogue with stakeholders on the impact of the Company on the city of Nizhnekamsk, an opinion survey was carried out relating to drinking water supply to different parts of the city by OAO Nizhnekamskneftekhim's subsidiary OOO SOV-NKNK. 482 residents of Nizhnekamsk were interviewed.

Being an environmentally and socially responsible company OAO Nizhnekamskneftekhim highlights environmental issues in various media, works with public organizations and rating agencies.

Among the methods of environmental programs implementation there is systematic coverage of environmental issues in mass media, in particular, Neftekhimik newspaper and the company-owned television station weekly update Nizhnekamsk residents about environmental conditions.

## RESULTS OF ENVIRONMENT-RELATED ACTIVITY

During the period from 2006 to 2011 specific electric energy consumption decreased by 19.3%, thermal energy – by 26.9%, fuel – by 5%, specific air emissions decreased by 60%, specific wastewater discharge decreased by 15.8%, specific generation of unusable waste decreased by 22.3%, land use efficiency increased by 31.3%.

In 2010, OAO Nizhnekamskneftekhim was entered in the list of companies implementing a transparency policy in environmental protection. In the ranking of social and environmental responsibility among 100 largest Russian companies OAO Nizhnekamskneftekhim ranks No. 9 (please refer to the web site at <http://nera.biodat.ru/ratings/2009/top100.php>). In 2011, according to Interfax ERA's estimate OAO Nizhnekamskneftekhim was among the top three ecological transparent sectoral companies.

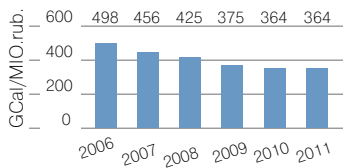
Based on results of audit conducted by Czech Association for Quality Systems the Company's environmental activity was found to be consistent with international standards of ISO 14000 series which is confirmed by the international certificate of conformity IQNet.

OAO Nizhnekamskneftekhim regularly participates in Tatarstan and Russian ecological exhibitions, conferences, and competitions. Positive results of environmental activity of OAO Nizhnekamskneftekhim have been acknowledged both by Tatarstan and the federal authorities. In 2007, OAO Nizhnekamskneftekhim became the absolute winner of Tatarstan competition «EcoLeader» established by the Cabinet of Ministers of the Republic of Tatarstan; in 2009, 2010, and 2011, OAO Nizhnekamskneftekhim was awarded diplomas in the nomination «Efficient Ecological Program». Since 2006, the Company became the laureate, and in 2009-2010 – the overwhelming winner of the national ecology prize «EcoWorld»; in 2007, 2008, 2010, and 2011 the Company confirmed the title of the Leader of the environmental activity in Russia.

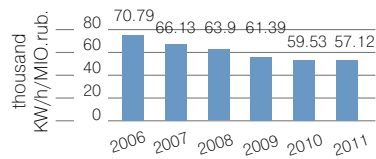
In 2009-2011, at specialized exhibitions Ecotechnologies and the 21st Century Equipment and Oil, Gas and Petrochemistry organized by the Government of the Republic of Tatarstan OAO Nizhnekamskneftekhim was awarded the Grand Prix in nomination Innovative Ecologically Friendly Technologies and diplomas for active environmental protection, for best organization of environmental activity, for best organization of environmental monitoring, and for implementation of best environmental technologies to reduce air emissions.

## RESOURCE USE

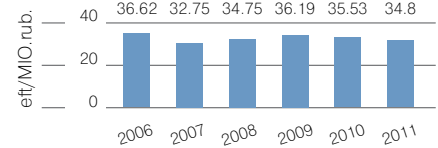
**Diagram 1** Thermal energy consumption



**Diagram 2** Electric energy consumption



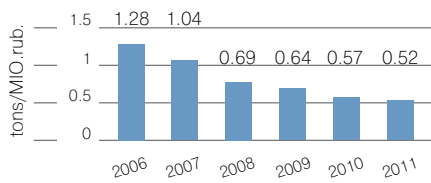
**Diagram 3** Fuel consumption



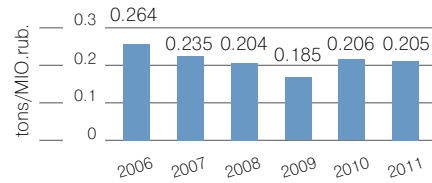
Increase in fuel consumption starting from 2008 is due to in-house production of utilities

## ENVIRONMENTAL IMPACT

**Diagram 1** Air Emissions

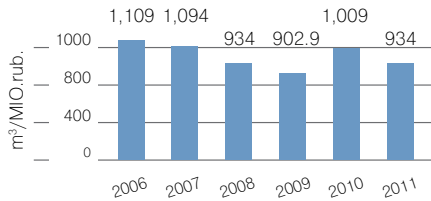


**Diagram 2** Generation of unusable waste



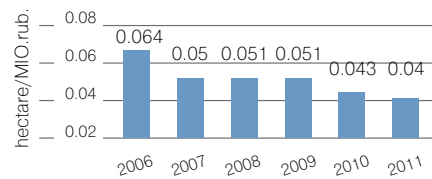
Increase in 2010 was due to revision of the waste environmental hazardousness class certificate for catalyst sludge and due to cleaning of equipment used in rubber production

**Diagram 3** Wastewater discharge to river



Increase in water discharge is due to increased water consumption caused by heat wave in summer 2010.

**Diagram 4** Land use efficiency



Development of production plants without territory expansion





## **THE COMPANY AND COMMUNITY**

## Section 9

# THE COMPANY AND COMMUNITY

OAO Nizhnekamskneftekhim interacts with thousands of people and in different ways influences the community. Therefore social responsibility is an essential component of the Company's activity. OAO Nizhnekamskneftekhim invests in economic and social development of the Company's habitat using partnership with main groups of stakeholders (local authorities, municipal and public organizations, charitable foundations, national associations, as well as educational, culture and sport organizations, etc.) as a fundamental mechanism.

OAO Nizhnekamskneftekhim's approach to organization of stakeholders' engagement is based on the dialogue at all stages of production cycle. Construction of new plants is accompanied

with public consultation. There is a shared decision-making on socio-economic planning and building of necessary infrastructure. Successful business development and improvement of social and economic conditions for the community are two closely related processes.

OAO Nizhnekamskneftekhim is supporting the community through cooperation programs, sponsorship and charitable donations.

### OAO Nizhnekamskneftekhim's contribution in development of social sphere in 2011

Description	amount, MIO rub.
Sport	837
Upkeeping social facilities	304
Charity, sponsor support	115
Construction of housing and non-production facilities	163
Expenses for public events	55
Agriculture support	199
Non-state pension provision and support of retired and disabled people	125
Other payments under Collective Agreement	33

Besides, 1,098 MIO rubles were allocated to financing of cross-subsidization of heat power for residents of the Republic of Tatarstan. Non-tax payments related to residential construction amounted to 290 MIO rubles, costs associated with transportation of employees to the industrial area and back to the city – 252 MIO rubles, expenditures for therapeutic and dietary nutrition – 78 MIO rubles, for periodic health examination – 18 MIO rubles, allocation to the trade union organization – 19 MIO rubles. Material assistance was rendered for the amount of 204 MIO rubles, expenditures for professional training courses amounted to 26 MIO rubles, other expenses – 56 MIO rubles.

## SOCIAL PROGRAMS DEVELOPED JOINTLY WITH THE COMMUNITY

Social programs developed jointly with the community	THE COMPANY'S ACTIVITIES IN 2011
Participation in social mortgage loans and housing improvement	<p>Since the beginning of 2005 Nizhnekamskneftekhim participates in financing of Social mortgage loans program of the Republic of Tatarstan. 290 MIO rubles were transferred to the State Housing Fund under the President of RT during 2011. 45% of housing built with this money is intended for the Company's employees, 45% – for the budgetary organizations employees, 10% – for people with urgent requirement in housing.</p>
Science and education support programs	<p>The Company considers it necessary to develop high quality education in the territory of presence of its enterprises, therefore the following actions were arranged in 2011:</p> <ul style="list-style-type: none"> <li>✓ Rendering charity support within the republic-wide campaign «Help to prepare for school»;</li> <li>✓ Scholarships to students for excellent performance in academic and social activities;</li> <li>✓ Corporate assistance to Nizhnekamsk educational institutions: schools No. 7, 8, 10, 21, 23, 26, 27, 29, 31, Tatar gymnasium No. 2, gymnasium No. 25, gymnasium No. 32, lyceum No. 35, trade school No.44, Nizhnekamsk Technology School, Petrochemical School, lyceum No. 24, Ecology-biological Center, Center of tourism and travelling for children and young people, etc.;</li> <li>✓ Sponsor support to children of Mendeleevsk special boarding school;</li> <li>✓ Allocation of funds to the Russian Academy of Sciences for events arranged in the course of International Year of Chemistry under the slogan «Chemistry Is Our Life And Our Future»;</li> <li>✓ Allocation of funds to the Ministry of Finance of the Republic of Tatarstan (the Academy of Sciences of Tatarstan) for the organization of the II World Forum of Tatar Scientists in Kazan covering principal directions of modern science development;</li> <li>✓ Allocation of funds to the International research and practice conference on the role of modern information technologies in control of transport and logistical systems;</li> <li>✓ Assignment of a OAO Nizhnekamskneftekhim employee (with absolute release from the primary job at his full salary) to Nizhnekamsk Cadet boarding school to take the position of a deputy head of the office of the Troopers' Union of Russia in order to enhance martial and patriotic education of students;</li> <li>✓ Allocation of funds to the Ministry of Finance of the Republic of Tatarstan (State Institution Scientific Center of Children's Safety of Living) for the II International research and practice conference «Contemporary Problems of Life Safety: Theory and Practice».</li> </ul>
Culture support program	<ul style="list-style-type: none"> <li>✓ Organization of attendance of the RF and Tatarstan pop stars concerts in the Ice Palace and People Art House by children from large and needy families;</li> <li>✓ Organization of New Year shows for employees and their families, purchasing New Year gifts for employees;</li> <li>✓ Celebrations: New Year with decoration and equipping of the assigned area, Seeing off Winter, Chemists' Day, Sabantuy, Day of Republic, Town Day, Mother's Day, Days of People with Disabilities, etc.;</li> <li>✓ Allocation of funds to national holiday Sabantuy-2011 to support implementation of project on establishing tourist-recreational park Kamskie Polyany;</li> <li>✓ Allocation of funds to national holiday Sabantuy, organization of sport events and competitions for children and teenagers, charity events for disabled and low-income people;</li> <li>✓ Allocation of funds to XIX Volga region Russian folklore festival Karavon;</li> <li>✓ Allocation of funds to celebration of 45th anniversary of Nizhnekamsk;</li> <li>✓ Allocation of funds to New Year celebrations, cultural and sport events in Saby District of Tatarstan;</li> <li>✓ Allocation of funds to arranging musical and literary evenings with the well-known Tatar poet R.I. Valeev in Moscow and in cities of Tatarstan with participation of prominent writers, singers and musicians, and to publishing his new books.</li> <li>✓ Assistance in publication of the book of a prominent Tatar writer and publicist Yagsuf Shafikov about the first President of Tatarstan M.Sh. Shaimiev «Aktanysh – the starting point» in Russian and in English;</li> <li>✓ Assistance in publication of books vital for contemporary society: «Sh. Marjani», «M.G. Khudyakov» within the framework of implementation of Tatarstan State Program for conservation and development of languages and culture of peoples living in the republic.</li> </ul>
Spiritual resurgence programs	<ul style="list-style-type: none"> <li>✓ Sustaining and developing patriotism;</li> <li>✓ Charity support to the Cadet boarding school.</li> <li>✓ For the purpose of martial and patriotic education of young people OAO Nizhnekamskneftekhim formed a search team Neftekhimik (Petrochemist) which twice a year comes to Leningrad and Smolensk regions to take part in Remembrance Quests. Neftekhimik search team was repeatedly awarded diplomas and letters of appreciation. Many scouts got badges «For Active Search» and medals «Patriot of Russia»;</li> <li>✓ Martial-Patriotic Club «Legacy» was created at the initiative of NKNK Youth Board, currently about 250 children of OAO Nizhnekamskneftekhim employees and Nizhnekamsk residents belong to it. In 2011, the club organized a specialized session Isle of Courage in children's holiday camp «Youth».</li> </ul>
Social assistance program in Republic of Tatarstan:  – support for war veterans and elderly people	<ul style="list-style-type: none"> <li>✓ Honoring war veterans, organization of tea-parties and ceremonial dinners for veterans, visiting families of veterans-petrochemists, combatants and single pensioners;</li> <li>✓ Guided tours, concert programs;</li> <li>✓ One-time payment to veterans of the Great Patriotic War;</li> <li>✓ Organization of a welcome reception for war veterans and workers;</li> <li>✓ One-time payment to veterans of the Great Patriotic War to commemorate the Fatherland Defender's Day;</li> <li>✓ Free annual subscription for the Company veterans to newspapers «Neftekhimik» and «Hezmettash Avazy» (in Tatar);</li> <li>✓ Charitable session in health and recreation resort "Korabelnaya Roscha" for veterans of the Great Patriotic War – OAO Nizhnekamskneftekhim employees;</li> <li>✓ Assistance to the city Public Organization of War Veterans;</li> <li>✓ Organization of a concert dedicated to the International Day for the Elderly in People Art House with a tea-party;</li> <li>✓ One-time payment to retired people registered in the Company's Organization of Veterans.</li> </ul>

<p>– support for disabled people</p>	<ul style="list-style-type: none"> <li>✓ Creating new columns, making up news-items and programs in corporate media dedicated to the Day of People with Disabilities;</li> <li>✓ One-time payment to disabled people registered in the Company's Organization of Veterans;</li> <li>✓ In accordance with 2011 collective agreement (clause 5.14) a material aid is provided once a year on the International Day of People with Disabilities to one of the parents (132 people) of disabled children (up to 18 years old) working in OAO Nizhnekamskneftekhim, the amount of aid equals the minimum wage rate established in RF – 4,611 rubles per each child;</li> <li>✓ Allocation of vouchers for recreation and rehabilitation in health and recreation resort «Korabelnaya Roscha»;</li> <li>✓ Allocation of funds to Saby District of the Republic of Tatarstan for organization of sport events and competitions among children and teenagers, charity events for people with disabilities and other low-income people</li> </ul>
<p>Sports facilities upkeeping and development program</p>	<ul style="list-style-type: none"> <li>✓ OAO Nizhnekamskneftekhim is a sponsor of construction and upkeeping of the following facilities: Neftekhimik stadium, 2 ice arenas, Druzhba sports complex with sports halls, a swimming pool, a football field and an ice-hockey rink, a Fakel gym, 8 ice-hockey rinks for children in different districts of the city, a football school for children, sports and recreation camp Olympian, training bases for Neftekhimik football and ice-hockey teams.</li> <li>✓ All city residents can use the sports facilities. Around 25,000 people attend football and hockey games monthly.</li> <li>✓ Nizhnekamskneftekhim and people of Nizhnekamsk are justifiably proud of members of Neftekhimik sports club. They are Aliya Iksanova (master of sports in skiing, participant of 2004 Junior World Championship, repeat winner and medalist of the Cup of Russia, having two gold and two silver medals of 2011 World Student Games and a bronze medal of 2011 Championship of Russia in relay); Ekaterina Volkova (Honored Master of Sports in track-and-field athletics, 2007 world champion, a bronze medalist of 2008 Olympic Games); Anna Protasova (international Master of Sport in clay target shooting, a bronze medalist of 2005 Team World Cup, 1998 European Team Championship winner, repeat winner and medalist of championships and Cups of Russia) and others. In the CHL (Continental Hockey League) there are hockey players who once started their career in the local hockey club Neftekhimik.</li> </ul>
<p>Program of law enforcement and prevention of violation of law among the population</p>	<ul style="list-style-type: none"> <li>✓ The main objective of the Program is a drastic change in criminal situation in the city by means of cooperation of the companies' employees (the public) and law-enforcement authorities (police, people's courts, prosecutor's office) and joint actions to prevent crime in the community.</li> <li>✓ OAO Nizhnekamskneftekhim is a base for 5 public law enforcement stations and young workers' public organization for maintenance of public order FORPOST. All public law enforcement stations were renovated and equipped with office equipment and necessary communication facilities. OAO Nizhnekamskneftekhim's public order squad has a motor transport.</li> <li>✓ In 2011, members of public order squad and FORPOST together with policemen prevented and solved 62 crimes, brought to justice 1,120 persons for administrative offences, checked 746 police characters, 240 juvenile offenders and 415 suspected, carried out 333 raids to dormitories, public places, educational establishments, during major public events.</li> <li>✓ Material and moral incentives are provided for members of public order squad in the Collective Agreement.</li> <li>✓ In 2011, OAO Nizhnekamskneftekhim became the winner of the Republican contest "The Territory of Law" in nomination "For significant contribution to law enforcement support". That victory was the appreciation of the Company's activity. The head of voluntary people's guard main office was the third in nomination "For significant contribution to public order maintenance with the assistance of the community".</li> </ul>
<p>Program of transportation of people to their gardens</p>	<ul style="list-style-type: none"> <li>✓ Almost every family in the city has a garden. OAO Nizhnekamskneftekhim participates in financing transportation of the city residents to their gardens in summer. For this purpose in 2011 the Company allocated 5 MIO rubles. This program helps to improve the quality of the city residents' family recreation, to habituate young people to work and to prevent delinquency among children and teenagers during summer vacations. The Program covers about 120 thousand people.</li> </ul>
<p>Ancillary farm development program</p>	<ul style="list-style-type: none"> <li>✓ OAO Nizhnekamskneftekhim has a well developed ancillary farming enterprise comprising 8 settlements of Nizhnekamsk district. The farmland area is 15.9 thousand hectares. The cattle stock counts 3,740 animals, pigs – 11,015, horses – 59, sheep – 149, etc.</li> <li>✓ The farming produce is supplied to the Company's canteen network. In 2011, the Company's catering system received 258 tons of meat products for the amount of 34 MIO rubles. Currently the purpose of the farming enterprise is not only to produce but also to support native agricultural producer.</li> <li>✓ In 2011, OAO Nizhnekamskneftekhim allocated 78.791 MIO rubles to principal activities of the farming enterprise and purchasing new agricultural machines. This money helps to support the farming enterprise itself, social infrastructure of remote villages and, most important, to provide jobs for 2500 farm people. Thanks to OAO Nizhnekamskneftekhim rural population is provided with everything required for agricultural work and sustainment of settlements.</li> </ul>

Small business support program	<ul style="list-style-type: none"><li>✓ For the purpose of small and medium-sized business support on November 26th 2004 Resolution of the Cabinet of Ministers of Republic of Tatarstan No.509 was adopted on High priority measures for establishment of Nizhnekamsk Industrial District. On May 25th, 2005 a non-profit organization Nizhnekamsk Industrial District Association was formed for the purpose of mutually beneficial industrial cooperation, creation of area of stable consumption of polymer products of the main enterprise being the basis for the district formation – OAO Nizhnekamskneftekhim and 13 small and medium-sized polymer processing enterprises. The main objective of the Association is assistance to development of polymers and petrochemicals processing small and medium-sized enterprises sector. In 2011, enterprises of Nizhnekamsk industrial district manufactured products for the amount of 7,060.6 MIO rubles and converted 70,000 tons of plastics produced by OAO Nizhnekamskneftekhim. As of the end of 2011, 3,081 jobs were created in Nizhnekamsk industrial district.</li></ul>
Program for solving social problems of the area	<ul style="list-style-type: none"><li>✓ In 2011, the Company allocated 23.35 MIO rubles to construction of social facilities (the Company-sponsored park «Neftekhimik»). The Petrochemists' Park was opened in July 2011. According to Nizhnekamsk residents is the most attractive spot in Mira Avenue. To date, planning of the park area is completed; nice looking street lamps are placed along multiple paths, in the center of the park and close to apartment buildings there are playgrounds and sandpits; the picture is completed by a high color and musical fountain. There is a tot-lot area for kids: swings, merry-go-rounds and slides. There are plans to make Petrochemists' Park a recreation center of a European level where beside convenient walkways and benches and playgrounds in the shade of trees there will be sports grounds, landscape lawns and flower beds. Representatives of all Company's departments took part in construction of the park with the area of 10 hectares.</li></ul>
Interaction with political parties, politicians and associated organizations	<ul style="list-style-type: none"><li>✓ Transfer of money to support carrying out elections to State Duma of the Federal Assembly of Russian Federation 2011.</li><li>✓ Allocation of funds to statutory activity of Tatarstan regional public fund supporting All-Russian political party United Russia.</li></ul>
Targeted social assistance	<ul style="list-style-type: none"><li>✓ Financial support to families in difficult straits;</li><li>✓ Organization of targeted assistance to OAO Nizhnekamskneftekhim employees' children with disabilities, the Company's veterans;</li><li>✓ Charity events for children and families in difficult straits;</li><li>✓ Targeted support to L.F. Yarullina suffering from a serious hart disease for purchasing medication;</li><li>✓ Transfer of money to support people affected by a shipwreck (Bulgaria);</li><li>✓ Targeted financial assistance (payment for surgeries, rendering help after fire, purchasing wheelchairs, etc.).</li></ul>
Interaction with the city enterprises, other cities of the Republic of Tatarstan	<ul style="list-style-type: none"><li>✓ Allocation of funds to Public Institution of State Traffic Safety Inspectorate of Ministry of Internal Affairs in the Republic of Tatarstan for accident preventing measures for the purpose of reduction of deaths and injuries due to accidents;</li><li>✓ Allocation of funds to «Law and Order» fund for purchasing furniture for a military unit battalion no. 5561 located in Nizhnekamsk and ensuring protection of public order in Nizhnekamsk streets.</li></ul>

#### GRATEFUL LETTER

Dear Mr. Busygin,  
MU Educational Directorate of Mendeleevsk municipal district express thanks and sincere appreciation to you and to all personnel of OAO Nizhnekamskneftekhim for rendering assistance in education, parenting and development of cognitive interest of children with special educational requirements. For many years you help us to upbringing our school-boys in harmony with beautiful and wonderful things. You exert much effort for children to have bright childhood memories. Affection for children, deep-rooted reverence to personality is a driving force of yours in charitable activity in relation to our foster children. May you and personnel of your Company have new creative achievements, success, happiness and well-being.

**Gaifullina R.A.,**

Director, MU Educational Directorate of Mendeleevsk municipal district

#### LETTER OF APPRECIATION

Counsel of the Voluntary Youth Organization "Association «Homeland»" of the Republic of Tatarstan express sincere appreciation to the Management of OAO Nizhnekamskneftekhim and to the Head of Young Adults Department for lasting assistance and support to the search party "Neftekhimic" in their work to memorialize soldiers who lost their lives defending the Homeland.

**Konoplev A.Yu.,** Chairman of the Council

#### NEW YEAR GREETING

My husband Alexander works as an operator at the workshop No. 1307 of Butyl Rubber Plant. We greatly enjoyed the New-Year or Christmas show with my son two times already. We like the way this event is celebrated here and we always come with our friends and children to see the show. Thank you for the well organized New-Year entertainment.

**Lubov' Topychkanova and son Maxim**

#### ACKNOWLEDGEMENT

Herewith, we commemorate Young Adults Department of OAO Nizhnekamskneftekhim for the active living position, noticeable contribution in drug abuse prevention among population.

**Knyazkin O.N.**

Head of Nizhnekamsk Interregional FDCS of Russia in Republic of Tatarstan

#### MARCH OF REMEMBRANCE

I wish to express our gratitude to the Management of OAO Nizhnekamskneftekhim for splendid accommodation provided to us and for a possibility to visit educational institutions. Thank you very much for the meeting with veterans, it left everlasting impressions after socializing with those whom we visited at home. Participants of the March of Remembrance conceived importance of this action and hope to enjoy your assistance in the future.

**Catherine Kiseleva,** Leader of the March of Remembrance

At the end of February 2011, with a view to activation of work in support of patriotic feelings in the Republic of Tatarstan the VIII annual winter March of Remembrance - 2011 took place in many towns of Tatarstan under the auspices of the Ministry for Youth, Sports and Tourism of RT, Ministry for Education and Science of RT jointly with the Voluntary Youth Organization "Association «Homeland»". Patriotism, duty, bravery, honesty, courage – these definitions lost their magnitude nowadays. Such actions are important and actual to rekindle their value for the young generation.

**Olga Lantsova,** Leader of the search party Neftekhimic

#### WE ARE FOR CORDIAL GREETING

One mild September day the Management and Trade Union of the Oligomers Plant invited us, veterans, to School No. 29 to celebrate the Day of Wise People. It is a good tradition at our plant.

Managers and Trade Union Leaders, Shop Superintendants, shop committee chairmen met us at the grand entrance. At the school hall we watched a film about our plant activities and enjoyed a wonderful variety show. Then, we had something like a dinner with songs, dancing and accordions. We did not want to go home at all.

We are very grateful to organizers of this festivity, for such attention and warm reception and wish great achievements to the personnel of our own plant and the Company!

**Veterans**

After retirement for pension to a well-deserved recreation I do not sit on my hands, on the contrary – I am very busy with social work – being the member of the Veterans of Labor Council. I am very thankful to the Management of OAO Nizhnekamskneftekhim that they do not forget to give us a chance for such companionship!

**Muzayana Zamilova,** member of the Veterans of Labor Council

#### PARK OF NEFTEKHIMIKOV

Many thanks to OAO Nizhnekamskneftekhim for a wonderful park and festivities they organize there. On the 1st of September, after official lineup at school children joyfully rushed to the Park of Neftekhimikov. And no wonder! There was a real feast program waiting for them! The park was crowded with hundreds and hundreds of children: some of them animatedly contested, others had photograph taken with guests – Dragon, White Bear, Mickey Mouse. The whole caboodle was crying out answers to the simple riddles of Pinocchio. Children and their parents enjoyed catching dancing of the Dancing Planet team, gamy and eloquent songs of Zabavushka as well as other creative teams from the Palace of folk art. Many boys and girls allowed the artists to paint amusing colorful pictures with water colors on their faces.

Children will remember this festive Knowledge Day for ever, and a very interesting program of the day, beyond any doubt will leave everlasting impressions among the young spectators. All of them sang along, waltzed and slapped hands with delight together with those acting on the platform.

**Natasha and Nikita Anyushechkin**

#### LETTER OF THANKS

On behalf of Political Council and Executive Committee of the local branch of All-Russian "United Russia" Political Party in Nizhnekamsk I express thanks to the OAO Nizhnekamskneftekhim team of runners for their participation in the field-and-track event dedicated to the 61st anniversary of the Great Victory. Physical culture and grassroots sports not only good for health but form the character, will, skill to find a way out of problematic situations and meet trouble halfway.

**Kitanov G.L.,** Secretary of Political Council, Nizhnekamsk

#### EURHYTHMICS «ALINA» FESTIVAL

Satellite event of rhythmic-sportive gymnastics to the eurhythmics Alina festival was organized in Nizhnekamsk with the purpose to catch the interest of city-folk, attract attention of city authorities to the issues of expansion grassroots sports among colt teams. Such sport events build incentives for children to go in for rhythmic-sportive gymnastics. I hope that quality aspect of the competitions held in Nizhnekamsk will improve. This time I saw many respectable acts and children themselves enjoyed acting. I am very pleased with the way competitions were organized. Many thanks to the management of OAO Nizhnekamskneftekhim for providing us with a gym hall. I am happy that I managed to organize a real festivity for Nizhnekamsk which I cover as a Deputy of the State Duma.

**Alina KABAYEVA,**

Deputy of the State Duma of the Federal Assembly of Russian Federation, 5th convocation, covers Nizhnekamsk municipal district, the State Duma Deputy Chairman of the Committee for Matters Concerning Young Persons, factory of the United Russia Party.

## NIZHNEKAMSKNEFTEKHIM THROUGH THE EYES OF CHILDREN



## ОАО НИЗНЕКАМСКНЕФТЕХИМ AND SCIENCE

### SCIENTIFIC AND TECHNOLOGICAL COOPERATION AT ОАО НИЗНЕКАМСКНЕФТЕХИМ

Engineering policy of ОАО Nizhnekamskneftekhim is focused on assurance of competitive ability of the Company which is not possible without technologic re-equipment of the currently operating facilities, constructed over the 1970 to 1980 period of the last century, as well as without construction of new facilities capable to produce the most demanded products in the market which meet the highest requirements of the end users. In order to implement this work, ОАО Nizhnekamskneftekhim use available scientific and technological potential of the R&D Center specialists and Design & Construction Center specialists, specialists of the plants and services, as well as employ on contractual bases specialists of scientific-research institutes, design institutes, universities and other organizations. Thus, in 2011 ОАО Nizhnekamskneftekhim had 56 contracts with outside organizations.

There are 23 organizations, half of them located in Tatarstan, which are partners of ОАО Nizhnekamskneftekhim and fulfill contracted works, including Research and Advanced Development of new types of products and technologies, render hi-tech services, doing marketing research, consulting and information services, appraisal of the project and making out plans for liquidation of dangerous situations, и development of computer programs and simulation training systems, help to find solutions to special problems arising in the process of operation different facilities. A considerable scope of Research and Advanced Development of new domestic catalysts for monomer production is done by ООО Katalyz (Kazan), Kazan University; ООО «RNPCO», ОАО HELE-Pro, ООО Expert Bureau provide services for project appraisal and Research and Advanced Development, ООО Systemotechnica (Kazan), ОАО KazkhimNII, NCHTI provide services for development of computer programs and simulation training systems, etc.

In the field of development and sophistication of synthetic rubber technologies ОАО Nizhnekamskneftekhim work closely with Voronezh branch of Federal State Unitary Enterprise NIISK, Federal State Unitary Enterprise NIISK (St. Petersburg) and Federal State Unitary Enterprise GNICHTEOC (Moscow); in

the field of isoprene production technology on the bases of formaldehyde and isobutylene thru straightforward synthesis ОАО Nizhnekamskneftekhim work closely with ООО Evrochim SPB-Trading (St. Petersburg); in the field of purification of harmful gas emissions ОАО Nizhnekamskneftekhim work closely with ООО PIC (Sterlitamak) etc.

Currently, ОАО Nizhnekamskneftekhim is the main source of financing innovating activities for Research and Advanced Development and all other kinds of contracted work. In 2007, for the first time, ОАО Nizhnekamskneftekhim received a State order for a very important innovating project according to the Federal target-oriented program «Research & Development of Priority oriented Science and Technology Complex of Russia over the 2007 to 2012 period» to be financed from the Federal budget. Beginning from November 2007 ОАО Nizhnekamskneftekhim, under this order, is busy now with implementation of the «Development of technology and elastomers production in place of imported ones, promotion of export capacity and provision of product competitiveness of Russian companies in rubber, automotive, electrical engineering and other industries». In September 2011 activities, financed from the Federal budget, in relation to development of new competitive elastomers were successfully completed with production of new EPDM grades. In 2012, a new ABS-plastics facility is scheduled to be commissioned at ОАО Nizhnekamskneftekhim. In the framework of the same project a composite material production line was installed at ООО High-tech Consulting (Kazan), were also mastered industrial production of polybutadiene rubber on the basis of Lithium catalyst and production of polystyrene making use of PBDE-Lithium in place of imported rubber of Buna Company. EPDM rubber producing pilot plant was installed at R & D Center.

The most important index on the project is the scope of realization of innovative products which over the 2008 to 2011 period (PBDE-Lithium, high-impact polystyrene based on PBDE-L, KM-elastomers, EPDM) amounted to 17.79 MIO RUR. Besides, the State contract specify accomplishment other indices as well.

Index	Planned	Actual
Number of innovative technologies introduced in the industry	3	4
Number of patents issued as a result of intellectual activity, obtained within the framework of project implementation (invention, useful model, production prototype, selection achievements)	6	8
Number of publications with results of intellectual activity obtained within the framework of project implementation	18	23
Volume (sales – sales proceeds) of newly developed and improved high-tech products generated as the result of project implementation, MIO RUR	5,370.0	17,795
Export volume of newly developed and improved high-tech products generated as the result of project implementation, MIO RUR.	1,297.5	9,339
Number of new jobsites for highly skilled workers created within the framework of projects	1,291	328

In 2010, a joint project of ОАО Nizhnekamskneftekhim and Kazan (Volga Region) Federal University won a reward of the open public contest for selection of organizations to be granted State subsidies for implementation of multipurpose projects for creation of high-tech production facility developed in partnership with a Russian higher educational institution (RF Government resolution No. 218). Following the results of the contest, ОАО Nizhnekamskneftekhim signed a contract on the terms and conditions of the subsidy to be granted and used by Kazan (Volga Region) Federal University for development of technology for production of high performance ferric potassium catalysts for isoamylene dehydration. Revamp of commercial catalyst facility is planned to be done in the Ethylene Oxide Plant at ОАО НКНК. The catalyst proper will be introduced into isoprene production facility in the synthetic rubber plant. By now, the first phase of research and development is completed by Kazan (Volga Region) Federal University and preparatory work is commenced in the synthetic rubber plant to get the isoprene production unit ready to accept and use the catalyst being developed. The project is very efficient because it allows ОАО Nizhnekamskneftekhim to get off dependence from catalyst supplies and bring down costs of polyisoprene rubber production. Three phases out of five planned are already completed under this project.

In compliance with Resolution of the RF Government dated 9 April 2010 No. 218 «Regarding measures of the State support of cooperation between Russian higher educational institutions and organizations implementing multipurpose projects for creation of high-tech production facilities» (Corpus of Legislative Acts of the Russian Federation 2010, No.16, Article 1905), and following the results of the open public contest for selection of organizations to be granted State subsidies for implementation of multipurpose projects for creation of high-tech production facility, and in pursuance of the contest committee of the RF Ministry of Education and Science decision (Protocol dated 12.10.2010) an Agreement was signed between ОАО Nizhnekamskneftekhim and the RF Ministry of Education and Science.

In the framework of this agreement, in order to implement a multipurpose project and create a high-tech production facility, being done with participation of a Russian higher educational institution, «Enhancement of monomers production efficiency for synthetic rubber by way of development and introduction in the industry of a high-tech technology for production of domestic catalysts for isoamylene dehydration» RF Ministry of Education and Science allocates subsidies to ОАО Nizhnekamskneftekhim from the Federal budget, being used by ОАО Nizhnekamskneftekhim for financing of scientific research, design and experimental and process-oriented works, carried out by a State educational institution of the Higher Vocational Education according to different directions of the project under the contract for fulfillment of scientific research, design and experimental and process-oriented works. In 2011 RF Ministry of Education and Science allocated subsidies to the amount of 50 MIO RUR.

ОАО Nizhnekamskneftekhim owns about 180 licenses and other authorization documents (permits, certificates etc.) for all kinds of activity including licenses for operation of chemically endangered and explosion hazardous facilities. All licenses and authorization documents are restated in due time.

#### APPLICATION OF SCIENCE IN THE INDUSTRY

Organizational breakdown structure of ОАО Nizhnekamskneftekhim includes R&D Center which consists of 16 research laboratories and experimental-industrial unit for production of hydrocarbons and their compounds.

The R&D Center is staffed with 365 members out of which 131 workers are engaged in research and development, including Doctors of Sciences – 2, Masters of Sciences – 20, candidates и aspirants – 20. Numerous developments of the R&D Center research laboratories are patented in the Russian Federation, exhibited at national and international conferences and symposiums. The R&D Center work closely with research organization like Kazan (Volga region) Federal University, Institute of Catalysis at Siberian

Branch of the Russian Academy of Sciences (Novosibirsk), NIISK (Voronezh). Specialists of the R&D Center successfully develop and introduce innovative technologies and technical solutions which allow to provide competitiveness of the manufactured products, creating stability of OAO Nizhnekamskneftekhim at the international market.

The R&D Center major lines of activity are research and development, experimental work in the field of development and introduction of new and improvement of existing technologies in chemistry and petrochemical industry:

- › basis of design development for engineering processing units;
- › testing of new technologies on experimental and pilot plants;
- › pilot testing and implementation of new technologies and new products at OAO Nizhnekamskneftekhim facilities;
- › production of trial lots and low-tonnage series production of material by experimental and pilot plants for OAO Nizhnekamskneftekhim facilities in place of imported similar ones;
- › development and perfection of the analytical control methods, control over the regular use of the same;
- › research in the field of petrochemical equipment protection from corrosion and biofouling;
- › utilization of heavy by-products at OAO Nizhnekamskneftekhim; improvement of existing technologies and development of new technologies for decontamination and utilization of industrial emissions and wastes.

In 2011 the R&D Center filed 5 applications for alleged inventions, acquired 5 RF patents, developed 22 basis of design for engineering of new and improvement of existing technologies, issued 22 reports on research scientific work done, published 27 articles in academic periodicals. Within the framework of the program oriented for expanding capacities of Butyl Rubber, Halobutyl Rubber and isobutylene production facilities, issued were basis of design for engineering of a new highly concentrated isobutylene production unit, scrubbing solvent regeneration unit, dissolutor at the stage of basic polymer preparation etc. with the aim of intensification of targeted rubber production – 200,000 mt/year.

An energy-saving basic Butyl Rubber production solution polymerization technology in the range of minus 65 to minus 50 °C was developed. Thus, Butyl Rubber can be produced now without an intermediate degassing section. Bromination of solution polymer will allow to produce BIIR of required structure. Basis of Design documentation is being prepared now for engineering this production facility of annual capacity 150,000 mt. For expansion the PBDE-N production facility (up to 150,000 mt/year) Basis of Design was issued for engineering new sections: catalyst preparation section, azeotropic dewatering and butadiene rectification, hexane solvent hydrotreatment from benzene and unsaturated compounds. Experimental and pilot plant (Shop No.1122) at the R&D Center keeps producing neodymium neodecanoate, a component of the catalyst used for synthesis of rubber which is used now in place of the more expensive imported equivalent.

Provision is made for use of polybutadiene PBDE-L Grade having low dynamic viscosity, for ABS-plastics production. Research at R&D Center is in full swing now to select optimal temperature conditions for continuous polymerization process and synthesis of PBDE-L samples having low dynamic viscosity. In order to exclude raw material import for poly-DCPD production by method of reactive forming, Basis of Design was issued for engineering a unit scheduled to be commissioned in 2012. Feasibility study is completed for poly-DCPD components production Unit of 2000 mt per year capacity. The project is found economically sound.

In the experimental and pilot plant of R&D Center a test run of a unique pilot unit was implemented for elastomers production, supplied under State contract No 02.531.11.9004 dated 29.10.2007. This new unit is capable to synthesize synthetic rubber with desired quality characteristics and application properties, to vary process parameters and produce different grades of EPDM. Under stable process conditions and monomers consumption, test batches of rubber EPDM 8505 Grade were produced. This grade passed successful tests and is used now for making automobile profiles. Operation of this unit was thoroughly analyzed and the data obtained will be employed for modernization of EPDM commercial unit in the synthetic rubber plant.

#### INNOVATION AND EFFICIENCY DRIVE

Considerable contribution in development of the petrochemical industry of the Republic of Tatarstan is made by inventors at OAO NKNK. There are about 1,300 rationalizers and innovators in the company. Every year they develop dozens of inventions and useful models, produce more than 500 proposals for technical improvement. More than one hundred of inventions, useful models and 400 proposals for technical improvement are introduced in different production facilities of the Company.



As of 31st December 2011, in accordance with copyright protection Norms for technical inventions and means of individualization the OAO Nizhnekamskneftekhim received 402 patents for inventions, 62 patents for useful models, 42 certificates for brand marks, 8 certificates for computer programs.



Number of young innovators in the Company grows every year: in 2002 their share among rationalizers and innovators was only 9%, in 2011 it exceeded 37%. Contests among the young innovators became a tradition at the Company and are held with the purpose to have young specialists involved in solution of production objectives by way of development and introduction of innovations in the industry. For the 5th time the contest took place in 2011. It activates creative initiative in resolving problems with cutting production costs and improvement of quality materials produced by the Company, feedstock, raw materials, energy saving. In the contest took part: young innovators from Butyl Rubber Plant, Divinyl and Hydrocarbons Feedstock Facility, Synthetic Rubber Plant, Isoprene-Monomer Unit, Polystyrene Unit, Ethylene Plant, Ethylene Oxide Plant, Styrene and Polyether Resins Unit, Oligomers Plant; young innovators from Technical Control Departments, Railway Depot; R&D Center, Automation Center, Drawing and Designing Center.

Every year the OAO Nizhnekamskneftekhim take part in the contest held by the Russian Union of Scientific and Technical Public Organizations, by the International Union of Scientific and Technical Public Associations, by the Academy of Engineering Sciences named after A.M. Prokhorov, by the Interregional Public Fund for Advance of the Scientific-and-Technological Progress.

Certificate of Laureate of the 12-th All-Russia Contest «Engineer of the Year 2011» in the nomination «Professional Engineers», Laureate Silver Medal of the Contest, «Professional Engineer of Russia» lapel badge and «Professional Engineer of Russia» Certificate were presented to the Shop Manager of the Butyl Rubber Plant Khasanov N.T., to the Deputy Shop Manager of the Synthetic Rubber Plant Shalfeev A.Yu. at the festive occasion in the Hall of Fame of the Russian Union of Scientific and Technical Public Organizations in Moscow.

In the nomination «Professional Engineers» the «Professional Engineer of Russia» Certificate and «Professional Engineer of Russia» lapel badge were presented to the Chief Engineer of the Drawing and Designing Center Yankin A. V., to the Shop Manager of the Divinyl and Hydrocarbons Feedstock Facility Ipkeev A.V., to the Head of Technical Department of the Technical Control Division Galiyeva G. A., to the Deputy Shop Manager of the R&D Center Galimov R.R., to the Head of the Production and Technical

Department of the Synthetic Rubber Plant Misbakhov I.R., to the Head of the Production and Technical Department of the Isoprene-Monomer Unit Gradov A.A., to the Head of the Unit of the Ethylene Plant Spiridonov Yu. N., to the Leading Electronic Engineer of the Polystyrene Unit Solovyev N.E.

There are 72 representatives of OAO Nizhnekamskneftekhim (53 persons in 2009, 62 persons in 2010) in the Russia Big League of Engineers.).

## MARKETING COMMUNICATIONS

Methods of informing the customers about types and properties of the products offered by OAO Nizhnekamskneftekhim are as follows: presentation of products for domestic and international companies, participation in specialized domestic and international exhibitions, distribution of catalogues of products, advertizing leaflets, publication of information in mass media, also on the Internet site of the OAO Nizhnekamskneftekhim: <http://nknh.ru>. The advertizing activity at OAO Nizhnekamskneftekhim is arranged to create a favorable public opinion about production, social and ecological policy in line with Legislation of the Russian Federation dated 13 March 2006 No. 38-ФЗ «Advertising Law», other Federal Legislations, regulatory documents.

Being an advertising spender, OAO Nizhnekamskneftekhim, when planning, developing, arranging advertizing campaigns, always employ services of specialized advertizing companies who have a licence to run this kind of activity, who undertake to satisfy the Legislation of the Russian Federation dated 13 March 2006 No. 38-ФЗ «Advertising Law», normative legal acts of the President of the Russian Federation, normative legal acts of the Government of the Russian Federation, Regulations of the local authorities handling some aspects of advertizing business.. In 2011, non-conformity to regulatory requirements regarding marketing communications including advertizing, promotion of products and sponsorship was not observed.

Personnel of the Sales and Export Divisions continuously monitor comments and opinion of customers and evaluate quality of the products supplied, purposefully study current and future requirements of the customers.

In order to create a good image of the OAO Nizhnekamskneftekhim, advertising department developed in 2011 and installed outdoor signs, giving honorable representation about the Company, i.e.: advertising structures (updating the «Honors Board», erection of stella in front of the Park of Chemists, installation of additional boards in the «Walk of Veterans»); topical banners, cross street banners (timed to international, national festivities, to visits of governmental delegations etc.).

During 2011, advertizing department represented OAO Nizhnekamskneftekhim in the International specialized exhibitions among

other participants in exposition of the Republic of Tatarstan, which enjoyed limelight of representatives of business circles, domestic and foreign companies, governmental delegations. Stylish stands execution, professional work of advertizing department personnel (representatives of commercial and technical departments), plentiful of colorful advertizing promotional and informational

materials, depicting different kinds of Company activities made the OAO Nizhnekamskneftekhim exposition a success and laid a foundation to multiple awards in many nominations with honorary trophies and certificates of top degree.

Date of event	Place of event	Name of event	Deliverable
– January 2011	Moscow Exhibition Center	VI th International Specialized Plastics and Rubber Exhibition «Interplastika – 2011»	As usual, stand of the Company attracted attention of a great number of potential end users of plastics produced at OAO Nizhnekamskneftekhim. All in all, Exhibition showed exhibits of more than 900 companies from 30 countries. About 25 000 of Russian and foreign specialists saw innovations in the field of plastics and rubber.
– April 2011	Moscow	Moscow International Energy Forum «TEC of Russia in XXI Century»	The Company was awarded the Grand Prix «For integration of energy-saving technologies in petrochemical facilities», honored a Certificate «For achievements in Energy Saving» and a Memorable Badge of the Moscow International Energy Forum «TEC of Russia in XXI Century».
– September 2011	Kazan	II nd Specialized Plastics and Rubber Exhibition , VI th Specialized Exhibition «Ecotechnology and Equipment in XXI Century»	The Grand Prix was awarded following the results of the contest for «The Best Sample on Display» in the nomination «Products with new or improved quality» for production setup of butadiene rubber PBDE-L Grade, for the best stand design and Company representation, for the high quality and the broad assortment of products on display, for assimilation of the best ecology technologies with intention to reduce emissions in atmosphere, for the best monitoring of environment.
– October 2011	Moscow	XVI th International Exhibition of Chemical Industry and Science «Chemistry-2011»	<p>1. According to the results of the contest for «The Best Exposure Products» in the nomination «High Quality Products and Products Serviceability», awarded were: 10 Certificates and 10 Medals: the 1st Grade Medal for Butyl Rubber 1675N Grade, for Bromobutyl Rubber (BIIR), for Chlorobutyl Rubber (CIIR), for PBDE-N Grade Rubber, for PBDE-L Grade Rubber, for general-purpose polystyrene, for high-impact polystyrene, polyethylene, polypropylene; the II nd Grade Medal for isoprene rubber SKI-3 Grade. As well as Special Certificate and the Medal for «Vigorous activity in promotion the wide assortment of high quality chemical products on domestic and foreign markets».</p> <p>2. From the exhibition arrangers: «The Russian Union of Chemists» and ZAO Exhibition Center the Company was presented with The Grand Prix and with Certificate:</p> <ul style="list-style-type: none"> <li>– The Grand Prix and Certificate for «Development and Production of the New Kind of High-Quality Products and Contribution to Progress in the Russian Chemical Industry».</li> <li>– The General Director of OAO NKNC was awarded the Certificate for «Substantial Contribution to Further Progress in the Chemical Industry of Russia».</li> <li>– Certificate for «The best stand design and complete professionalism of the Company Managers».</li> </ul>
– December 2011	Kazan	XIII th International Specialized Exhibition «Energy. Efficient Use of Resources – 2011»	<p>Following the results of the contest «Energy-Saving Equipment and Technologies» received were:</p> <ul style="list-style-type: none"> <li>– The 1st Grade Certificate for «Application of Reducing Type Cooling Units on Cracking Heaters in Ethylene Plant» in the nomination «Equipment and Technologies for Materials Recovery in Facilities of Petrochemical, Fuel and Energy, Agricultural and Other Industries» including recovery waste energy and / or materials»;</li> <li>– The 2nd Grade Certificate for «Halobutyl Finishing Line in the Butyl Rubber Plant» in the nomination «Honor of Tatarstan».</li> </ul>





**INDEPENDENT AUDITOR'S  
OPINION ON CERTIFICATION  
OF THE SUSTAINABLE  
DEVELOPMENT REPORT**

## Section 10

# INDEPENDENT AUDITOR'S OPINION ON CERTIFICATION OF THE SUSTAINABLE DEVELOPMENT REPORT

Addressed to: OAO Nizhnekamskneftekhim



### INTRODUCTION

Present independent audit certification relates to «Sustainability report of OAO Nizhnekamskneftekhim for 2011» (hereinafter Report). The report is made by OAO Nizhnekamskneftekhim which bears responsibility for data collection and presentation of all information in the Report. «Bureau Veritas Certification Rus» is in charge of working results on Report certification merely to OAO Nizhnekamskneftekhim and assumes no responsibility to any party for decisions taken or slugged on account of the present certification.

### CERTIFICATION CONTENT AND CRITERIA

- › Appraise the category and Company observance level of inclusion, significance, respond principles to AA1000 Accountability Principles Standard (APS) 2008.
- › Appraise information reliability and disclosure quality in the field of Company sustainability (based on AA1000 Assurance Standard 2008).
- › Appraise quality of interested parties involvement into reporting procedure according to AA1000 Stakeholder Engagement Standard (SES) 2011.
- › Appraise report correspondence to level A+ (Company self-esteem) according to Global Reporting Initiative Sustainability Reporting Guidelines, version G3.1, 2011.
- › Apply certification level «reasonable», provided by the standards for activities on AA1000 Assurance Standard (AS) 2008 and International Standard on Assurance Engagement ISAE-3000.
- › Give recommendations on corporate governance within social reporting.

While certifying the Report information published on Company corporate site [www.nknh.ru](http://www.nknh.ru), different promotional publications,

newspapers «Pepublic Tatarstan», «Nizhnekamskaya pravda», «Vasha gazeta», «Nizhnekamskoye vremya», corporate newspapers «Neftekhimik» and «Khezmatesh avazy», TV programs of republican and town channels («TNV», GTRK «Tatarstan» telecompany «NTR» and «Efir»), in-complex telestudio «VTS-Neftekhim», in-complex radio «Neftekhim», as well as OAO Nizhnekamskneftekhim Charter, labour contract for 2011 standards and other corporate documents were taken into account.

### METHODOLOGY

- › Interview of Nizhnekamskneftekhim top managers about significant economic, social and ecology aspects of Company activity aspects, intents, obligations, priorities and goals in the field of sustainability, means and degree towards this end.
- › Analysis of OAO Nizhnekamskneftekhim approach to involvement and public hearing and expectations of interested parties by interviewing persons in charge of dialogue with these parties, holding meetings with representatives of several parties concerned and on the basis of studying adequate documentation selection to confirm such interaction in 2011.
- › Verification of meeting goal objective in the field of sustainability for the year 2011.
- › Verification of documents and data characterizing performance of management systems of socioeconomic, environmental and innovative aspects operating at Nizhnekamskneftekhim
- › Records of compliance audit of Quality Management System, Environmental management, Occupational and Industrial Safety Management System certified according to ISO 9001, ISO 14001 and OHSAS 18001 international standards requirements.
- › Verification of data gathering, handling, recording, transmission, analysis, selection and consolidation processes used in the Company, to be included in the Report.

- › Verification of adequacy of a number of presented in the Report affirmations, propositions and data during testifier's direct visit to OAO Nizhnekamskneftekhim, Nizhnekamsk in March 2012.
- › Analysis of mass media data selection and third parties statements published to specify Company adherence to values in the realm of sustainability as references for statement validation in the Report.
- › Verification of Report and data conformity published on corporate site to AA1000AS, AA1000SES standards and GRI recommendations.
- › Appraisal of Report availability for all stakeholders and efficiency of specified feedback mechanism.

#### **CERTIFICATION LIMITS**

- › Certification was not performed in relation to deliverables stepping over timebounds of current reporting cycle 2011.
- › Statements expressing opinions, persuasions or intents of OAO Nizhnekamskneftekhim to take any actions in future have not been accounted for by the certification.
- › Certification at operating level was limited by visits to different production facilities, Company divisions and departments as well as by a number of social objects belonging to it (in March 2012).
- › Both top management (first deputy General Director – chief engineer, deputy General Director for personnel and social issues and Company management in charge of different kind of activities (such as in particular economics, training and education of employee, personnel management, environmental protection, occupational safety, service and product quality assurance, power supply, water treatment and etc.), as well as employees, trade-union, local population officials were interviewed.

#### **CERTIFICATION LEVEL AND OUR OPINION FRAME**

Report information selectively verified within reasonable level of certification assures smaller guarantee level for certification compared to full check of all data («high level»). Certification work was built upon assertional information provided by OAO Nizhnekamskneftekhim management and its structural departments, as well as stakeholder's representatives, on data from available sources and analytical confirmation methods. The work performed can not be considered as sufficient for revelation of all potential near data in regard to numeric information placed in the Report. Nevertheless data collected in the course of work are sufficient basis for forming our conclusions with reasonable certification level in regard to the nature and degree of conceiving

being inclusive, emphasis, AA1000 Accountability Principles Standard 2008 requirements principles by the Company.

#### **OUR INFERENCE**

- › In general the Report adequately covers OAO Nizhnekamskneftekhim performance from corporate social reporting position.
- › The Report is set forth in clear and luminous form, it is inerratic, objective and informative.
- › OAO Nizhnekamskneftekhim is the Company having efficient management systems enabling to specify significant socio-economic, environmental and innovative activity aspects, plan, manage and develop processes pertaining to them, define stakeholder's expectations in relation to these aspects and respond to them.

- › On the part of Company management, monitoring systems of social reporting process are supported to the full extent by the mission and strategy, its policy makers and resources, as well as with conformity of its operation to principles of «Social Charter of Russian business»

#### **REPORT CONSISTENCY WITH THREE AA1000 APS PRINCIPLES**

##### **Principle 1. Being Inclusive**

- › OAO Nizhnekamskneftekhim cooperates with extensive sweep of stakeholders. The most significant among them are shareholders, clients, suppliers, subcontractors, employees, trade-union, service and product consumers, governmental authorities, business partners, mass media, public organizations, local authorities, local population.

- › Information presented and objective and indirect evidence received show that stakeholders' expectations and needs regarding Company business are considered at all stages of social process.

- › Stakeholder's opinions as well as future generations interests and environment protection are found out by arranging and improving constructive dialogues.

- › Basic methods to inform and interact with stakeholders are public hearings, press-releases, press-conferences, mass media publications, informational messages distribution (letters, booklets and brochures), corporate Web-portal, consultations, negotiations, inquiries, working groups, standing commissions and etc.

- › Mass media promptly cover decisions, resolutions of Company management, Board of directors meetings. Yearly report,

accounting balance sheet, Income statement, nonfinancial reporting are published annually by the shareholder's meeting in the press.

- › In 2011 OAO Nizhnekamskneftekhim started implementation of new strategic development program providing for expansion of complex raw materials base, expanding rubber production capacity and construction of new plastic lines.
- › Carrying-out social programs pointed at employee quality life bettering, their families and local population creates favourable conditions for business sustainability.

### **Principle 2. Information value presented**

- › The report presents balanced and reasoned summary of essential socio-economic, environmental and innovative activity aspects defining sustainability figures of OAO Nizhnekamskneftekhim
- › All important information including info on material facts among them major transactions with Company assets is placed on official corporate www portal.
- › The report discloses important info on retrieval of sustainability and investment program development, gives self-appraisal of prospective tasks fulfillment of sustainability and social obligations undertaken for 2011, reflects evaluation of social and regional importance of investment projects, allots tasks of system optimization on public reporting.
- › The report contains prospective tasks of sustainability for 2012 and for the period up to 2020.
- › If necessary collection process, handling, transmittal and presentation of information on important aspects of Company sustainability might be traced.
- › Based on report data evaluation and interviews neither of essential aspects sustainability specified by the Company can be mentioned, which could be overlooked by Company management or unreasonably excluded from the reporting. The Report covers all GRI performance indicators applicable to the Company and substantiates lack of detailed information on GRI separate indicators, irrelevant to Company business.
- › Report and corporate site information is meaningful for stakeholders as it might affect their future solutions and behavior in regard to the Company.
- › The Report covers sufficient information on Company's compliance with Russian law, international standards, regulations and industry standards for petrochemical branch.

### **Principle 3. Respond to stakeholder's expectations**

- › At present such areas are not known to us which could be disclosed, but were not disclosed in the Report where the Company would be incapable to respond to sound inquiries of stakeholders.
- › Responsiveness to regional needs is realized by financing and implementation of a number of social projects. OAO Nizhnekamskneftekhim realizes sports, educational, cultural programs, brings the contribution to development of a social infrastructure on which condition quality of life as employees and their families, and all population of regions of activity depends.
- › Interests and expectations of employees are considered by acceptance of the Collective agreement between OAO Nizhnekamskneftekhim and trade-union committee
- › The right of population to favorable environment is provided with Company planned environmental activity within the framework of OAO «Nizhnekamskneftekhim» Ecology program for the period from 2007 to 2015.
- › Opinions and expectations of shareholders are considered by realization of principles of OAO Nizhnekamskneftekhim corporate management, including carrying out of general meetings with participation of shareholders.
- › Requirements of customers are provided with scheduled performance of works of the guaranteed quality. In creation of competitive advantage of the Company adjusted product quality control system, high level of employees professionalism, arranged work with suppliers and subcontractors play an increasing role.
- › Realization of the social programs directed to improvement of quality of employees life, their families and local population, creates favorable conditions for steady development of business. Increase of an educational level of the personnel, decrease of morbidity and industrial traumatism, improvement of a social climate in regions of activity became the program results.

### **REPORT CONFORMITY TO GRI RECOMMENDATIONS**

The report is executed with GRI guidelines recommendations applied on reporting in relation to sustainability, it contains information on reporting components and GRI performance indicators meeting level A+ reporting.

### **COOPERATION QUALITY WITH STAKEHOLDERS ACCORDING TO AA1000SES (2011)**

Public reporting process in general complies with AA1000SES (2011) recommendations. This refers to stakeholder's identification, initial specifying of meaningful issues, determination of strategy, goals and the number of involved, making up a plan, forms and schedule of structured involvement, engagement arrangement, respond to involvement call.

### **RECOMMENDATIONS ON CORPORATE MANAGEMENT DEVELOPMENT OF SOCIAL REPORTING**

- › Work out performance indicators list representing particularities of petrochemical sector together with stakeholders.
- › Develop efficiency appraisal criteria of social programs and Company projects.
- › Reflect fuller and more balanced both positive, and negative tendencies, and also indicate precise borders between the facts and interpretation in the reports.
- › Reflect fuller comments of the parties concerned on current cycle Report in the next cycle reports.
- › Work out management system guidance on public reporting process.
- › Include public reporting into corporate management quality, ecology, labour protection system as essential part of appraisal element» on the side of management».
- › Work out and implement social responsibility management system according to SA 8000 international standard and ISO 26000 guidance as well as energy management systems under ISO 50001:2011.
- › Transfer experience of the Company on steady development and the social responsibility of business to developers of the Branch appendix to GRI Guidance for the enterprises of petrochemical sector.
- › Explain fuller various tendencies based on any changes of performance indicators.

### **BUREAU VERITAS CERTIFICATION RUS" APPLICATION ABOUT INDEPENDENCE, IMPARTIALITY AND COMPETENCE**

ZAO «Bureau Veritas Certification Rus» is an independent professional international company specializing on rendering services in the area of accredited certification of various systems of management (in particular, management quality systems, occupational health and safety, environmental activity, social responsibility, etc.).

«Bureau Veritas Certification Rus» formally states that Opinion represents an independent appraisal of the third party auditor. «Bureau Veritas Certification Rus» has no commercial interests in OAO Nizhnekamskneftekhim activity except for certification services provided.

ZAO «Bureau Veritas Certification Rus»  
April 04, 2012



Lead auditor  
**Georgiy Klenov**












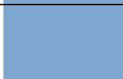
## TABLE OF STANDARD GRI ELEMENTS (GLOBAL REPORTING INITIATIVE)

This Report incorporates indicators recommended by GRI-G3.1 Guidelines.

Legend:

 – reported fully

 – reported partially

DESCRIPTION OF GRI INDICATORS	Reported	Report Section	Page	Comments and references
<b>1. STRATEGY AND ANALYSIS</b>				
1.1. Statement from the most senior decision-maker of the organization (for example, chief executive officer, chairman or equivalent position) regarding the importance of the sustainability for the organization and its strategy		Address of the Chairman of the Board of Directors Address of the General Director	6-7 8-9	
1.2. Description of key impacts, risks and opportunities		Address of the General Director Company's development strategy Corporate social responsibility	8-9 26-27 36-38	
<b>2. PROFILE OF THE ORGANIZATION</b>				
2.1. Name of the organization		About the Company Contact details	24 128	
2.2. Primary brands, products and/or services		About the Company	26, 28-32	Please refer to OAO NKNK's corporate web site, Production Section at ( <a href="http://www.nknk.ru/">http://www.nknk.ru/</a> ) The entire product mix is presented at ONLINECONTRACT ( <a href="http://www.onlinecontract.ru/">http://www.onlinecontract.ru/</a> )
2.3. Operational structure of the organization, including main divisions, operating companies, subsidiaries and joint ventures		About the Company	24-25	
2.4. Location of organization's headquarters		Contact details	128	
2.5. Number of countries in which the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report		About the Company	24	
2.6. Nature of ownership and legal form		About the Company	24	
2.7. Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).		About the Company	28-31	
2.8. Scale of the reporting organization		About the Company	24	
2.9. Significant changes during the reporting period regarding size, structure, or ownership		About the Company	24	
2.10. Awards received in the reporting period		Events important for the Company and the community.	14-21	Please refer to OAO NKNK's corporate site, Awards Section at <a href="http://www.nknk.ru/">http://www.nknk.ru/</a>

DESCRIPTION OF GRI INDICATORS	Reported	Report Section	Page	Comments and references
<b>3. REPORT PARAMETERS</b>				
3.1. Reporting period for information provided		About the report	12	
3.2. Date of most recent previous sustainability report		About the report	12	
3.3. Reporting cycle		About the report	12	
3.4. Contact point for questions regarding the report or its contents		About the report Contact details	13 128	
3.5. Process for defining report content		About the report Corporate social responsibility	12-13 39, 43	
3.6. Boundary of the report		About the report	12	
3.7. State any specific limitations on the scope or boundary of the report		About the report	12	
3.8. Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organizations		About the report About the Company	12 24	
3.9. Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report		About the report	12-13	
3.10. Explanation of the effects of any re-statements of information provided in earlier reports and the reasons for such re-statements (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods)		About the report	12-13	
3.11. Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report		About the report	12-13	
3.12. Table identifying the location of the standard elements in the report		Table of standard GRI elements	118-126	
3.13. Policy and current practice with regard to seeking external assurance for the report		About the report	12-13	
<b>4. GOVERNANCE, COMMITMENTS, AND STAKEHOLDERS ENGAGEMENT</b>				
4.1. Governance structure of the organization, including committees under the highest governance body responsible for specific tasks		The Company and shareholders	46-47	Please refer to OAO NKHK's annual report for 2011 at the Company's corporate web site ( <a href="http://www.nknh.ru/">http://www.nknh.ru/</a> )
4.2. Indicate whether the Chairman of the highest governance body also covers an executive role (in this case, indicate the functions within management and the reasons for this structure)		The Company and shareholders	46	
4.3. For the organizations which have a unitary board structure, state the number of members of the highest governance body who are independent and/or non-executive		The Company and shareholders	47	
4.4. Mechanisms available to shareholders and the employees for providing recommendations or directives to the highest governance body		The Company and shareholders	47	

DESCRIPTION OF GRI INDICATORS	Reported	Report Section	Page	Comments and references
4.5. Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements) and the organization's performance (including social and environmental performance)		The Company and shareholders	47	
4.6. Processes in place for the highest governance body to ensure conflicts of interest are avoided		The Company and shareholders	46-47	
4.7. Processes for determining the qualifications and expertise of the members of the highest governance body for directing the strategy of the organization in relation to the economic, social and environmental aspects (of sustainability)		The Company and shareholders	46-47	
4.8. Mission, values, codes of conduct, and principles relevant to economic, environmental and social performance developed internally and the status of their implementation		Corporate social responsibility	36-38, 42	
4.9. Procedures of the highest governance body for overseeing the methods for identification and management of economic, environmental, and social performance, including relevant risks and opportunities and the compliance with internationally agreed standards, codes of conduct and declared principles		The Company and shareholders	46-47	
4.10. Process for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance		The Company and shareholders	46-47	
4.11. Explanation of whether and how the precautionary approach or principle is addressed by the organization		Corporate social responsibility Environmental activity	37-38 88, 97	
4.12. Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses		Corporate social responsibility	36	
4.13. Membership in associations and /or national/international advocacy organizations		Corporate social responsibility	41-42	
4.14. List of stakeholder groups engaged by the organization		Corporate social responsibility	39-41	
4.15. Basis for identification and selection of stakeholders with whom to engage		Corporate social responsibility	39	
4.16. Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group		Corporate social responsibility	39-43	
4.17. Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting		Corporate social responsibility	43	
<b>5. PERFORMANCE INDICATORS: ECONOMIC</b>				
Aspect: Economic Performance				
EC1 Direct economic value		About the Company	32-33	
EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change		Environmental activity	93-94	
EC3 Coverage of the organization's defined benefit plan obligations		The Company and employees The Company and community	71-72 103	
EC4 Significant financial assistance received from the government		The Company and community	108	

DESCRIPTION OF GRI INDICATORS	Reported	Report Section	Page	Comments and references
Aspect: Market Presence				
EC5 Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation		The Company and employees	68	
EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation		The Company and business partners	54	
EC7 Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation		The Company and employees	60	
Aspect: Indirect Economic Impacts				
EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro-bono engagement		The Company and community	102-106	
EC9 Understanding and describing significant indirect economic impacts, including the extent of impacts		The Company and community	102-106	
6. PERFORMANCE INDICATORS: ENVIRONMENT				
Aspect: Materials				
EN1 Materials used by weight or volume		Environmental activity	89-90, 95	Please refer to ОАО НКНК's annual report for 2011 at the Company's corporate web site ( <a href="http://www.nknh.ru/">http://www.nknh.ru/</a> )
EN2 Percentage of materials used that are recycled input materials		Environmental activity	95	
Aspect: Energy				
EN3 Direct energy consumption by primary energy source		Environmental activity	89	
EN4 Indirect energy consumption by primary source		Environmental activity	89	
EN5 Energy saved due to conservation and efficiency improvements		Environmental activity	89-90	
EN6 Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives		Environmental activity	90	
EN7 Initiatives to reduce indirect energy consumption and reductions achieved		Environmental activity	89-90	
Aspect: Water				
EN8 Total water withdrawal by source		Environmental activity	90-91	
EN9 Water sources significantly affected by withdrawal of water		Environmental activity	91-92	

DESCRIPTION OF GRI INDICATORS	Reported	Report Section	Page	Comments and references
EN10 Percentage and total volume of water recycled and reused		Environmental activity	91-92	
EN11 Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		Environmental activity	97	
EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas		Environmental activity	97	
EN13 Habitats protected or restored		Environmental activity	97	
EN14 Strategies, current actions, and future plans for managing impacts on biodiversity		Environmental activity	97	
EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk		Environmental activity	97	
EN16 Total direct and indirect greenhouse gas emissions by weight		Environmental activity	93-94	
EN17 Other relevant indirect greenhouse gas emissions by weight		Environmental activity	93-94	
EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved		Environmental activity	94	
EN19 Emissions of ozone-depleting substances by weight		Environmental activity	92-93	
EN20 NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions by type and weight		Environmental activity	93	
EN21 Total water discharge by quality and destination		Environmental activity	91-92	
EN22 Total weight of waste by type and disposal method		Environmental activity	95	
EN23 Total number and volume of significant spills		Environmental activity	98	
EN24 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		Environmental activity	95	
EN25 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff		Environmental activity	97	
Aspect: Products and Services				
EN26 Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation		Environmental activity	96-99	
EN27 Percentage of products sold and their packaging materials that are reclaimed by category		The Company and business partners	53	

DESCRIPTION OF GRI INDICATORS	Reported	Report Section	Page	Comments and references
Aspect: Compliance				
EN28 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations		Environmental activity	89	
Aspect: Transport				
EN29 Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce		Environmental activity	95	
Aspect: Overall				
EN30 Total environmental protection expenditures and investments by type		Environmental activity	88-89	
<b>7. PERFORMANCE INDICATORS: LABOR PRACTICES AND DECENT WORK</b>				
Aspect: Employment				
LA1 Total workforce by employment type, employment contract, and region, broken down by gender		The Company and employees	60	
LA2 Total number and rate of new employee hires and employee turnover by age group, gender, and region		The Company and employees	62	
LA3 Benefits provided to full-time employees that are not provided to temporary or parttime employees, by significant locations of operation		The Company and employees	68	
Aspect: Labor/Management Relations				
LA4 Percentage of employees covered by collective bargaining agreements		The Company and employees	68	
LA5 Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements		The Company and employees	68-69	
Aspect: Occupational Health and Safety				
LA6 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs		Occupational health and safety	82	
LA7 Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender		Occupational health and safety	84	
LA8 Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases		Occupational health and safety	81-82	
LA9 Health and safety topics covered in formal agreements with trade unions. Health and safety topics covered in formal agreements with trade unions		The Company and employee Occupational health and safety	68 83	

DESCRIPTION OF GRI INDICATORS	Reported	Report Section	Page	Comments and references
Aspect: Training and Education				
LA10 Average hours of training per year per employee, by gender, and by employee category		The Company and employees	64	
LA11 Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings		The Company and employees	63-67	
LA12 Percentage of employees receiving regular performance and career development reviews, by gender		The Company and employees	65-67	
Aspect: Diversity and Equal Opportunity				
LA13 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity		The Company and employees	60-61	
LA14 Ratio of basic salary and remuneration of women to men by employee category		The Company and employees	70	
LA15 Return to work and retention rates after parental leave, by gender		The Company and employees	62	
8. PERFORMANCE INDICATORS: HUMAN RIGHTS				
Aspect: Investment and Procurement Practices				
HR1 Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening		The Company and employees	39-40, 59, 68-69	
HR2 Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken		Corporate social responsibility	39-40	
HR3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained		The Company and employees	69	
HR 4 Total number of incidents of discrimination and corrective actions taken		The Company and employees	69	
HR5 Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights		The Company and employees	69	
HR6 Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor		The Company and employees	69	
HR7 Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor		The Company and employees	69	
Aspect: Security Practices				
HR8 Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations		The Company and shareholders	48	

DESCRIPTION OF GRI INDICATORS	Reported	Report Section	Page	Comments and references
Aspect: Indigenous Rights				
HR9 Total number of incidents of violations involving rights of indigenous people and actions taken		The Company and employees	69	
HR10 Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments		The Company and shareholders	48	
HR11 Number of grievances related to human rights filed, addressed, and resolved through formal grievance mechanisms		The Company and employees	69	
9. PERFORMANCE INDICATORS: SOCIETY				
Aspect: Local Communities				
SO1 Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting		The Company and community	102-106	
Aspect: Corruption				
SO2 Percentage and total number of business units analyzed for risks related to corruption		The Company and shareholders	48	
SO3 Percentage of employees trained in organization's anti-corruption policies and procedures		The Company and shareholders	48	
SO4 Actions taken in response to incidents of corruption		The Company and shareholders	48	
Aspect: Public Policy				
SO5 Public policy positions and participation in public policy development and lobbying		Corporate social responsibility	41	
SO6 Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country		The Company and community	105	
Aspect: Anti-Competitive Behavior				
SO7 Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes		Corporate social responsibility	39	
Aspect: Compliance				
SO8 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations				Please refer to OAO NKHK's annual report for 2011 at the Company's corporate web site ( <a href="http://www.nknh.ru/">http://www.nknh.ru/</a> )
SO9 Operations with significant potential or actual negative impacts on local communities		Environmental activity	91-95, 99	
SO10 Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities		Environmental activity	89, 94-98	

DESCRIPTION OF GRI INDICATORS	Reported	Report Section	Page	Comments and references
<b>10. PERFORMANCE INDICATORS: PRODUCT RESPONSIBILITY</b>				
Aspect: Customer Health and Safety				
PR1 Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures		The Company and business partners	53	
PR2 Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services, by type of outcomes		The Company and business partners	53	
Aspect: Product and Service Labeling				
PR 3 Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements		The Company and business partners	53	Please refer to NKNK's corporate web site at <a href="http://www.nknh.ru/">http://www.nknh.ru/</a>
PR4 Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes		The Company and business partners	53	
PR5 Practices related to customer satisfaction, including results of surveys measuring customer satisfaction		The Company and business partners	54-55	
Aspect: Marketing Communications				
PR6 Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship		The Company and community	110-111	
PR7 Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes		The Company and community	110	
Aspect: Customer Privacy				
PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data		The Company and business partners	55	
Aspect: Compliance				
PR9 Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services				Information is provided in NKNK's annual report for 2011 at the Company's corporate web site ( <a href="http://www.nknh.ru/">http://www.nknh.ru/</a> )

## FEEDBACK QUESTIONNAIRE

DEAR VALUED READER,

Thank you for reading OAO Nizhnekamskneftekhim's 2011 Sustainability Report. We are very much interested in hearing your opinion of this document. Your feedback is of great importance to us since it will help us to make the next report of OAO Nizhnekamskneftekhim more practicable and informative.

### I. What group of stakeholders do you belong to?

- 1) Representative of state government and administration bodies
- 2) Member of the public
- 3) Investor
- 4) Customer
- 5) Supplier
- 6) Employee
- 7) Other

### II. What is your opinion about the Sustainability Report (maximum 5 points):

Completeness of information	5	4	3	2	1
Reliability and objectivity	5	4	3	2	1
Design and graphics	5	4	3	2	1
Ease of reference	5	4	3	2	1
Representation and style of narration	5	4	3	2	1
General assessment	5	4	3	2	1

### III. Has the Report influenced your attitude towards OAO Nizhnekamskneftekhim's activity?

- Yes                       Slightly                       No                       I do not know

### IV. What did you find most interesting in the report?

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### V. What areas of OAO Nizhnekamskneftekhim's activity as per your opinion require improvement in terms of enhancing social responsibility?

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### VI. What information do you expect to see in future reports of OAO Nizhnekamskneftekhim?

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Please send your comments at: OAO Nizhnekamskneftekhim, Nizhnekamsk, 423574, Republic of Tatarstan, You can also send this form by fax at: 8(8555) 37-93-33 or by e-mail at: nknh@nknh.ru

Your comments and suggestions will be greatly appreciated.

## CONTACT DETAILS

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in English - OAO Nizhnekamskneftekhim.

### Short Name of the Company:

in Russian - ОАО «Нижнекамскнефтехим» («НКНХ»);  
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If you have any questions concerning the Report or its content please contact us at telephone no.: (8555) 37-93-33, 37-71-81 and 37-53-31 or at the address: OAO Nizhnekamskneftekhim, Nizhnekamsk, 423574, Republic of Tatarstan. You can send your questions by e-mail at: [nknh@nknh.ru](mailto:nknh@nknh.ru)



