



CORPORATE GOVERNANCE

‘Impressive growth of shareholder value reflects Bashneft’s commitment to high standards in corporate governance and its reputation as a transparent and efficient company attractive to investors.’

Kirill Andreychenko,
Vice President for Corporate Governance
and Legal Issues



A highly professional and experienced management team capable of delivering impressive results



Five committees under the Board of Directors



The Audit Committee and the Nominating and Compensation Committee of the Board of Directors comprise only independent directors



Independent directors serving on all committees of the Board of Directors

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FUNDAMENTAL PRINCIPLES OF THE GROUP'S CORPORATE GOVERNANCE PRACTICE

The Group's corporate governance system is based on the requirements of Russian legislation, listing rules of the Moscow Exchange, recommendations from the Russian Code of Corporate Governance, the updated G20/OECD Principles of Corporate Governance, international standards in corporate conduct and business ethics, and the principles of openness and transparency. The Company's corporate governance

system has remained stable since 2009-2010; it comprises all key elements typical of public companies with a well-developed corporate governance practice. This helps give shareholders and investors the necessary degree of confidence in the consistency of the strategy implemented by the Group and the decisions that it makes.



MAIN CORPORATE GOVERNANCE PRINCIPLES

- Respecting and safeguarding the rights and legitimate interests of participants of corporate relations
- A predictable dividend policy and practice
- Ensuring information and financial transparency
- An active and professional Board of Directors
- Consistent and collective decision-making
- Combating corruption
- Ethical conduct
- Corporate social responsibility



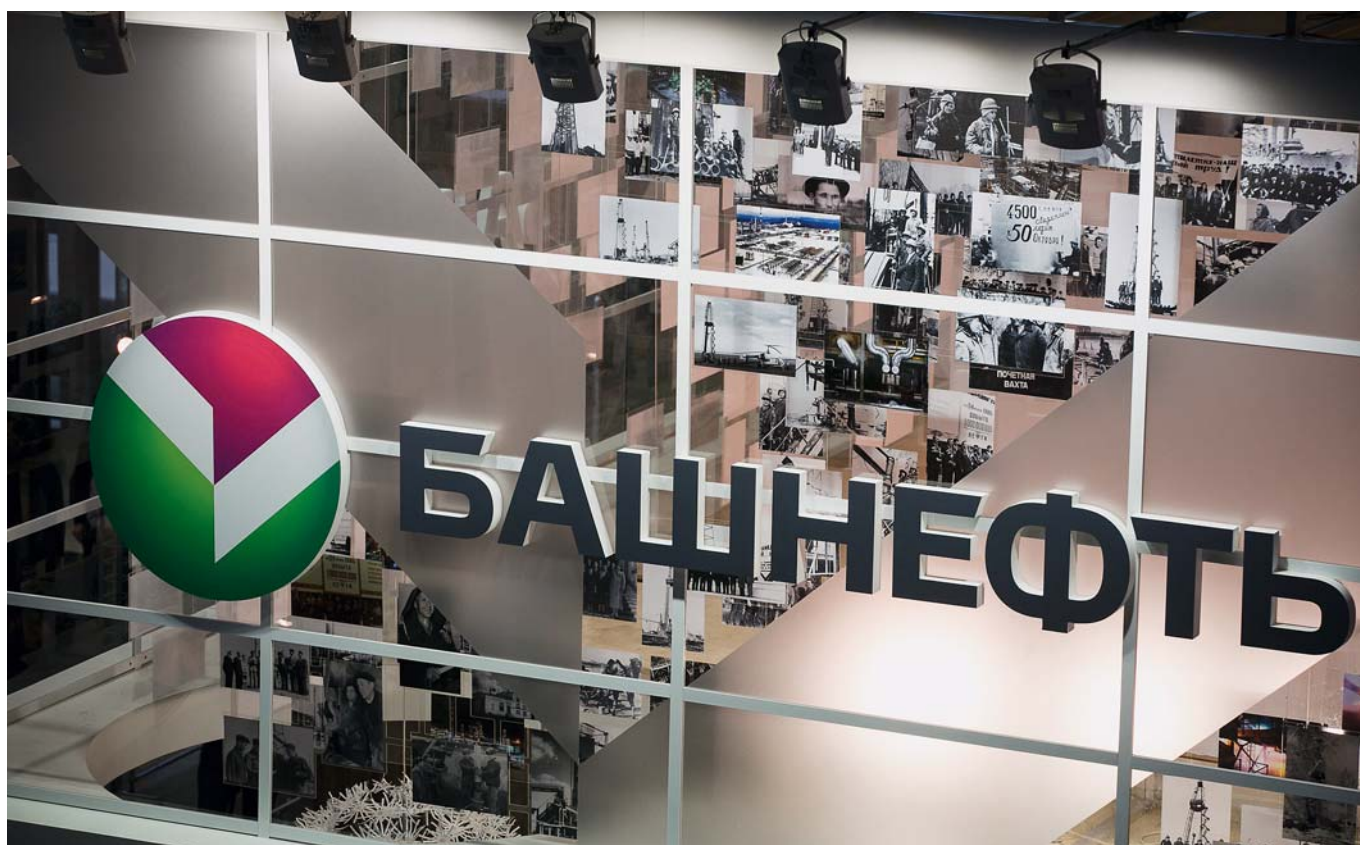
STRATEGIC PRIORITIES IN CORPORATE GOVERNANCE

- To increase the Group's shareholder value by improving the corporate governance system, legal, ownership and organizational structures of a vertically integrated company
- To improve market perception of the Group's business via information disclosure
- To improve the integrated personnel management and incentive system
- To ensure asset protection



MAIN AREAS OF CORPORATE GOVERNANCE POLICY

- Unconditionally respecting and protecting the rights of shareholders and investors
- Introduction of uniform management standards across the Group's business units and subsidiaries
- Improvement of the Group's information policy and internal audit/control systems
- Implementation of the principles of openness and transparency
- Constructive cooperation with the Group's investors, employees and business partners
- Active implementation of the best practices of corporate governance



Internal documents regulating individual procedures, principles and practice of corporate conduct are available on Bashneft's website (http://www.bashneft.ru/shareholders_and_investors/charter/)

- Regulations on the General Meeting of Shareholders
- Regulations on the Board of Directors
- Regulations on the Committees of the Board of Directors
- Regulations on the Management Board
- Regulations on the President
- Regulations on the Audit Commission
- Regulations on the Corporate Secretary
- Regulations on Information Policy
- Regulations on Insider Information
- Regulations on Dividend Policy
- Regulations on Rewards and Compensation to the Members of the Board of Directors

- Regulations on Rewards and Compensation to Members of the Audit Commission
- Code of Corporate Governance
- Code of Ethics
- Anti-Corruption Policy

The Company follows fully or partly 94% of the recommendations of the Corporate Governance Code of the Central Bank of the Russian Federation and pays high attention to introduction of the instruments recommended by it and its best practices to the Group's operations. Within the reporting year the Group succeeded in raising this level significantly versus the previous year (86%) through the improvement of performance of the Board of Directors' Committees, updating of a number of internal documents and upgrading of corporate procedures.



OUR RESPONSIBILITY

We adhere to most of the key principles formulated in the Code of Corporate Governance.



94%

share of recommendations of the Corporate Governance Code fully or partially observed by the Group.



For more information on the observance of the Code of Corporate Governance, see Appendix 2 'Information on compliance of the joint-stock company with the principles and recommendations set out in the Code of Corporate Governance approved by the Bank of Russia'.

Observance of the principles of the Code of Corporate Governance²

| Section | Principles recommended in the Code | Principles fully observed by the Group | Principles partially observed by the Group | Principles not observed by the Group |
|---|------------------------------------|--|--|--------------------------------------|
| Shareholders' rights and equitable treatment of shareholders exercising their rights | 13 | 12 | 1 | – |
| Board of Directors of the company | 38 | 30 | 4 | 4 |
| Corporate secretary of the company | 2 | 2 | – | – |
| System of remuneration for members of the board of directors and executive bodies and other key executives of the company | 10 | 8 | 1 | –* |
| Risk management and internal control system | 6 | 3 | 3 | – |
| Disclosure of information on the company; information policy of the company | 7 | 5 | 2 | – |
| Significant corporate actions | 5 | 3 | 2 | – |
| Total | 81 | 63 | 13 | 4* |
| | 100% | 78% | 16% | 5% |

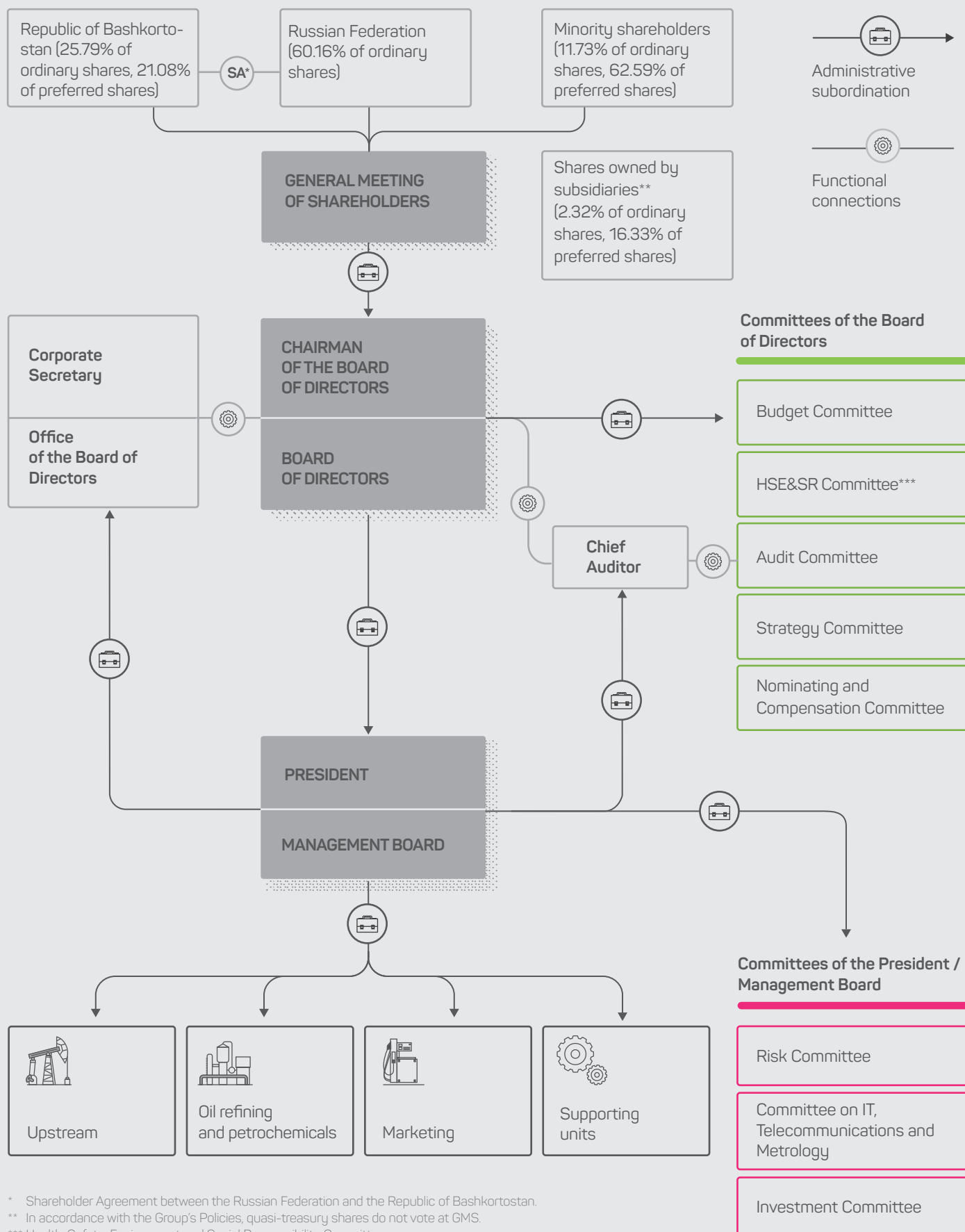
*The wording of paragraph 4.2.2 isn't applicable to the Company, because the operating policies of PJSC Bashneft do not allow the members of the Board of Directors to own shares of the Company.

1. The English versions of the Group's Charter and internal documents are also available on Bashneft's website.

2. The statistical data are taken from a report on compliance with the principles and recommendations of the Code of Corporate Governance prepared in accordance with recommendations of the Moscow Exchange

(Appendix 2 of the Annual Report). Principles of the Code partially observed by the Group: paragraphs 1.1.6, 2.1.3, 2.3.2, 2.7.4, 2.8.5, 4.3.1, 5.1.1, 5.1.2, 5.1.4, 6.1.1, 6.1.2, 7.1.2, 7.2.2. Principles of the Code not observed by the Group: 2.4.3, 2.4.4, 2.5.1, 2.9.2.

STRUCTURE OF BASHNEFT'S GOVERNING AND SUPERVISORY BODIES



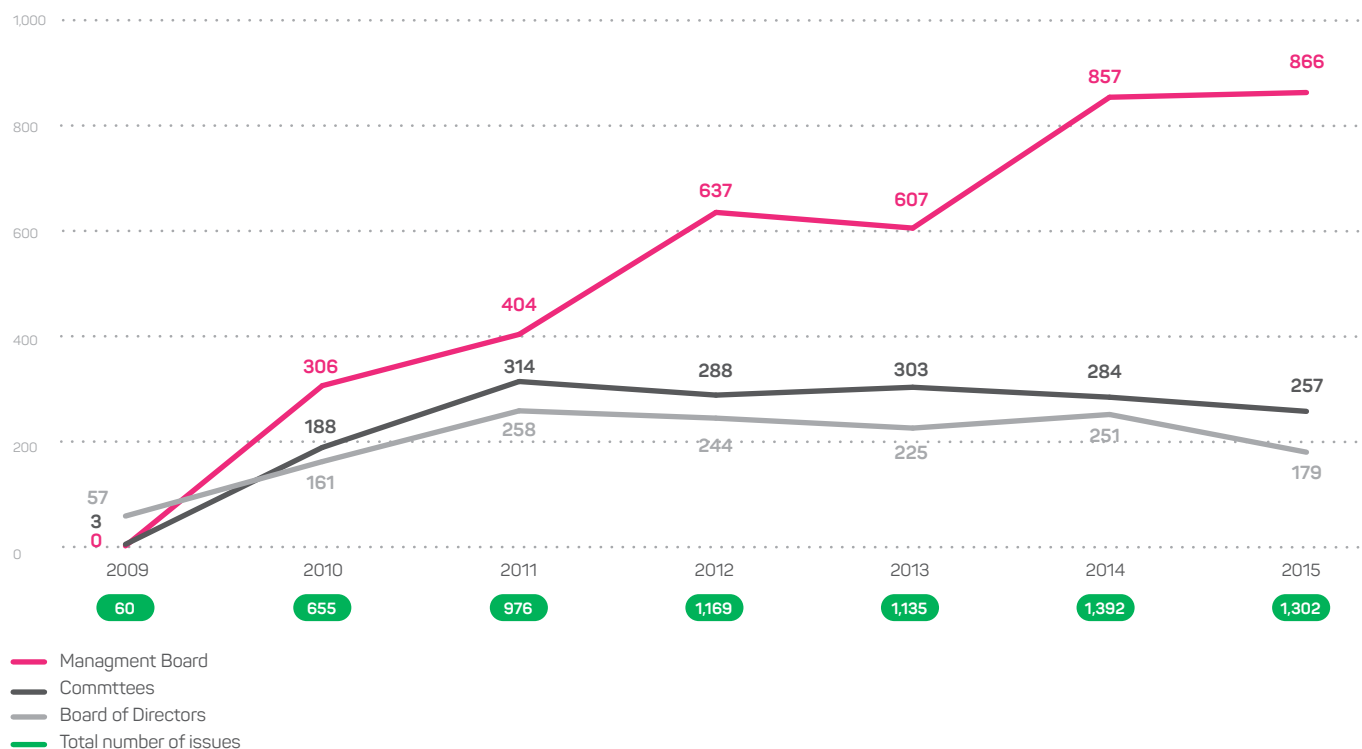
* Shareholder Agreement between the Russian Federation and the Republic of Bashkortostan.

** In accordance with the Group's Policies, quasi-treasury shares do not vote at GMS.

*** Health, Safety, Environment and Social Responsibility Committee.

| Governing bodies | |
|--|---|
| General Meeting of Shareholders | <p>PJSOC Bashneft's supreme governing body.</p> <p>The procedure for holding the General Meeting of Shareholders fully ensures the rights of all shareholders.</p> <p>The procedure for preparing, convening, holding and announcing the outcome of the General Meeting of Shareholders of PJSOC Bashneft is established by the Regulations on the General Meeting of Shareholders (a new version was approved under the resolution of the Extraordinary General Meeting of Shareholders (Minutes No. 43 dated December 1, 2015).</p> |
| Board of Directors | <p>The Board of Directors is responsible for the general management of PJSOC Bashneft's operations.</p> <p>The Board of Directors safeguards and facilitates exercising of the rights of shareholders, supervises the development and analyses the corporate strategy and the long-term development programme and monitors their implementation, participates in establishing effective internal control over the Group's financial and business operations and creating the risk management system, determines the main parameters of the business plan and supervises its implementation, determines the governance system in subsidiaries, ensures timely and complete disclosure of comprehensive and reliable information on the Group's operations and makes decisions on the core projects and major transactions.</p> <p>The procedure for forming the Board of Directors, its status, membership, functions, aims and objectives, its powers, the procedure for its work and cooperation with other governing bodies of PJSOC Bashneft are stipulated in the Company's Charter and the Regulations on the Board of Directors (approved under the resolution of the General Meeting of Shareholders of JSOC Bashneft (Minutes No. 33 dated June 27, 2013).</p> <p>Certain procedural issues related to the work of the Board of Directors are governed by the Rules on the Meetings of the Board of Directors of PJSOC Bashneft (a new version was approved under the resolution of the Board of Directors on October 2, 2015).</p> |
| Management Board | <p>A collective executive body responsible for the day-to-day management of PJSOC Bashneft and supervision of core businesses of its subsidiaries.</p> <p>It ensures the implementation of business plans and investment programmes, resolution of financial and legal issues; it is also responsible for economic and information security and preliminary consideration of large innovation and investment projects, and coordinates cooperation with the subsidiaries.</p> <p>Meetings of the Management Board are normally held once a week exclusively on a face-to-face basis. The Management Board is chaired by the President of PJSOC Bashneft.</p> <p>The work of the Management Board is governed by applicable legislation, the Charter of PJSOC Bashneft and the Regulations on the Management Board (approved under the resolution of the General Meeting of Shareholders of JSOC Bashneft (Minutes No. 19 dated November 25, 2009).</p> |
| President | <p>A sole executive body responsible for managing current operations in order to ensure PJSOC Bashneft's profitability and competitiveness, its financial and economic sustainability, as well as to ensure the shareholders' rights and social guarantees for the employees.</p> <p>Since 2011, Alexander Korsik has been the President of PJSOC Bashneft. Under the resolution of the Company's Board of Directors dated March 25, 2014, Alexander Korsik was reappointed as the Company's President for a new term (for three years).</p> <p>The President acts within his competence as stipulated in the Charter and the Regulations on the President (approved under the resolution of the General Meeting of Shareholders of JSOC Bashneft (Minutes No. 19 dated November 25, 2009), and is accountable to the Board of Directors and the General Meeting of Shareholders.</p> |
| Supervisory bodies (divisions) | |
| Audit Commission | <p>The Audit Commission is a standing elected body which periodically monitors PJSOC Bashneft's financial and business operations, as well as the work of its governing bodies and executives.</p> <p>The work of the Commission is regulated by the Charter and the Regulations on the Audit Commission of PJSOC Bashneft (a new version of the Regulations was approved under the resolution of the General Meeting of Shareholders of PJSOC Bashneft (Minutes No. 42 dated June 30, 2015).</p> |
| Audit Committee of the Board of Directors | <p>The Audit Committee is responsible for preliminary consideration of issues related to internal control and audit, consideration of the candidates and the results of the audit conducted by external auditors and participation in the risk management process, and prepares recommendations for the Board to decide on such matters.</p> <p>The work of the Committee is governed by the Regulations on the Audit Committee of the Board of Directors of PJSOC Bashneft.</p> |
| Chief Auditor | <p>The Chief Auditor is the head of the Internal Audit Unit.</p> <p>The Chief Auditor is administratively subordinate to the President of PJSOC Bashneft and functionally accountable to the Board of Directors and the Audit Committee.</p> |
| Internal Audit Unit | <p>The Internal Audit Unit comprises three internal audit departments: the Audit Department for Upstream Operations, and Internal Audit for Corporate Functions, Corporate Audit and Methodology Department.</p> <p>The work of the Internal Audit Unit is governed by the Regulations on the Internal Audit and regulations on divisions of the Unit.</p> |

Number of issues considered at the meetings of the governing bodies

CORPORATE GOVERNANCE QUALITY
AUDIT AND SELF-ASSESSMENT

From 2010 until 2015 the Group conducted an annual independent corporate governance quality audit (self-assessment) based on in-house guidelines; it helps to reveal the main drawbacks of existing corporate governance practice and promptly identify the key areas of improvement.

Due to the adoption of the Code of Corporate Governance approved by the Bank of Russia in 2014, starting from 2015 the Group has been using the recommendations provided in the Code as a basis for self-assessment and improvement of its corporate governance practice. This enables us to use the Code as a universal tool for analysing the practice adopted by PJSC Bashneft and benchmarking it against its competitors.

In addition, following the state policy of improving the quality of corporate governance in the largest public state-owned companies, in April 2015 the Board of Directors¹ authorized drafting a plan ('road map') for introduction of the Code of Corporate Governance of the Bank of Russia to the Company's operations. The Company analysed in detail all the Code recommendations

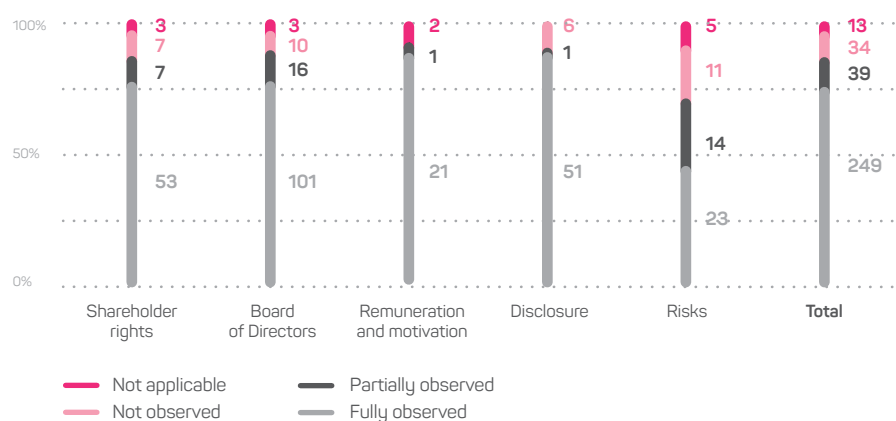
and drafted proposals for introduction of the provisions that are not currently implemented as required. Besides, meetings were held with representatives of the expert community for discussion of the Code introduction plan. Based on the work results, the Audit Committee approved a 'Road map' of the Code introduction in 2015–2018 providing for 40 events aimed at improving the level of corporate governance in a manner described by the Code. At the same time, 18 recommendations were found irrelevant or their introduction was found impracticable at this point in time. Once every six months, the Audit Committee keeps under review the 'Road map' implementation progress.

Because of the major changes in the Company's shareholders structure and the Board of Directors at the end of 2014 and beginning of 2015 the Group did not invite an external consultant to evaluate the corporate governance quality in the reporting period. At the same time, we pay great attention to an external assessment of the corporate governance quality conducted by independent companies (such as ISS), and we do our best to improve the corporate governance practices².

1. Resolution of the Board of Directors dated April 29, 2015
2. ISS assessment can be found at: <http://www.issgovernance.com/governance-solutions/investment-tools-data/quickscore/>. According to this assessment, the Group ranks in the top ten corporate governance leaders among forty Russian public companies assessed by ISS. A certain difference between the Group's corporate governance level assessment based on the Code of Corporate Governance and ISS assessment can be attributed to, first, lack of the Group's direct contact with ISS that would make it possible to supply additional comments on points at issue and, second, use of different methodology. The Group plans to enhance cooperation to this effect and expand scope of the information disclosure in English to improve the assessment.



Analysis results of compliance with the Bank of Russia's recommendations for Code of Corporate Governance (31.12.2015)



PJSOC BASHNEFT: ISS EVALUATION OF CORPORATE GOVERNANCE

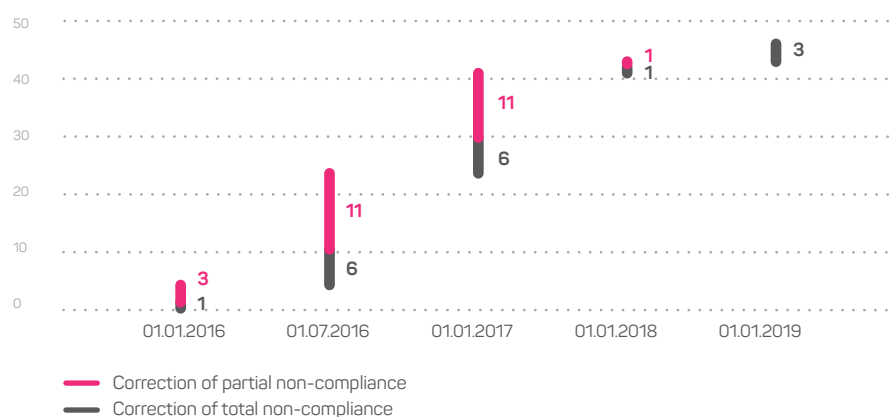
Overall assessment: 3

(1 is the lowest risk of corporate governance, 10 is the highest risk of corporate governance)

Evaluation of components:

Structure of the Board of Directors: 5
 Shareholders' rights: 6
 Remuneration: 5
 Audit and risk management: 5

Introduction of the Road map recommendations in 2015–2018


ISS

Latest evaluation update: March 16, 2016.

EXERCISE OF SHAREHOLDERS' RIGHTS



In December 2015, Bashneft and the Company's registrar, Ufa Branch of JSC Reestr, held the first consultative meeting for the Group's minority shareholders. The meeting was focused on issues related to the Group's dividend policy. At the meeting, the minority shareholders received detailed answers to questions that were of interest to them. The next meeting is scheduled for May 2016 as part of preparation for the Annual General Meeting of Shareholders.

As of the end of 2015, the number of PJSOC Bashneft's registered shareholders totalled 34,759 persons. The Group enables the shareholders to exercise their right to participate in governance by providing them with an opportunity to participate in meetings and vote on agenda items, including profit distribution, and with timely information on the Group's operations.

- Our corporate governance system safeguards the rights of shareholders and investors and ensures that all shareholders, including minority shareholders, are treated fairly when they exercise their right to participate in the management of the Group.
- We create conditions necessary for ensuring that the Group's governing bodies and controlling persons treat each shareholder fairly, including preventing abuse on the part of large shareholders with respect to minority shareholders.

- Shareholders are provided with reliable and effective methods to register ownership of shares and an opportunity to freely and quickly dispose of their securities.



Code of Corporate Governance. Principle 1.1. The company should treat all shareholders equally and fairly when they exercise their rights to participate in the management of the company.



Code of Corporate Governance. Principle 1.3. The corporate governance system and practice should provide for equal conditions for shareholders owning shares of the same category (type), including minority (small) shareholders and foreign shareholders, and equal treatment of them on the part of the company.



Code of Corporate Governance. Principle 1.4. Shareholders should be provided with reliable and effective methods to register ownership of shares and an opportunity to freely and quickly dispose of their shares.



SHAREHOLDERS' AGREEMENT OF PJSOC BASHNEFT

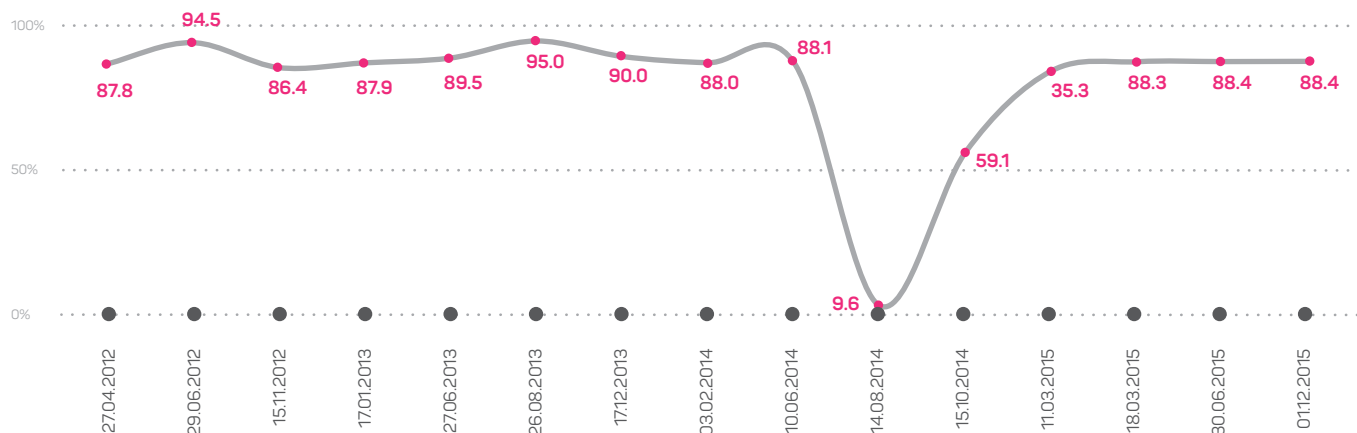
In September 2015, the Federal Agency for State Property Management (Rosimushchestvo) and the Republic of Bashkortostan signed a Shareholder Agreement on the Procedure for Managing and Voting with Shares of PJSOC Bashneft¹. The document establishes the principles and mechanisms of cooperation between the Russian Federation and the Republic of Bashkortostan on corporate governance of PJSOC Bashneft. The Shareholder Agreement came into force upon being signed and shall remain effective for an indefinite period of time.

Under the Agreement, the parties undertake to exercise shareholder rights in a coordinated manner in the course of preparation for and voting at general meetings of shareholders of PJSOC Bashneft and when voting at meetings

of the Group's Board of Directors on key issues related to the Group's operations. These include approval of its development strategy and its budget, determination of the size of recommended dividends, approval of major transactions, election of the Chairman of the Board of Directors, appointment of the Group's President and a number of other matters. Furthermore, the Agreement stipulates the parties' obligations related to the procedure for managing the Group's shares.

The parties also agree to take necessary steps, including voting accordingly at general meetings of shareholders, in order to ensure that dividend payments total no less than 25% of PJSOC Bashneft's net profit, unless a different amount is stipulated by the law of the Russian Federation or by decrees or instructions of the Russian Government.

1. Signed in accordance with Decree No. 317 of the President of the Russian Federation on Public Joint-Stock Oil Company Bashneft dated June 21, 2015. The full text of the Agreement is available on the website of the Ministry of Land and Property Relations of the Republic of Bashkortostan: http://mziorb.ru/novosti/podpisano_soglasenie_akcionerov_o_poryadke_rasporyazheniya_i_golosovaniya_akciyami_pao_ank_bashneft1/.

Quorum at General Meetings of Shareholders¹, %GENERAL MEETING OF
SHAREHOLDERS OF PJSOC
BASHNEFT

The Group has created good opportunities for the shareholders to participate in the General Meeting of Shareholders and conditions required for forming an informed opinion on all items of the agenda of a meeting, aligning the shareholders' actions, and opportunities for them to express their opinion on matters under consideration.

On December 1, 2015, the Extraordinary Meeting of Shareholders approved as amended the Regulations on the General Meeting of Shareholders of PJSOC Bashneft. It included the latest changes in the applicable laws and several recommendations of the Code of Corporate Conduct were implemented ahead of schedule. In particular, the period of accessibility of materials for the meeting was extended to 30 days, the list of available information was expanded, provisions were made for the Internet forum functioning for the period of preparation for the meeting, for copying/ authentication of completed voting ballots required for voting at the meeting and for placement of the General Meeting minutes on the Group's website as soon as possible after they are duly signed.

Convening and notifying of a meeting,
materials for the meeting

In the course of preparation for and holding of a General Meeting, the shareholders freely obtain information on the meeting and materials for it in a timely manner. Materials for a General Meeting are posted and stored on the Group's website

30 days before the Meeting and are publicly available, which means that any interested person can obtain all necessary information on the matters considered by the General Meeting. In addition, shareholders review materials for the meeting and have consultation on all items of the agenda 30 days before the General Meeting of Shareholders at the location of the Group and the Ufa branch of JSC Reestr². The materials are published both in Russian and in English. The list of materials contains the necessary rationale and comments on agenda items to enable the shareholders to form an objective opinion on the nature of proposed resolutions. We seek to ensure that materials for the General Meeting of Shareholders are presented in a comprehensible form and contain all necessary data (presentations, comparison of documents, detailed information on candidates since their nomination by shareholders).

The procedure for notifying of a General Meeting of Shareholders and providing materials for the meeting enables the shareholders to prepare for it properly. In the course of preparation for a General Meeting, corporate procedures and their schedule are established taking into account the interests of shareholders and investors.

Holding the General Meeting of
Shareholders

The shareholders can freely exercise their right to vote in the way that is the easiest and most convenient for them. Voting at General Meetings is held either by directly participating in the meeting or by filling out ballots concerning agenda items and sending them to the Company (and to its registrar).

1. At the GMS held on October 15, 2014, the quorum was lower due to the fact that the central item of the agenda was making decisions on related-party transactions involving the Group's controlling shareholders; for this reason, for the purposes of quorum only persons not otherwise involved had the right to vote and were counted.

2. Open seven days a week.



Annual General Meeting of Shareholders of PJSOC Bashneft
June 30, 2015

Face-to-face meeting
(Minutes No. 42 dated June 30, 2015)

The Annual General Meeting of Shareholders approved the 2014 Annual Report, the annual financial statements for 2014, approved the profit distribution, which includes declaring dividends for the 2014 reporting year, elected a new Board of Directors and a new Audit Commission of the Company, approved remuneration for the work of the members of the Board of Directors not being civil servants and approved the list of auditors of the Company.

The following documents were approved as amended: the Charter, the Regulations on Rewards and Compensation to Members of the Board of Directors of the Company, the Regulations on the Audit Commission of the Company, the Regulations on Rewards and Compensation to Members of the Audit Commission of the Company.

Extraordinary General Meeting of Shareholders of PJSOC Bashneft
March 11, 2015

Face-to-face meeting
(Minutes No. 40 dated March 11, 2015)

Resolutions were adopted on early termination of the powers of members the Company's Board of Directors and the Audit Commission and a new Board of Directors and Audit Commission of the Company were elected.

Extraordinary General Meeting of Shareholders of PJSOC Bashneft
March 18, 2015

By absentee voting
(Minutes No. 41 dated March 18, 2015)

The Extraordinary General Meeting of Shareholders resolved to reduce the Company's authorized share capital by redeeming the ordinary shares bought out by the Company and to approve as amended the Charter of PJSOC Bashneft.

Extraordinary General Meeting of Shareholders of PJSOC Bashneft
December 1, 2015

By absentee voting
(Minutes No. 43 dated December 1, 2015)

Resolutions were passed to approve as amended the Charter and Regulations on the General Meeting of Shareholders and to approve related-party transactions.

Due to changes in legislation allowing electronic voting at General Meetings, the Company is carefully considering the possibilities for organizing this form of participation in meetings.

General Meetings of Shareholders are organized and held in such a way as to provide easy access to them to all shareholders. General Meetings in the form of joint presence are held exclusively at the Group's location (in Ufa) at addresses making it convenient for the shareholders and their representatives to come and participate in a meeting in

person. A high quorum at meetings that are held (more than 88% of the owners of voting shares), as well as the number of minority shareholders participating in meetings show an increased attention of shareholders to governance issues of PJSOC Bashneft.

In 2015 the Company held four General Meetings of Shareholders: one Annual General Meeting and three Extraordinary General Meetings. At these meetings, financial statements for 2014 and new versions of the Charter and internal documents were approved and decisions

were made on the election of a new Board of Directors, on a reduction in the Company's authorized share capital through cancellation of treasury shares and on approval of transactions.

BOARD OF DIRECTORS OF PJSOC BASHNEFT



'In 2015 the Group's Board of Directors approved its Long-Term Development Programme and the Group's Strategy for the period from 2015 through 2020. The updated Strategy is aimed at achieving strong results for the benefit of all shareholders.'

Alexey Teksler,
Chairman of the Board of Directors
of PJSOC Bashneft

COMPETENCE OF THE BOARD OF DIRECTORS OF PJSOC BASHNEFT

The Company's Board of Directors plays the key role in organizing an efficient corporate governance system. The area of competence of the Board of Directors includes three main types of issues:

Obligatory issues

Issues within the exclusive competence of the Board of Directors in accordance with the Federal Law on Joint-Stock Companies.

Additional issues

Issues within the competence of the General Meeting of Shareholders delegated to the Board of Directors in accordance with the Charter of PJSOC Bashneft (establishment and dissolution of executive bodies, specific matters related to issue of securities).

Extended competence

Issues within the competence of executive governing bodies delegated to the Board of Directors in accordance with the Charter and internal documents of

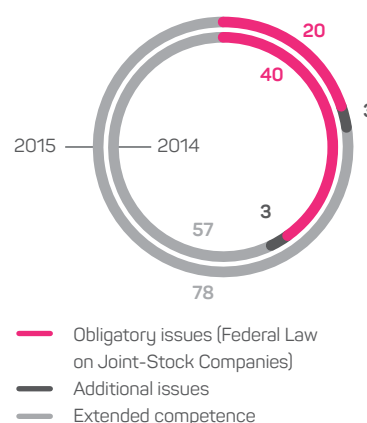
PJSOC Bashneft and resolutions of the Board of Directors:

- finance and investments;
- management of key business processes;
- supervision of major projects and transactions;
- management of core operations of subsidiaries;
- incentives and remuneration for senior managers;
- supervision of the work of top managers;
- internal control and risk management;
- market analysis;
- status reports on HSE measures;
- other matters.

A significant year-on-year change in the share of obligatory issues and issues pertaining to extended competence in 2015 was caused by the following factors:

- a decrease in the number of transactions considered by the Board of Directors;
- an increase in the number of issues considered on the initiative of Board members representing the Russian Federation in accordance with directives from the President of the Russian Federation or the Government of the Russian Federation.

Breakdown of competence of the Board of Directors of PJSOC Bashneft related to consideration of issues, %



Code of Corporate Governance. Principle 2.1, The board of directors is responsible for the strategic management of the company's business, establishing the key principles of and approaches to creating a risk management and internal control system in the company, for supervising the work of the company's executive bodies, and for performing other key functions.

REPORT ON THE WORK OF THE BOARD OF DIRECTORS

Board meetings are scheduled and are normally held monthly. The schedule includes six to eight face-to-face meetings (i.e. once every one and a half or two months on average, with participants attending the meeting in person or participating in a joint meeting via videoconferencing).

A work schedule of the Board of Directors is approved in December of the year preceding the year for which the schedule is prepared. As a rule, the work schedule covers the Group's core issues (strategy, finance, budget and risks, HR, etc.), consideration of which is aligned with the strategic planning and business planning cycle. In preparing the work schedule, suggestions made by the Board of Directors and the management are taken into account. The date, place and time of meetings are usually determined based on the schedule of the Board members, in order to enable all directors and speakers to participate in a meeting.

The agenda of each scheduled meeting of the Board of Directors includes three to five main strategic issues. To make decisions on urgent issues, extraordinary meetings may be convened.

During the quarterly joint (face-to-face) meetings, the Board of Directors reviews the consolidated results of budget implementation and key strategic initiatives (including benchmarking against competitors), the analysis of the situation in the stock market and a status report on HSE measures. During the joint meetings, the Board of Directors annually considers the questions of updating the Group's strategy and the long-term development programme, as well as a status report on the implementation of the core strategy,

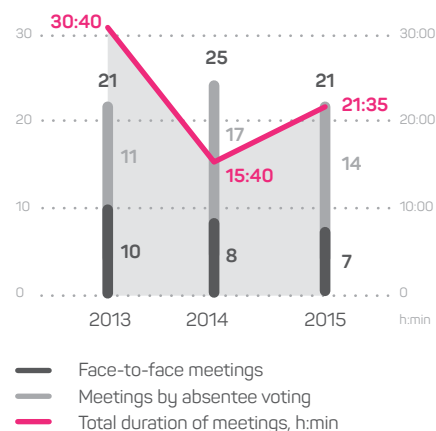
strategies of business areas and action plans in key areas.

As a rule, all items on the agenda of the Board of Directors are first considered by specialized committees in order to have a more detailed discussion and prepare voting recommendations for the Board of Directors. In the absence of the relevant committee's recommendations (if there is a need for such recommendations given the nature of the issue discussed by the Board), the item may be removed from the agenda (in order to be revised) at the suggestion of the Chairman of the Board of Directors.

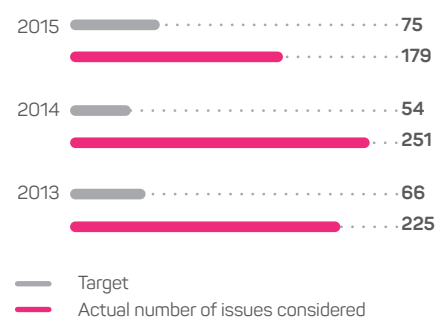
The Code determines a certain list of issues recommended for consideration at face-to-face meetings of the Board of Directors for their meaningful and detailed discussion¹. If we take the Code classification as a basis, in 2015, 44 out of 77 (57%) items were addressed at the face-to-face meetings (in 2014 it was 45 out of 88, which made it 51%²). The Company attempts to consider the recommendations of the Code when distributing items between in-person meetings and meetings by absentee voting. At the same time, items that are introduced for discussions by absentee voting are items on which the members of the Board of Directors and committees' representatives do not have substantive comments, as well as procedural matters (even if according to the Code such items should be formally addressed at face-to-face meetings as most of these exceptions pertain to commercial transactions and procedures for convening meetings). We believe that this approach enables a more efficient use of the competence and the time of the Board of Directors to enable the Board to develop and make key decisions.

In 2015 the Board of Directors held 21 meetings, including 7 face-to-face meetings and 14 meetings held by absentee vote.

Number of Board of Directors' face-to-face meetings and meetings by absentee voting



Number of items addressed at the meetings of the Board of Directors



Code of Corporate Governance. Principle 2.6. Members of the board of directors should act reasonably and in good faith in the interests of the company and its shareholders on the basis of sufficient information, exercising due diligence and care.

Code of Corporate Governance. Principle 2.7. Meetings of the board of directors, preparation for them and participation of members of the board of directors in the meetings should enable efficient work of the board of directors.



AUTOMATION OF THE WORK OF GOVERNING BODIES

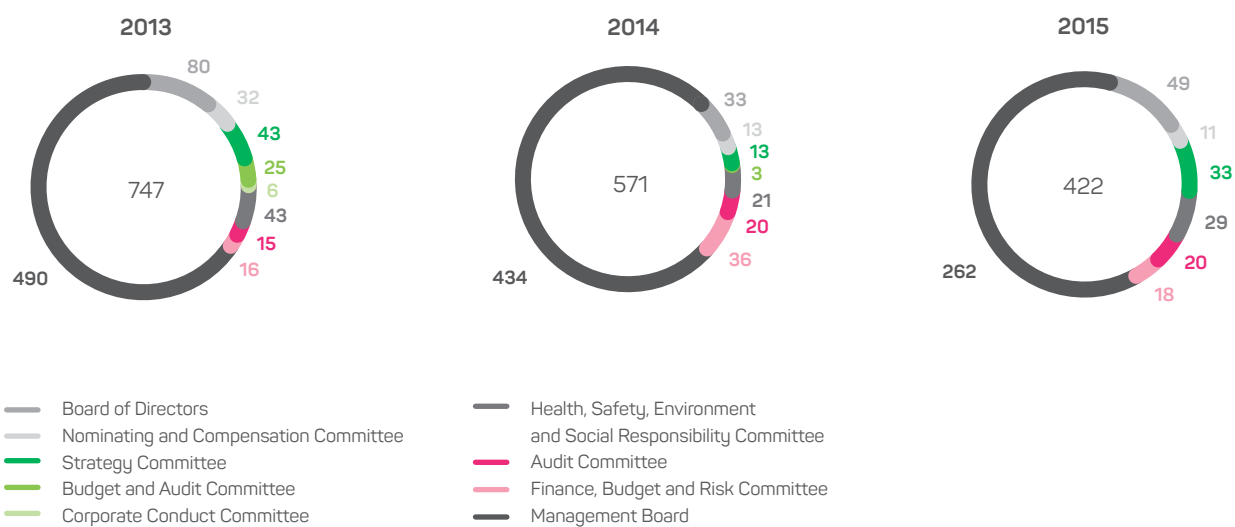
Starting from 2011, in the course of meetings of its governing bodies and committees, Bashneft has been using automated IT systems as widely as possible, as they enable a considerable improvement in organizational processes.

For instance, the amount of materials on each item on the agenda of the Board of

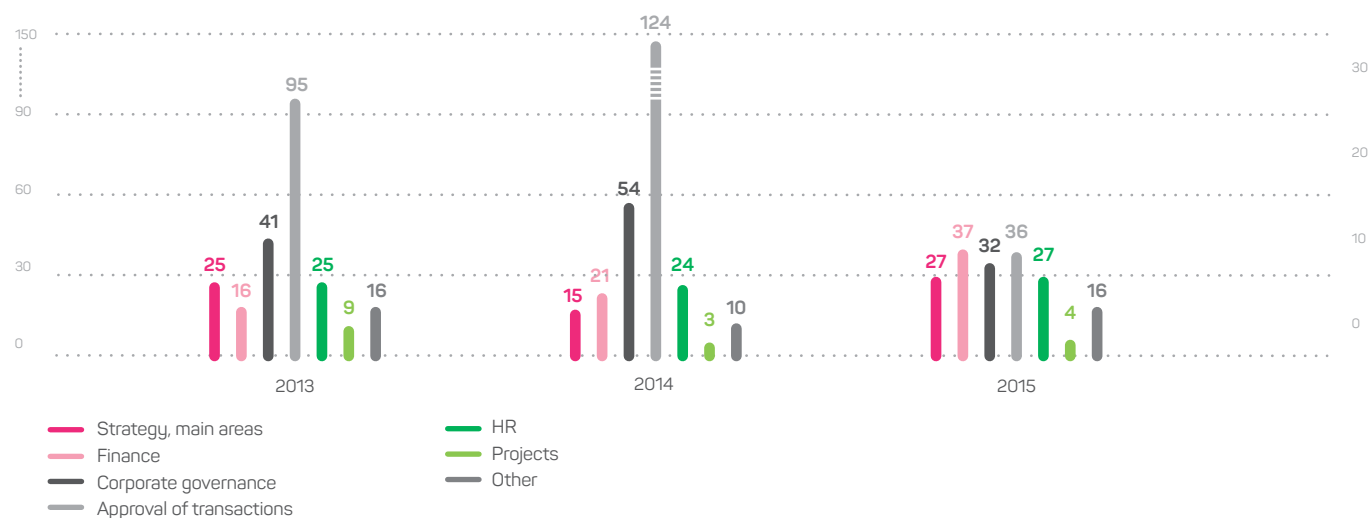
Directors, Committees or the Management Board totals about 15 pages; given the total number of issued considered (1,302 in 2015), materials provided to each person would make up a stack of A4 paper that would be 2.6 metres high and would weigh 31.2 kg, if all these materials were printed out rather than reviewed in electronic form, as is the case in the Group.

1. In accordance with paragraph 168 of the Code, they include the following: approval of the strategy, convening the GMS, election of the Chairman of the Board of Directors, approval of material transactions, consideration of material aspects of operations of subsidiaries and a number of other matters.
2. The Company considers transactions whose value exceeds 10% of the book value of its assets to qualify as material transactions which the Code recommends to review primarily at face-to-face meetings of the Board of Directors.

Number of instructions/recomendations given by governing bodies



Breakdown of issues considered at the meetings of the Board of Directors



In the 2015 corporate year, the Board of Directors considered 179 issues, with 75 issues included in the approved work plan of the Board of Directors for 2015. Additional issues considered by the Board of Directors during the year were related mainly to approval of transactions, corporate governance and HR.

In particular, the Board of Directors considered the following important issues:

- the Company's Strategy and Long-Term Development Programme;
- action plans in the sphere of audit, risk management, HSE, personnel management;
- consideration of the outcome of the Company's budget implementation;
- shareholdings (disposal of shareholdings) in other organizations;
- changes to the organizational structure of PJSOC Bashneft;
- approval of KPIs for top management and consideration of the results of their performance in the previous period;
- incentive programmes for employees of the Company and its subsidiaries;
- implementation of key investment projects;
- approval of PJSOC Bashneft's internal documents.

In 2015 the Board of Directors gave 49 instructions to the Company's management (compared with 33

instructions in 2014 and 80 instructions in 2013). At each face-to-face meeting, members of the Board of Directors are provided with a status update on the implementation of the Board's instructions (a similar practice is used with regard to instructions/recommendations given by committees of the Board of Directors). Proper implementation of instructions of the Board of Directors is one of the conditions for bonuses to be awarded to the Group's senior executives and employees.

In 2015 each member of the Board of Directors took an active part in the meetings of the Board of Directors and Board committees. Most members of the Board of Directors participated in all scheduled meetings of the Board of Directors and in the majority of unscheduled meetings.

Participation of members of the Board of Directors in the work of the Board of Directors and the committees in 2015

| Members of the Board of Directors | Independent director | Board of Directors (21 meetings) | Strategy Committee (9 meetings) | Nominating and Compensation Committee (11 meetings) | Budget Committee (7 meetings) | Audit Committee (10 meetings) | HSE&SR Committee (7 meetings) |
|-----------------------------------|----------------------|----------------------------------|---------------------------------|---|-------------------------------|-------------------------------|-------------------------------|
| D. Baudrand * | • | 2/2 | | | | | |
| Ch. Watson*** | • | 21/19(2) | 9/7(1) | 11/11 | 7/5(2) | 10/9(1) | 7/7 |
| Th. Winkler* | • | 2/2 | | | | | |
| S.A. Drozdov* | | 2/0 | | | | | |
| A.Yu. Goncharuk* | | 2/0 | | | | | |
| F.V. Evtushenkov* | | 2/2 | | | | | |
| A.L. Korsik*** | | 21/21 | 9/9 | | | | |
| V.V. Rozanov* | | 2/2 | | | | | |
| M.D. Cherniy* | | 2/2 | | | | | |
| M. Hecker* | | 2/2 | | | | | |
| E.A. Guryev** | | 19/17(2) | | | 7/6 | | |
| M. Dijols** | • | 19/19 | 9/5 | 11/11 | 7/4 | 10/10 | 7/7 |
| A. Considine** | • | 19/19 | 9/9 | 11/11 | 7/7 | 10/10 | 7/7 |
| R.Kh. Mardanov** | | 19/19 | | | 7/7 | | |
| V.Yu. Sergeychuk** | | 19/18(1) | 9/9 | | 1/1 | | |
| A.L. Teksler** | | 19/19 | 1/0 | | | | |
| V.P. Orlov** | | 19/19 | 9/8(1) | | | | |
| Yu.K. Shafranik** | | 19/17(2) | 9/9 | | | | |

* Members of the Board of Directors who served on the Board of Directors until the EGMS held on March 11, 2015

** Members of the Board of Directors who served on the Board of Directors since the EGMS held on March 11, 2015

*** A.L. Korsik and Ch. Watson served on the Board of Directors throughout the reporting year

Note: data in the table are presented in the '5/3(1)' format, which means that a person could participate in five meetings of a given committee (the Board of Directors), actually attended three meetings in person and participated in one more meeting by submitting a written opinion. If the number of meetings that a director could attend and the number of meetings that he actually attended are the same, this usually indicates that the director was actively involved in the work of the Board of Directors and/or a specific committee.

Reports of Board / committee members as part of discussion of issues during face-to-face meetings¹

| Board / committee members | BoD | SC | BC | AC | NCC | HSE |
|---------------------------|-----------------|----|----|----|-----|-----|
| A.L. Teksler | 70 | 0 | - | - | - | - |
| Ch. Watson | 14 | 19 | 7 | 37 | 39 | 34 |
| E.A. Guryev | 9 | - | 14 | - | - | - |
| M. Dijols | 16 | 7 | 6 | 37 | 41 | 34 |
| A. Considine | 24 | 37 | 21 | 37 | 39 | 34 |
| A.L. Korsik | 41 | 41 | - | - | - | - |
| R.Kh. Mardanov | 29 | - | 30 | - | - | - |
| V.P. Orlov | 21 | 22 | - | - | - | 32 |
| V.Yu. Sergeychuk | 20 | 23 | 6 | - | - | - |
| Yu.K. Shafranik | 13 | 62 | - | - | - | - |
| D.R. Kant Mandal | Is not a member | - | 11 | - | - | - |
| M.A. Lobanov | Is not a member | 10 | - | - | - | - |
| V.V. Mamin | Is not a member | 16 | 22 | - | - | - |
| E.V. Schekina | Is not a member | - | - | - | - | 4 |
| A.I. Karpukhin | Is not a member | 6 | | | | |

1. Based on the minutes of the meetings that record data on members of the Board of Directors or committees who participated in discussions of issues during face-to-face meetings.

The Group's budget for 2015 provided for involvement of external consultants for making analysis or recommendations for particular matters of the operations considered by the Board of Directors. But as there was no need for that, the Board of Directors did not involve external consultants.

Special features of the work of the Board of Directors of the Company as state-owned company

Corporate governance in state-owned companies has its own special features due to the special status of the principal shareholder represented by the Russian Federation and the Republic of Bashkortostan as a constituent of the Russian Federation. This manifests itself primarily in the following:

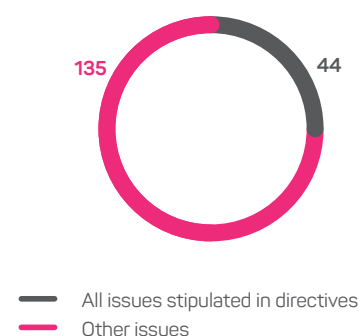
- civil servants are included in the Board of Directors as a rule representing a governmental authority (1) coordinating management of state-owned property and (2) an industry-specific authority (as applied to PJSC Bashneft, they are Federal Agency for State Property Management (Rosimushchestvo) and the Russian Ministry of Energy respectively);
- special relationship between a member of the Board of Directors representing the state ('professional appointee's and civil servants) and a shareholder: as a rule, such a member of the Board of Directors is supposed to take into consideration the shareholder's position and in certain cases take part in the voting and vote only as instructed by the shareholder (by virtue of directives by the Chairman of the Russian Government or his deputies)¹. Given the fact that out of ten members of the Board of Directors (including the Chairman of the Board of Directors) seven members represent the interests of the state, this means that in case of 'directive issues' decision-making is actually possible only if there exists an official formalized attitude maintained by the Chairman of the Government of the Russian Federation or his deputies;
- similarly, voting by the state representatives on matters addressed at the General Meeting of Shareholders of the Group takes place only if the Chairman of the Government of the Russian Federation or the Deputy Chairman of the Government of the Russian Federation has issued a relevant written directive;

- additional management tools are used with regard to the Group designed to improve its performance. In particular, the Board of Directors is supposed to address additionally matters of non-core asset management, approve Group's Long-Term Development Programme, procurement policies, consider methodological recommendations when approving a number of documents and making decisions (for example, pertaining to KPIs, internal documents, etc.);
- additional requirements for dividend policy and dividend payout apply to the Group (at least 25% of the net income for a reporting year);
- additional instruments of control are used with regard to the Group along with additional requirements pertaining to transparency of its business (e.g. as related to procurement and information disclosure).

The need for receiving directives for voting on certain issues has been reflected on the type of matters addressed by the Board of Directors. For example, the share of directive issues listed in paragraph 17 of the Russian Government's Resolution No. 738 dated December 3, 2014 that were addressed in 2015 accounted for 7.2% of the total issues addressed (13 out of 179), while the share of issues similar in nature addressed by the Board of Directors in 2014 totalled 14.7% (37 out of 251).

Despite the above mentioned features, they did not affect much the quality of work and performance of the Board of Directors in the reporting year, at the same time the Group readjusted rather quickly to the special nature of corporate governance in state-owned companies and took it into account when engineering its business processes.

Issues considered by the Board of Directors in 2015



1. The list of such issues consists of two main groups: (1) issues specified in paragraph 17 of the Regulations on Management of Joint-Stock Companies' Shares in Federal Ownership and Exercise of a Special Right by the Russian Federation to Participation in Management of Joint-Stock Companies ('golden share') (approved by the RF Government's Resolution No. 738 dated December 3, 2004), for example, establishment and dissolution of the Company's executive bodies, approval of major transactions, participation in other organizations, determination of agenda of the General Meeting of Shareholders, election of the Chairman of the Board of Directors; (2) issues in implementation of individual instructions by the Russian President or Government (as a rule, approval of individual internal documents, list of target performance indicators and some others).



ASSESSMENT AND IMPROVEMENT OF THE PERFORMANCE OF THE BOARD OF DIRECTORS¹

In accordance with the Company's Charter, the Board of Directors is accountable to the General Meeting of Shareholders; among other things, this entails the following:

- Members of the Board of Directors are elected under a resolution of the General Meeting of Shareholders; furthermore, the directors can be dismissed at any point in time under a resolution of the Meeting;
- The Board of Directors annually reports to the General Meeting of Shareholders on the Company's performance (when the Annual Report is considered at the Annual General Meeting);
- Members of the Board of Directors normally attend Annual General Meetings of Shareholders in person, which enables the shareholders attending the meeting to address them directly;
- When developing the Group's strategy, the Board of Directors takes into account the opinion of shareholders with regard to their vision of the Company's development.

The Chairman of the Board of Directors typically chairs General Meetings of Shareholders, where any shareholder can address him or put questions to him. In addition, any of the Company's

shareholders can make a report on items of the agenda or address the Chairman of the Board of Directors, which ensures that issues are considered with an appropriate level of objectivity.

Procedures for improving the performance of the Board of Directors include:

- assessing the performance of the Board of Directors and the committees;
- a system of teaching, training and professional development of the members of the Board of Directors.

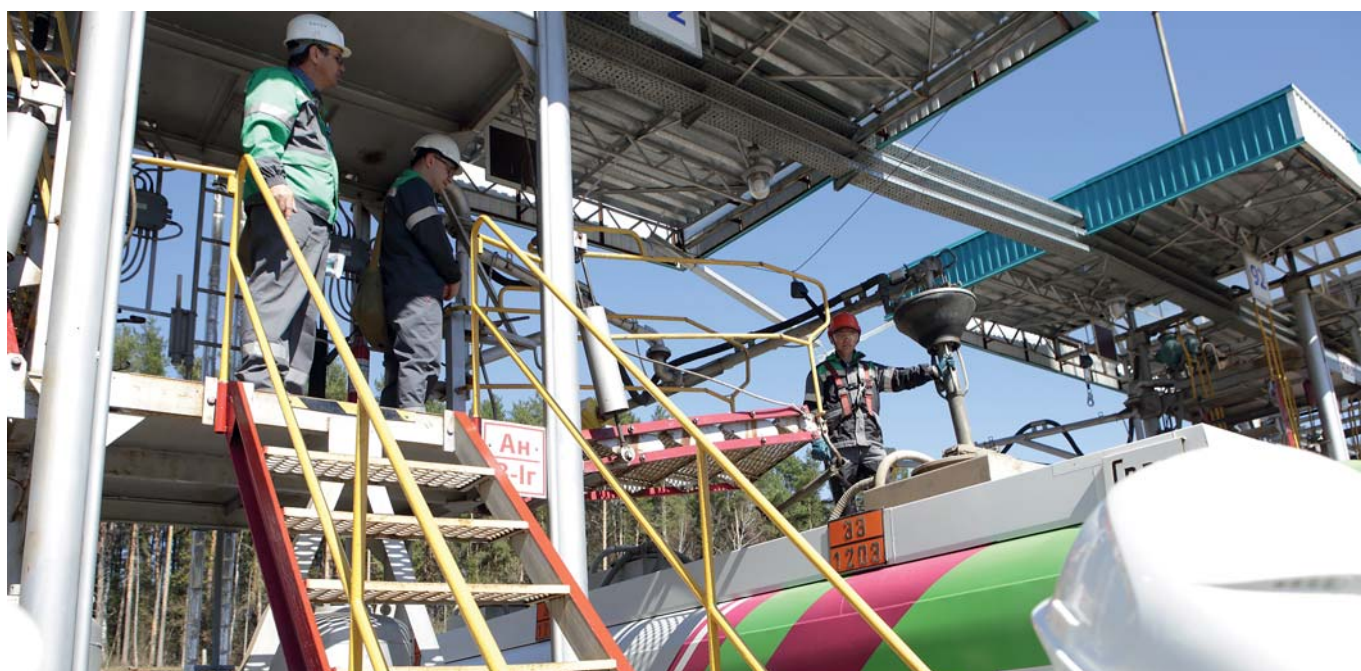
Starting from 2010, PJSOC Bashneft annually assesses the performance of its Board of Directors; the assessment covers the following key areas:

- membership and structure of the Board of Directors and the committees;
- procedure, planning and organization of the work of the Board of Directors and the committees;
- functional areas of the work of the Board of Directors and the committees;
- quality of organization of the Board's performance evaluation;
- individual assessment by a Board member of qualities and skills of other members using the '180 degrees' method (including performance evaluation of the Board Chairman and chairmen of the committees).



Code of Corporate Governance. Principle 2.9. The board of directors should arrange an assessment of performance of the board of directors, its committees and members of the Board of Directors.

1. This section focuses on assessment and improvement of the Company's Board of Directors' performance; it has been reviewed and approved by the Company's Board of Directors following a discussion of results of the self-assessment of the Board of Directors, the Committees and the Corporate Secretary (Minutes No. 04-2016 dated March 31, 2016).



Internal performance evaluation of the Board of Directors is conducted in the form of a survey using a questionnaire. Board members are invited to comment anonymously on more than 50 issues by assessing them on a four-point scale and to express their subjective opinion on the contribution of each of the other Board members and the Corporate Secretary to the performance of the Board and the committees.

The internal evaluation process is coordinated by the Corporate Secretary of PJSOC Bashneft. The results of evaluation are summarized in order to identify issues which require an improvement in the practice of organizing the work of the Board and Board committees, as well as development of an action plan in this area. The results of individual assessment of the members of the Board of Directors and performance evaluation of the Chairman of the Board of Directors by independent directors taking into account the recommendations received are summarized and brought to the attention of the Chairman of the Board of Directors.

As the new Board of Directors was elected in March 2015, and 8 out of 10 members were elected for the first time, at the meeting on June 30, 2015 the Board of Directors resolved that at that point it was yet impractical to evaluate externally the work of the Board of Directors. Self-evaluation was postponed to December 2015, so that by the time of the evaluation the members would have their opinions formed on the key issues to be analysed.

In spite of significant membership changes in the Board of Directors, its work was organized in such a way as to include the basic recommendations developed from the self-evaluation by members of the previous Board of Directors (particularly, related to forming a number of committees comprising independent directors only; related to the committees' competence, to participation of members of the Board of Directors in the strategy development and in IR and PR events).

Self-assessment of the performance of the Board of Directors took place in December 2015 and January 2016 and involved the use of anonymous electronic questionnaires. The results of the self-assessment were reviewed at the meetings of the Nominating and Compensation Committee and the Board of Directors. As a result of the meetings, the following recommendations were made:

- for the Board of Directors to be more focused on some issues (strategic management, commercial activities, projects, internal control);
- to come up with recommendations for measures aimed at enhancing the performance of the Board of Directors, including raising their awareness of certain specific issues (involving recognized experts);
- to arrange additional on-site visits to key production facilities of the Group and its subsidiaries for directors;



The Audit Committee and the Nominating and Compensation Committee of the Board of Directors comprise only independent directors

- to update information on the experience gained by leading companies in certain matters to make use of it in the Company's operations;
- to arrange meetings of the Board of Directors and Committees in an optimized manner in order to get the most out of the comments on items on the agenda prior to the meetings and discuss there jointly only key issues;
- to strengthen cooperation of the independent directors with the Chairman of the Board of Directors in order to get the objective assessment of key issues pertaining to the activity of the Company and the Board of Directors;
- to keep up to date the self-evaluation system for the Company's Board of Directors.

The results of performance evaluation of the Board of Directors as a whole and of its members are taken into account:

- when allocating the powers and areas of business to be supervised by members of the Board of Directors;
- when forming committees of the Board of Directors (see the section 'Corporate Governance – Committees of the Board of Directors – Approach to forming the Board committees');
- when nominating candidates to a new Board of Directors in the course of preparation for the General Meeting of Shareholders whose agenda includes this question.

In order to improve the managerial and professional skills of the members of the Board of Directors, the Group implements the following measures:

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

- visits to production facilities of the Company and its subsidiaries.

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

DIRECTORS AND OFFICERS LIABILITY (D&O) INSURANCE

Since 2010, the Company has been arranging directors and officers liability insurance (including insurance for independent directors) for members of the Group's governing bodies. The insurance is aimed at recovering potential damage resulting from unintended wrongdoings/ omissions of insured persons in the course of their management activities.

The insurance premium under the contract concluded in 2015 amounts to US\$ 0.38 million, and the insurance coverage amounts to US\$ 250 million (with an additional insurance coverage of US\$ 1 million for each independent director).

Parameters of the insurance contract, including the amount of the insurance coverage, correspond to the best international practices of insurance against such risks.

MEMBERSHIP OF THE BOARD OF DIRECTORS

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

When selecting candidates for the positions of non-executive directors, the Board of Directors and representatives of the major shareholders usually take into account the necessity of nominating to the Board of Directors individuals with profound professional knowledge and



LIABILITY INSURANCE

Liability insurance helps to reduce potential risks resulting from wrongdoings committed by executives, and to reduce certain related expenses if an insured event occurs.



OPTIMAL COMPOSITION OF THE BOARD OF DIRECTORS

The number of members of the Board of Directors is optimal for achieving the Group's current targets and objectives and complying with industry practice, making it possible to maintain the necessary balance of competences of the Board members and at the same time to avoid difficulties inherent in the functioning of boards of directors comprising a large number of members.



An independent director of the Group spends an average of about 20 full days per year in Russia (in Moscow, Ufa, Naryan-Mar, Tyumen, etc.) due to the necessity of participating in face-to-face meetings of the Board of Directors and its Committees. In addition, another 12 to 14 days are spent on participation in face-to-face meetings of Committees via videoconferencing.

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

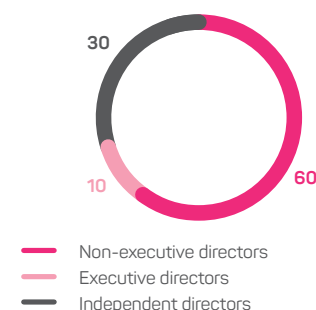
Members of the Board of Directors are elected under a transparent procedure enabling shareholders to obtain information about the candidates which is sufficient to form an opinion about their personal and professional qualities. Information about candidates nominated to the Board of Directors is posted in the Russian and English languages on the Group's website and made publicly available at least 30

days prior to the General Meeting of Shareholders whose agenda includes the election of the Board of Directors. Shareholders are also provided with information as to whether the candidate owns the Company's shares, on the initiator of nomination, and information as to whether the candidate serves on the governing bodies of other companies; this enables shareholders to form an opinion about the nominee and make an informed decision when voting.



Code of Corporate Governance. Principle 2.3. The board of directors should be an effective and professional governing body of the company, able to make objective independent judgments and make decisions in the interests of the company and its shareholders.

Membership of the Board of Directors of PJSOC Bashneft as of December 31, 2015



| Member of the Board of Directors | Duration of service on the Board of Directors | Work experience in the oil and gas industry | Key competences | | | | | | | |
|----------------------------------|---|---|-----------------|-------------------|--|---------------------------------------|-----------------|-----|-----------------|-------|
| | | | Strategy | Finance and audit | Industry-specific issues (oil and gas) | Legal issues and corporate governance | Human resources | HSE | Risk management | GR/IR |
| A.L. Teksler (Chairman) | Since March 2015 | 3 years | • | • | | | • | • | | • |
| E.A. Guryev | Since March 2015 | 2 years | | • | | • | | | | • |
| M. Dijols | Since March 2015 | 38 years | • | | • | | • | | | |
| A. Considine | Since March 2015 | 33 years | • | • | • | • | | • | • | |
| R.Kh. Mardanov | Since March 2015 | 1 year | • | • | | | • | | | • |
| V.P. Orlov | Since March 2015 | 47 years | • | • | • | | | • | | • |
| V.Yu. Sergeychuk | Since March 2015 | 1 year | | • | | • | | | • | • |
| Yu.K. Shafranik | Since March 2015 | 41 years | • | • | • | | | • | | • |
| A.L. Korsik | 6 years (since December 2009) | 20 years | • | | • | | • | | | • |
| Ch. Watson | 3 years (since June 2012) | 33 years | | • | | | | • | • | |

BOARD OF DIRECTORS

Information on the members
of the Board of Directors as
of December 31, 2015



ALEXEY TEKSLER

**Chairman of the Board of Directors of PJSOC
Bashneft**

Non-executive director

Born in 1973 in Chelyabinsk.

Graduated with honours from Norilsk State Industrial Institute with a degree in Economics and Management in the Metals Industry as a planning engineer in 1995.

WORK EXPERIENCE:

2009–2011 – General Director of JSC Mining and Metallurgical Complex Kazakhaltyn.

2011–2013 – Managing Director and Head of CJSC Polyus Gold Mining Company.

2013–2014 – Deputy Minister of Energy of the Russian Federation.

Since November 2014 – First Deputy Minister of Energy of the Russian Federation.

Member of the Board of Directors of PJSC Federal Testing Centre.

Citizenship: Russian.

Was first elected to the Board of Directors of PJSOC Bashneft by the Extraordinary General Meeting of Shareholders on March 11, 2015.



ALEXANDER KORSIK

Executive director

Member of the Strategy Committee

Born in 1956 in Minsk.

Graduated from the Bauman Moscow State Technical University with a degree in Automatic Control Systems in 1979.

WORK EXPERIENCE:

2009–2011 – Senior Vice President of OJSC JSFC Sistema, Head of the Fuel and Energy Business Unit of OJSC JSFC Sistema.

2011 – present – President and Chairman of the Management Board of PJSOC Bashneft.

Citizenship: Russian.

Was first elected to the Board of Directors of PJSOC Bashneft by the Extraordinary General Meeting of Shareholders on November 25, 2009.



ANTHONY CONSIDINE

Independent director
Chairman of the Audit Committee
Member of the Budget Committee
Member of the Strategy Committee
Member of the Nominating and Compensation Committee
Member of the Health, Safety, Environment and Social Responsibility Committee

Born in 1954 in Dublin (Ireland).
Graduated from the University of London with a degree in Mineral Processing. Bachelor of Science.

WORK EXPERIENCE:

2010–2011 – President of North West Infrastructure in Perth (Australia).
Since March 2012 – head of Considine Solutions, Perth, Australia.
1996–2008 – Director of BP South Africa and Tanzania, Director of TNK-BP Management, Chairman of TMC International.
Chairman of the Board of Directors of Considine Solutions, Ecostruct Homes Pty Ltd.
Citizenship: Irish.
Was first elected to the Board of Directors of PJSOC Bashneft by the Extraordinary General Meeting of Shareholders on March 11, 2015.



MAURICE DIJOLS

Independent director
Chairman of the Nominating and Compensation Committee
Member of the Budget Committee
Member of the Strategy Committee
Member of the Audit Committee
Member of the Health, Safety, Environment and Social Responsibility Committee

Born in 1951 in Paris (France).
Graduated from the Ecole Supérieure d'Electricité de Paris (Supélec) and the Ecole d'Ingenieur de Marseille with a degree in Engineering in 1973.

WORK EXPERIENCE:

2003–2011 – President of Schlumberger Russia.
2011 – member of the Advisory Board for Land Seismic Surveys of a joint venture established by Schlumberger and Integra.
Member of the Board of Directors of C.A.T. oil AG, Ruspetro.
Citizenship: French.
Was first elected to the Board of Directors of PJSOC Bashneft by the Extraordinary General Meeting of Shareholders on March 11, 2015.



CHARLES WATSON

Independent director
Chairman of the Health, Safety, Environment and Social Responsibility Committee
Member of the Budget Committee
Member of the Strategy Committee
Member of the Nominating and Compensation Committee
Member of the Audit Committee

Born in 1954 in Zomba (Malawi).
Graduated from Kings College (UK) with an engineering degree in 1976, and obtained an MBA degree at INSEAD business school in France.

WORK EXPERIENCE:

2007 – 2009 – General Director of Shell Energy Europe.
2009 – 2011 – Executive Vice President for Shell in Russia and the Caspian Region, Chairman of the Board of Directors of Sakhalin Energy Investment Company and a Board Director of Salyem Petroleum Development.
Non-executive member of the Board of Directors of Taipan Resources inc., Kaz Mineral Plc (FTSE 250).
Citizenship: UK.
Was first elected to the Board of Directors of PJSOC Bashneft by the Annual General Meeting of Shareholders on June 29, 2012.

BOARD OF DIRECTORS

Information on the members of the Board of Directors as of December 31, 2015



VIKTOR ORLOV

Non-executive director

Member of the Strategy Committee

Member of the Health, Safety, Environment and Social Responsibility Committee

Born in 1940 in Chernogorsk, Khakas Autonomous Region.

Graduated with honours from the Faculty of Geology of Tomsk State University with a degree in Geological Engineering in 1968.

Doctor of Economics. Candidate of Geological and Mineralogical Sciences.

WORK EXPERIENCE:

2001–2012 – member of the Council of the Federation of the Federal Assembly of the Russian Federation (Chairman of the Committee on Natural Resources and Environmental Protection of the Council of the Federation).

Since 1998 – President of Non-Governmental Organization Russian Geological Society.

Member of the Board of Directors of OJSC Kamchatgeologia, OJSC Novatek, OJSC Rosgeologia, CJSC Chek-SU.VK.

Citizenship: Russian.

Was first elected to the Board of Directors of PJSC Bashneft by the Extraordinary General Meeting of Shareholders on March 11, 2015.



VITALY SERGEYCHUK

Non-executive director

Member of the Strategy Committee

Born in 1984 in Chernobyl-2, Ukrainian SSR.

Graduated with honours from the Faculty of Economics of Lomonosov Moscow State University with a degree in Economics in 2005.

WORK EXPERIENCE:

2012 – joined the state civil service and obtained the position of Deputy Head of the Department of Sales and Pre-Sale Preparation of Privatized Property at the Federal Agency for State Property Management.

2012–2013 – Deputy Head of the Department of Property Relations and Privatization of Major Enterprises at the Federal Agency for State Property Management.

Since July 2013 – Head of the Department of Property Relations and Privatization of Major Enterprises at the Federal Agency for State Property Management.

Member of the Board of Directors of OJSC NMTP and OJSC Rostelecom.

Citizenship: Russian.

Was first elected to the Board of Directors of PJSC Bashneft by the Extraordinary General Meeting of Shareholders on March 11, 2015.

**YURY SHAFRANIK**

Non-executive director
Chairman of the Strategy Committee

Born in 1952 in the village of Karasul, Tyumen Region.

Graduated from the Tyumen Industrial Institute with a degree in Electrical Engineering, Automation and Telemetry in 1974; obtained a qualification in mining engineering, technology and integrated mechanization of development of oil and gas fields in 1980. Doctor of Economics.

WORK EXPERIENCE:

1993–1996 – Minister of Fuel and Energy of the Russian Federation.

Since 2001 – Chairman of the Board of the Union of Oil and Gas Producers of Russia.

Chairman of the Board of Directors of CJSC Inter-State Oil Company Soyuzneftegaz, CJSC Public Institution Institute of Energy Strategy and CJSC Siberian Service Company. Member of the Board of Directors of JSC Southern Oil Company.

Citizenship: Russian.

Was first elected to the Board of Directors of PJSC Bashneft by the Extraordinary General Meeting of Shareholders on March 11, 2015.

**EVGENY GURYEV**

Non-executive director
Member of the Budget Committee

Born in 1971 in Birs, Bashkir ASSR.

Graduated from Bashkir State University with a degree in Jurisprudence in 1996.

Obtained a qualification in Finance and Credit at the All-Russian Distance Institute of Finance and Economics in 1999. Candidate of Jurisprudence.

WORK EXPERIENCE:

2007–2014 – Executive Director and Head of the Regional Directorate in the Volga Region, Chief Executive Officer and Deputy Chairman of the Management Board at OJSC URALSIB.

Since 2014 – Minister of Land and Property Relations of the Republic of Bashkortostan.

Member of the Board of Directors of OJSC Bashkiravtodor, OJSC Bashkir Soda Company, OJSC Bashspirt, OJSC Gazprom gazoraspredelenie Ufa, OJSC Zirgan Machinery Depot, OJSC Ufa International Airport, OJSC POLIEF and JSC Regional Fund.

Citizenship: Russian.

Was first elected to the Board of Directors of PJSC Bashneft by the Extraordinary General Meeting of Shareholders on March 11, 2015.

**RUSTEM MARDANOV**

Non-executive director
Chairman of the Budget Committee

Born in 1964 in Ufa.

Graduated from Ufa State Aviation Institute. Candidate of Economics.

WORK EXPERIENCE:

2002–2013 – Chairman of the National Bank of the Republic of Bashkortostan.

2013 through November 2015 – First Deputy Prime Minister of the Government of the Republic of Bashkortostan.

Since November 2015 – Prime Minister of the Government of the Republic of Bashkortostan.

Member of the Board of Directors of JSC Regional Fund and OJSC Bashkir Register of Social Cards.

Citizenship: Russian.

Was first elected to the Board of Directors of PJSC Bashneft by the Extraordinary General Meeting of Shareholders on March 11, 2015.

ABOUT THE GROUP

As of December 31, 2015, none of the members of the Board of Directors owned shares of PJSOC Bashneft or shares or stakes in PJSOC Bashneft's subsidiaries. In 2015 members of the Board of Directors made no transactions in PJSOC Bashneft's shares.

None of the members of the Board of Directors were related to other persons who are members of PJSOC Bashneft's governing bodies and/or bodies supervising financial and business operations of PJSOC Bashneft.

In 2015 the Group did not grant loans (credits) to any members of the Board of Directors.

Changes in the membership of the Board of Directors in 2015

Until March 2015, the Company's Board of Directors comprised the following members: F.V. Evtushenkov (Chairman), D. Baudrand, A.N. Buyanov, Ch. Watson, Th. Winkler, A.Yu. Goncharuk, S.A. Drozdov, A.L. Korsik, V.V. Rozanov, M. Hecker and M.D. Cherniy.

Under the resolution of the Extraordinary General Meeting of Shareholders dated March 11, 2015, new Board members were elected: A.L. Teksler, E.A. Guryev, M. Dijols, A. Considine, R.Kh. Mardanov, V.P. Orlov, V.Yu. Sergeychuk, Yu.K. Shafranik; and the following Board members were re-elected: Ch. Watson and A.L. Korsik.

At the Annual General Meeting of Shareholders held on June 30, 2015, all of the said Board members were re-elected.

ROLE OF THE CHAIRMAN OF THE BOARD OF DIRECTORS AND INDEPENDENT DIRECTORS IN THE WORK OF THE BOARD OF DIRECTORS

Chairman of the Board of Directors

The main functions of the Chairman of the Board of Directors are determined by the Regulations on the Board of Directors and include the following:

- coordinating the Board's work;
- ensuring that agenda items are discussed openly and the opinion of all members of the Board is taken into account;

- identifying key issues to be addressed by the Board of Directors and selecting the meeting format that is most suitable for their discussion;
- representing the Board of Directors before shareholders, the Company's management and other stakeholders;
- making recommendations for the allocation of tasks among the members and committees of the Board of Directors.

In 2015 the Board of Directors was chaired by Alexey Teksler, a non-executive director, who did not sit on any of the Board committees. The Group believes that the fact that Alexey Teksler, Chairman of the Board of Directors, concurrently served on the board of directors of another company and served as the First Deputy Minister of Energy of the Russian Federation had no impact on his performance of functions and tasks related to management of PJSOC Bashneft's Board of Directors.

The competence and procedures of the Board of Directors, as well as existing corporate policies and procedures ensure that decisions on many issues can be passed by a simple majority vote of members of the Board of Directors. At the same time, the Chairman of the Board consults with all Board members on issues on the agenda and makes sure that the Board reaches a consensus on key issues.

INDEPENDENT DIRECTORS

Since independent directors were first elected to the Board of Directors in June 2010, their roles and opinions have been increasingly important. In 2015, three out of ten members of the Board of Directors were independent directors. All independent directors comply with substantial independence criteria, meaning that:

- they are not in any way connected with competitors, major counterparties or with any major shareholders, management representatives or members of the Board of Directors;
- they do not receive any significant material remuneration from the Group or its affiliated persons (except for remuneration for serving on the Board of Directors);
- the duration of their directorship does not exceed an established time limit.

STRATEGY. EFFICIENCY. RESULTS



Code of Corporate Governance. Principle 2.5. The chairman of the board of directors should ensure that functions assigned to the board of directors are performed as efficiently as possible.



Code of Corporate Governance. Principle 2.4. An adequate number of independent directors should sit on the board of directors.



COMBATING INSIDER TRADING

Standards applied by the Group require strict control over transactions in PJSOC Bashneft's securities conducted by members of its governing bodies and by its executives, including members of the Board of Directors. It is prohibited to conduct transactions in PJSOC Bashneft's securities based on material information that is not publicly available and that has become known to a member of the Board of Directors by virtue of his or her status.

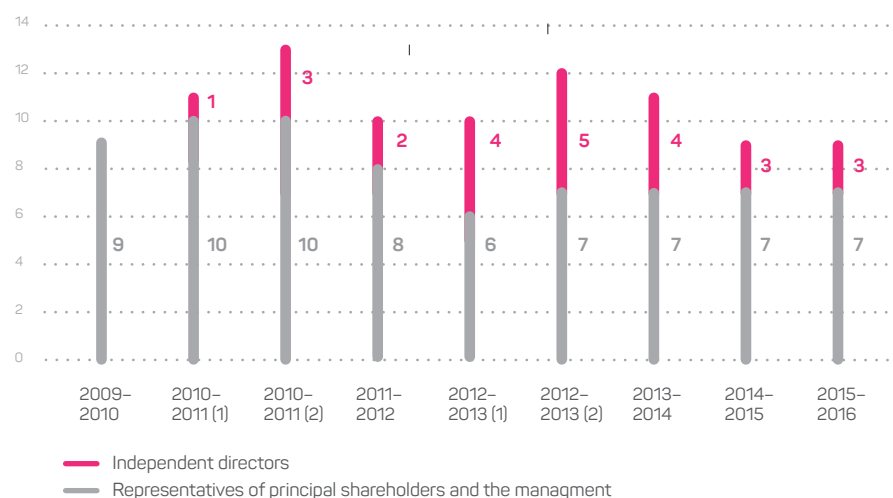


DIVERSITY

Although the share of women in the Group's governing bodies and committees is relatively small (2%), the Group uses efficient procedures for supporting career advancement of its employees regardless of their gender if their personal qualities and skills can benefit the Group (for instance, women account for 22% of the total number of heads of departments and 35% of the total number of the Group's employees).

Key requirements for candidates for positions in the Group's governing bodies include professionalism and experience. The Group's policies prohibit any discrimination on the basis of religion, age or on any other grounds.

Composition of the Board of Directors



The Board of Directors annually reviews its members in terms of their compliance with independence criteria and determines their status; this is typically done at the first meeting of the newly elected Board of Directors.

In 2015 the Chairman of the Board of Directors held a number of meetings with independent directors (in the absence of other directors or management representatives). They discussed issues which independent directors saw as areas of special concern, namely: investment activities, internal audit, a system of long-term incentives for the management, some aspects of the work of committees and other issues. In certain cases, following such meetings, the issues were then addressed at the Board meetings.

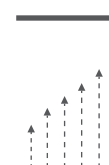
The Group has implemented and has been extensively practising meetings in the form of business dinners, which are usually held on the day before the Board meetings. Business dinner guests include independent directors, non-executive directors, the Group's key top managers and the Corporate Secretary. Such dinners provide independent directors with an opportunity to receive comments on the agenda of a forthcoming Board meeting, present their vision of issues on the agenda and provide informed comments thereon to be incorporated into updated materials for the Board meeting. Independent directors can also discuss shareholders' vision of the Group's operations with non-executive directors (representing a major shareholder). In 2015 a total of seven such dinners were held, which contributed to more efficient discussions at the Board meetings.

Independent directors take part in a strategic session arranged by the Company's managerial staff as part of the strategic planning cycle. In 2015 such sessions were held separately in the Upstream and Downstream Units in May and June in Ufa. The strategic session was attended by members of the Board of Directors (A. Konsidine, V.P. Orlov, A.L. Korsik), representatives of the Group's principal shareholders and the management. Following that session, an updated strategy was formulated, and the Group's long-term development programme was prepared taking into account special requirements for state-owned companies¹.

ROLE OF THE BOARD OF DIRECTORS IN IMPROVING THE MANAGEMENT OF SUBSIDIARIES

PJSOC Bashneft is the Group's corporate centre that ensures efficient control of all the processes. However, a number of the Group's subsidiaries possess quite substantial assets and require special attention from the Corporate Centre. As of December 31, 2015, more than 30 Russian and foreign legal entities formed part of Bashneft Group (compared to about 50 in 2014), including important entities such as LLC Bashneft-Polyus, LLC Burneftegaz, LLC Bashneft-Dobycha, LLC Bashneft-Retail Sales and PJSC Ufaorgsintez.

In order to create the corporate governance practices consistent with the advanced principles in 2015 we continued working on optimization of the Group's corporate structure. The inefficient companies were closed up, the asset consolidation by profile continued and work was completed to improve the subsidiaries' manageability



Following the strategic session organized by the Company's management as part of the strategic planning cycle, an updated strategy and the Group's long-term development programme taking into account special requirements for state-owned companies were prepared.

1. Approved by the Board of Directors on September 29, 2015

quality, based on the use of efficient corporate governance mechanisms.

- As part of the retail sales centralization, reorganization was carried out on the basis of LLC Bashneft-Retail Sales by way of merger of the Optan group companies (eight legal entities) and LLC Promenergoresurs acquired by Bashneft in 2014 into LLC Bashneft-Retail Sales.
- The work continued on liquidation of previously acquired companies, whose assets and licences were transferred to the operational company LLC Bashneft-Dobycha; this included liquidation of LLC Mobil-neft and LLC Bashneftegazrazvedka possessing no assets. As part of the corporate culture optimization of the acquired Burneftegaz group of companies, the non-core subsidiary LLC PRESSING Studio was divested.
- In February 2015 LLC Yanualskoye Administration of Neftestroymentazh was acquired (presently LLC Bashneft-Stroy) specializing in field facilities construction. The acquired company was integrated into the Group's structure and Bashneft Group's common approach and standard operating procedures were introduced.

Under the policy of deoffshorization of the Russian economy a programme was developed and approved aimed at optimization of the subsidiaries' corporate structure in foreign jurisdictions, which includes measures for transfer of the Group's assets to the Russian jurisdiction and liquidation of most of the foreign subsidiaries. In 2015

LLC Bashneft-Invest was created to implement this programme.

At the end of 2015, the Company adopted the new Regulations on Corporate Governance of Companies and Organizations in Which PJSOC Bashneft Holds Shares and Stakes¹. The document defines the following key areas of monitoring of the subsidiaries' activities:

- review of the main business areas and development strategies of the subsidiaries;
- participation in formation of governing and supervisory bodies of the subsidiaries;
- making decisions on acquisition, change in interest and divestment of other entities by the subsidiaries;
- supervision of major transactions and reorganizations/liquidation carried out by the subsidiaries.

We divide all the Group's subsidiaries into 'core' and 'auxiliary' ones, depending on the materiality of a subsidiary, based on IFRS principles, development strategy of a particular subsidiary under PJSOC Bashneft's Development Strategy and/or necessary level of control by the Company's Board of Directors. A decision on classification of a subsidiary as core or auxiliary one is made by the Board of Directors of PJSOC Bashneft upon recommendation of the Strategy Committee of the Company. The category of a subsidiary also dictates recommended structure of its governing and supervisory bodies, the main goal being to ensure that the Corporate Centre

and the subsidiary can function as a single mechanism.

The charters and internal documents of the subsidiaries (including provisions concerning the competences of governing bodies) are aligned with the Charter of PJSOC Bashneft in order to ensure that management decisions can be promptly cascaded down in compliance with the requirements of legislation and to improve the management of subsidiaries.

Key business processes of the subsidiaries are synchronized with the strategy and budget planning and implementation cycles of the Corporate Centre. The Group adheres to uniform principles and approaches to implementing key business processes (strategy, budget, KPIs, personnel management, etc.). Internal documents are updated on a regular basis to reflect changes in the Group's goals and objectives and best practice recommendations.

The Group developed and approved procedures enabling successful coordination and control of subsidiaries by the corporate centre as part of the development strategy implemented by the Group. Following the two-tier management system approach adopted by the Group, we seek to minimize the number of organizations in which the Group's subsidiaries have interests.

Business entities with Bashneft's ownership interest

| Type of entity | Attribution criteria |
|----------------|--|
| Subsidiary | A business entity with more than 50% of authorized share capital owned by PJSOC Bashneft and also a business entity with more than 50% of authorized share capital owned by subsidiaries of PJSOC Bashneft. |
| Affiliate | A business entity with more than 20%, but less than 50% or 50% of authorized share capital owned by PJSOC Bashneft, and a business entity with more than 20%, but less than 50% or 50% of authorized share capital owned by subsidiaries of PJSOC Bashneft*. |
| Other company | A business entity with less than 20% or 20% of authorized share capital owned by PJSOC Bashneft, and a business entity with less than 20% or 20% of authorized share capital owned by subsidiaries of PJSOC Bashneft. |

* Despite changes in legislation, the Company continues to use the term 'affiliate' for management purposes.

1. Minutes of the Board of Directors No. 20-2015 dated December 10, 2015

Management matrix for subsidiaries

Depending on the materiality and the influence of the subsidiary on the current operations of PJSOC Bashneft

Depending on the interest of Bashneft Group in the subsidiary

Level of key decision making – the Board of Directors

Level of making other decisions

Instruments



REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS OF PJSOC BASHNEFT

The procedure for determining and paying remuneration and compensation to members of the Board of Directors is established in the Regulations on Remuneration and Compensation Payable to the Members of the Board of Directors of PJSOC Bashneft.

On June 30, 2015, by a resolution of the Annual General Meeting of Shareholders of the Group a new version of the Regulations on Remuneration and Compensation Payable to Members of the Board of Directors of PJSOC Bashneft was approved that changed substantially the remuneration system. The following changes were introduced:

- members of the Board of Directors who are not civil servants (municipal officials) or the Company's employees

have a right to getting rewards and remunerations;

- a fixed remuneration is paid for work on the Board of Directors and the committees of the Board of Directors, for performing functions of a committee chairman with an option of retention or nonpayment of the remuneration in case of failure to participate in a specified number of the meetings of the Board of Directors of its committees;
- a bonus may be paid depending on the Group's operating results for a certain period of time as compared to an approved list of competitors;
- the currency of the bonuses and remunerations is the Russian rouble.

The new Regulations become effective immediately upon their adoption. At the same time, the calculation and payment of the remuneration for the



Code of Corporate Governance. Principle 4.1. The amount of remuneration paid by the company should be sufficient for attracting, motivating and retaining employees who have the competence and qualification required by the company. Remuneration should be paid to members of the board of directors, executive bodies and other key executives of the company in accordance with the remuneration policy adopted by the company.



Code of Corporate Governance. Principle 4.2. The system of remuneration of members of the board of directors should ensure that the directors' financial interests are aligned with long-term financial interests of shareholders.

Components of remuneration for serving on the Board of Directors of PJSOC Bashneft

| Remuneration | System of remuneration until June 30, 2015 | System of remuneration after June 30, 2015 |
|--|---|---|
| Base pay | <p>Fixed remuneration of US\$ 48,000 per corporate year.</p> <p>Remuneration for participating in meetings of the Board of Directors: US\$ 2,200 to US\$ 4,300 per meeting, depending on the form of the meeting and the form of participation of a member of the Board of Directors.</p> <p>The total amount of the base pay may not exceed US\$ 100,000 per corporate year.</p> <p>Payable in cash on a monthly basis (fixed remuneration is payable in equal instalments throughout the corporate year; remuneration for participation in Board meetings depends on the actual participation of a director in the meetings of the Board of Directors).</p> | <p>Fixed remuneration is 5 million roubles for a corporate year for professional appointees and 6.5 million roubles per year for independent directors.</p> <p>For the professional appointees, it is a year-end bonus based on a resolution adopted by the Annual General Meeting of Shareholders.</p> <p>For independent directors, it is paid monthly in equal instalments.</p> <p>It can be reduced by 25% if a member of the Board of Directors missed more than 20% of the meetings of the Board of Directors in a year (if more than 40% missed it may be not paid).</p> |
| Remuneration for participating in meetings of the Board committees | <p>US\$ 250 to US\$ 500 per Committee meeting, depending on the form of the meeting and the form of participation of a member of the Board of Directors, but no more than US\$ 4,000 per quarter.</p> <p>For the Chairman of any Board Committee (other than the Project Assurance Committee): US\$ 2,000 per meeting, but no more than US\$ 10,000 per corporate year.</p> <p>For the Chairman of the Project Assurance Committee: 19% of fixed remuneration (US\$ 9,120) per month.</p> <p>Payable in cash on a monthly basis.</p> | <p>Fixed remuneration amounts to 125 thousand roubles paid for each committee for a corporate year in favour of the professional appointees (250 thousand roubles if a professional appointee is the Chairman of the committee) and 250 thousand roubles for each committee for the corporate year in favour of the independent directors (500 thousand roubles if an independent director is the Chairman of the committee).</p> <p>For professional appointees it is a year-end bonus based on a resolution adopted by the Annual General Meeting of Shareholders.</p> <p>For independent directors it is paid monthly in equal instalments.</p> <p>It can be reduced by 25% if a member of the Board of Directors missed more than 20% of the meetings of the committees in a year (if more than 40% missed it may be not paid).</p> |
| Performance-based remuneration for the corporate year | <p>A variable portion of remuneration which depends on the difference between the valuation of ordinary shares in JSOC Bashneft as of the beginning and the end of the corporate year. If the value of ordinary shares increases, the remuneration will exceed US\$ 100,000; if the share value decreases, the remuneration will total less than US\$ 100,000.</p> <p>Payable if the Company has generated income under IFRS. The estimated value of an ordinary share in JSOC Bashneft shall be calculated on the basis of an annual independent valuation.</p> <p>Payable in cash within 90 days from the date of the Annual General Meeting of Shareholders.</p> | <p>Variable part of the remuneration depending on the growth dynamics of the Company's capitalization as compared to a fixed list of competitors (five companies);</p> <p>ranking from 1st to 3rd: 55% of the base pay;</p> <p>ranking 4th: 40% of the base pay;</p> <p>ranking 5th: 25% of the base pay.</p> <p>It is a one-time payment based on a resolution adopted by the Annual General Meeting of Shareholders.</p> <p>Based on the data of the Moscow Exchange, during the period in question the Group's capitalization increased by 148% (the Group ranked first among selected rival companies), while rival companies reported an increase varying from 91% to 125%.</p> |

period from the election of the Board of Directors members to the change in the remuneration policies are based on the previous version of the Regulations. Implementation and application of the Regulations are supervised by the Board of Directors assisted by the Nominating and Compensation Committee.

The total sum of remuneration¹ accrued and paid to the members of the Board of Directors based on their performance results in 2015 totalled 51,715,932 roubles. The amount of reimbursement for the expenses of the members of the Board of Directors totalled 9,487,033 roubles.

EVENTS AFTER THE REPORTING DATE

In the process of the preparations for the Annual General Meeting of Shareholders for 2015 the shareholder of the Company possessing more than

50% of the voting shares (the Russian Federation) nominated candidates to the new Board of Directors to be elected at the meeting. The number and the list of the suggested candidates to the Board of Directors totally coincides with the existing membership of the Board of Directors. At the meeting held on March 9, 2016, the Board of Directors of the Company reviewed and approved the suggested candidates to be introduced for consideration by the General Meeting of Shareholders.

The remuneration to the members of the Board of Directors of PJSOC Bashneft in 2013-2015

| | |
|------|-------------------------------------|
| 2013 | US\$ 973,007 (33,951,558 roubles) |
| 2014 | US\$ 1,148,391 (43,995,563 roubles) |
| 2015 | 51,715,932 roubles |



A flexible approach to remuneration for the Board of Directors allows the Company to engage highly professional directors who have a considerable experience of working for leading global oil companies.

In accordance with the Regulations, members of the Board of Directors are reimbursed for their expenses:

| System of reimbursement until June 30, 2015 | System of reimbursement after June 30, 2015 |
|---|--|
| Up to US\$ 250,000 during the corporate year for expenses related to serving on the Board of Directors (travel, accommodation and meals in connection with meetings of the Board of Directors and Board Committees); up to US\$ 5,000 during the corporate year for other expenses. Remuneration payable to directors who are residents of the Russian Federation is paid in Russian roubles at the exchange rate set by the Bank of Russia as of the payment date. Remuneration payable to directors who are not residents of the Russian Federation is paid in U.S. dollars. | All the actual expenditures related to performance of duties by the members of the Board of Directors. |

Information on remuneration paid to members of the Board of Directors in 2015

| Member of the Board of Directors | Base pay and remuneration for serving on the Board of Directors, roubles | Remuneration for serving on the Board committees, roubles | Additional performance-based remuneration for the year, roubles | Total, roubles |
|----------------------------------|--|---|---|-------------------|
| A.L. Teksler | | | | N/a |
| E.A. Guryev | | | | N/a |
| Ch. Watson | 5,777,020 | 4,061,158 | 8,218,337 | 18,056,516 |
| M. Dijols | 4,663,977 | 3,110,442 | 2,369,442 | 10,143,862 |
| A. Considine | 4,663,977 | 3,357,526 | 2,369,442 | 10,390,946 |
| R.Kh. Mardanov | | | | N/a |
| A.L. Korsik | | | | N/a |
| V.P. Orlov | 2,665,285 | 0 | 1,822,648 | 4,487,933 |
| V.Yu. Sergeychuk | | | | N/a |
| Yu.K. Shafranik | 2,780,274 | 0 | 1,822,648 | 4,602,922 |
| D. Baudrand | 1,113,043 | 1,085,468 | 0 | 2,198,511 |
| Th. Winkler | 1,113,042 | 722,195 | 0 | 1,835,238 |
| Total | 22,776,621 | 12,336,791 | 16,602,518 | 51,715,932 |

1. Information on the amount of remuneration paid in 2015 is taken from PJSOC Bashneft's financial statements under RAS.

COMMITTEES OF THE BOARD OF DIRECTORS OF PJSOC BASHNEFT

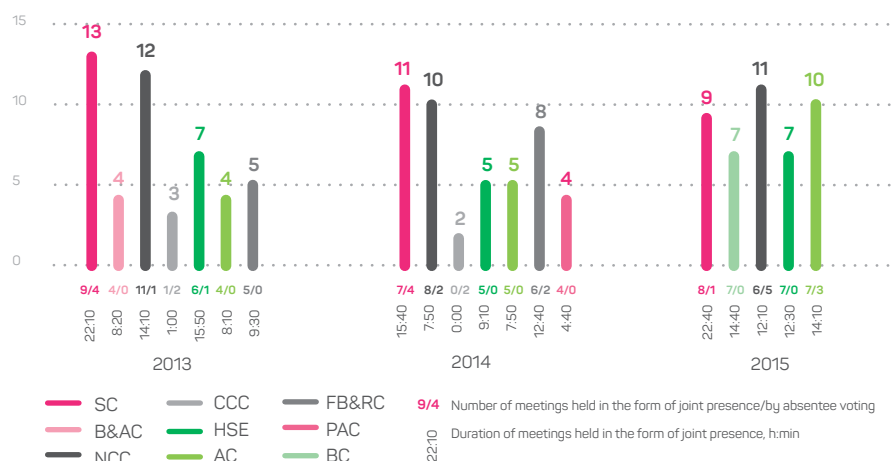
In order to increase the efficiency of decisions made by the Board of Directors and to enable a more detailed preliminary consideration of key issues and preparation of relevant recommendations, there were five Committees of the Board of Directors as of the end of 2015:

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

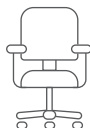
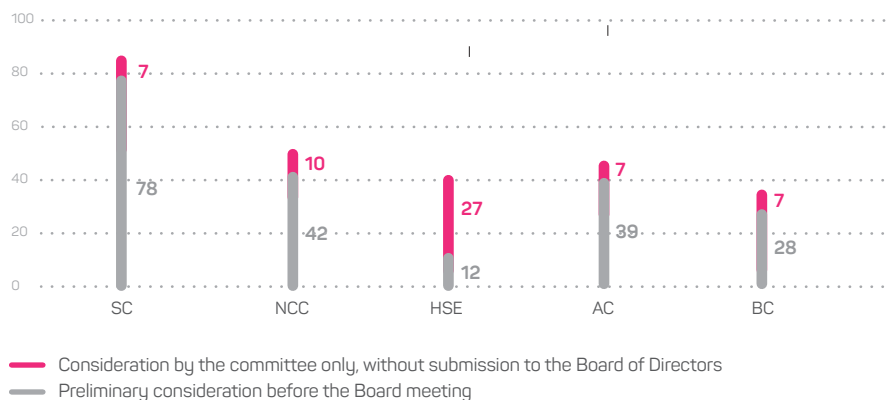
To optimize the work of committees and align their functions with recommendations of regulators, on March 30, 2015 the Board of Directors resolved to disband the Corporate Conduct Committee (established in 2009) and the Project Assurance Committee (established in 2013). Some functions of the disbanded committees were redistributed to the Audit Committee and the Strategy Committee.

Powers and requirements for the composition of the committees are determined by Regulations on the Committees approved by the Board of Directors. In order to accomplish the tasks assigned to them, the Committees may engage external experts and advisors at the Company's expense (subject to approval by the Board of Directors or the Chairman of the Board of Directors). The results of consideration of agenda items by the committees are communicated to the Board members before each Board meeting.

Number of meetings of the Board Committees in 2015



Types of issues considered by each committee



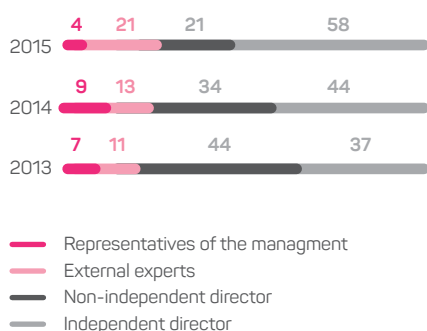
As a rule, committee meetings are held no later than a week before a meeting of the Board of Directors in order to enable the Board to take into account recommendations provided by the committees. In this case independent directors participate in meetings via videoconferencing, with time difference between the locations of the participants sometimes totalling up to eight hours (Perth – Ufa – Moscow – London).



Code of Corporate Governance. Principle 2.8. The board of directors should establish committees for preliminary consideration of the most important issues related to the company's business.



Membership of the Committees, %



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

APPROACH TO FORMING THE BOARD COMMITTEES

The increase in the membership of all the committees by adding independent directors became a distinctive feature of the composition of committees in 2015. This allowed creation of necessary balance of opinions among the representatives of major shareholders and independent directors, which contributed to a more balanced decision-making. Moreover, in 2015 the two key committees, the Audit Committee and the Nominating and Compensation Committee, were comprised solely of

independent directors and chaired by independent directors, thus, meeting the requirements of the Moscow Stock Exchange listing rules for bidders in the premium segment and best corporate governance practices.

The Board of Directors considered separately the issue of addition of external experts with a right to vote to a number of committees and resolved that at this point of time, given the special features of management in state-owned companies, participation of experts should enable a more detailed examination of issues, which would have

a positive impact on the decision-making efficiency. The fact that the Group's management is represented in the committees makes it possible to ensure a constructive dialogue during committee meetings; however, in order to prevent potential conflicts of interest, in 2015 this share did not exceed 4% of the total membership of the committees (only the Group's President).

Report on performance of the Nominating and Compensation Committee



In 2015, we assisted in implementing an important task of updating policies, procedures, internal standards and codes of conduct, taking into account the change of the key shareholder and the Group's transition to a category of state-owned companies.

The approval of the new Board of Directors membership which was almost totally renewed became the most important starting point of this process. High professionalism and extensive competencies in the oil and gas business are characteristics of the new Board of Directors. In addition, we worked in earnest to update the Regulations on Remuneration and Compensation to Members of the Board of Directors of PJSOC Bashneft, adjusting the approach to remuneration calculation and payment and making it even more effective.

Besides, in 2015 the Committee focused on updating the Group's management long-term and short-term remuneration system, interrelationship between the incentive and strategic planning programmes and the list of key performance indicators, which are issues of paramount importance for the Company's HR policy improvement.

Recognizing the special status of the Nominating and Compensation Committee, in 2015 we formed the Committee which consisted of independent directors only as recommended by the best corporate practices.

M. Dijols
Chairman of the
Nominating and Compensation Committee,
Independent director



TASKS OF THE COMMITTEE

- Development of remuneration policies for members of the Board of Directors, senior executives, supervision of their introduction and implementation;
- Preliminary evaluation of the Company's senior executives' performance at year-end;
- Development of employment contract provisions for the members of the Board,
- President and senior executives of the Company;
- Development of recommendations for the Board of Directors determining the amount of remuneration and the principles of bonus payment to the Company's Corporate Secretary;
- Performance evaluation of the Board of Directors and its members, identification of priority areas to strengthen the Board of Directors membership;
- Making recommendations for the shareholders concerning their voting in election for the Board of Directors;
- Planning appointments (succession pool) of senior executives, making recommendations to the Board of Directors concerning candidates for senior executive positions and for the Company's Corporate Secretary.



ISSUES CONSIDERED IN 2015

- Consideration of candidates for the Board of Directors, approval of candidates to be nominated to the governing bodies of a subsidiary;
- Preliminary review of internal documents setting the terms of remuneration of labour, bonuses for the Company's senior executives (including LTIP, STIP);
- Performance evaluation of senior executives and determining the amount of bonus payments to the Company's senior executives at year-end;
- Approval of KPIs for the Company's senior executives for 2016;
- Approval of candidates for positions of the Company's senior executives;
- Comparative analysis of the remuneration level for different categories of employees (top management, middle management, production workers and processing workers) in oil companies;
- Updating of PJSOC Bashneft's personnel management action plan;
- Review of approaches to the succession planning in PJSOC Bashneft.

The list of minutes of the Nominating and Compensation Committee meetings:

No. 01-2015 dated 03/30/2015,
No. 02-2015 dated 04/27/2015,
No. 03-2015 dated 05/25/2015,
No. 04-2015 dated 06/24/2015,
No. 05-2015 dated 07/24/2015,
No. 06-2015 dated 08/28/2015,
No. 07-2015 dated 09/28/2015,
No. 08-2015 dated 10/08/2015,
No. 09-2015 dated 10/23/2015,
No. 10-2015 dated 12/02/2015,
No. 11-2015 dated 12/22/2015

Members of the Committee

Independent members of the Board of Directors: M. Dijols (Chairman), Ch. Watson, A. Considine

Report on performance of the Audit Committee



We pay special attention to the proper organization of internal control and audit processes in Bashneft Group, which allows the Group to rank among the industry leaders. When tackling the tasks facing the Committee, we seek to attach particular importance and give priority to measures aimed at the efficiency improvement of the internal audit function.

We considered the Group's interim results on a quarterly basis in cooperation with representatives of external auditors (CJSC Deloitte & Touche CIS and LLC RSM RUS), paying attention to problem areas and faithfulness of reflection of the Group's financial position in its statements.

In 2015 we held seven face-to-face Committee meetings and three meetings by absentee voting which were attended by all the Committee members, with

the management and experts being involved in discussions where necessary. The Committee paid special attention to the issues which caused auditors' comments and examined them taking into account the views of all stakeholders (in particular, evaluation of reserves, SAP ERP implementation and others).

We believe that the joint efforts by the Committee members made it possible to form the necessary basis for creating and coordinating the Group's internal audit function in accordance with the best practices used by globally renowned companies.

A. Considine
Chairman of the Audit Committee,
Independent Director



TASKS OF THE COMMITTEE

- Monitoring of the completeness, accuracy and reliability of the Company's financial statements;
- Monitoring of the functioning of the internal control and risk management system for preventing unethical behaviour among employees;
- Performance evaluation of the internal control system;
- Resolving conflicts of interest;
- Assessing the performance of the Internal Audit Unit;
- Making recommendations for the Board of Directors on the candidates nominated for the positions of external auditors;
- Assessing the external auditor's report.



ISSUES CONSIDERED IN 2015

- Approval and publication of PJSOC Bashneft's financial statements under IFRS and RAS;
- Consideration of the Company's external auditor reports on the audit of the annual and interim financial statements;
- Consideration of candidates for external auditors of the financial statements of the Company and its subsidiaries under RAS and IFRS;
- Consideration of PJSOC Bashneft Performance Report for the preceding period and the Action Plan for internal audit and control for 2015;
- Consideration of PJSOC Bashneft Risk Management Report at year-end 2014 and the development plan for this function for 2015;
- Consideration of the action plan for introduction of the Corporate Governance Code provisions in the Company's activity;
- Consideration of the auditors' comments and management's suggestions to remedy any shortcomings found;
- Consideration of proposals for streamlining the Company's financial reporting preparation and disclosure procedures;
- Preapproval of the Company's internal documents;
- Approval of the decision on dismissal of the Company's Chief Auditor and consideration of candidates for the position of the Chief Auditor as well as determination of remuneration for the Company's Chief Auditor;
- Consideration of an action plan to remedy deficiencies in PJSOC Bashneft's internal control system;
- Development of the compliance function in the Company;
- Information statement: Report on Compliance with PJSOC Bashneft's Code of Corporate Governance, the Code of Ethics and the Anti-Corruption Policy.



MAIN PURPOSES OF THE COMMITTEE

- to ensure that shareholders, investors and business partners trust the Company, its governing bodies and executives;
- to protect the investments of shareholders/investors and the Company's assets.

The list of minutes of the Audit Committee meetings:

No. 01-2015 dated 03/30/2015,
No. 02-2015 dated 04/27/2015,
No. 03-2015 dated 05/25/2015,
No. 04-2015 dated 06/06/2015,
No. 05-2015 dated 06/24/2015,
No. 06-2015 dated 07/24/2015,
No. 07-2015 dated 08/25/2015,
No. 08-2015 dated 09/28/2015,
No. 09-2015 dated 11/23/2015,
No. 10-2015 dated 12/02/2015

Members of the Committee

Independent members of the Board of Directors: A. Considine (Chairman), Ch. Watson, M. Dijols

Committee members having additional experience and expertise in the field of audit and finance: A. Considine, Ch. Watson.

Where necessary, the Audit Committee may engage external auditors.

Reports on performance of other Board committees

Budget Committee



TASKS OF THE COMMITTEE

- Consideration of issues associated with the approval of budgets and investment plans;
- Consideration of the Company's budget execution reports;
- Consideration of charity funding and sponsorship issues;
- Preliminary consideration of significant borrowing funds transactions;
- Preliminary consideration of other budgeting issues, financial statements and debt management.

The list of minutes of the Budget Committee meetings:

No. 01-2015 dated 03/25/2015,
No. 02-2015 dated 04/23/2015,
No. 03-2015 dated 05/26/2015,
No. 04-2015 dated 06/22/2015,
No. 05-2015 dated 07/22/2015,
No. 06-2015 dated 09/24/2015,
No. 07-2015 dated 12/03/2015

Members of the Committee

Non-executive members of the Board of Directors: R.Kh. Mardanov (Chairman), E.A. Guriev; independent members of the Board of Directors Ch. Watson, M. Dijols, A. Considine; external experts: D.R. Kant Mandal (Deputy Head of Department, Federal Agency for State Property Management), V.V. Mamin (Head of Department, Ministry of Energy).



ISSUES CONSIDERED IN 2015

- Consideration of PJSOC Bashneft's Business Plan for 2016 (including the investment programme);
- Consideration of PJSOC Bashneft's budget implementation results, including information on PJSOC Bashneft's position in the stock market;
- Consideration of transactions subject to approval by the Company's Board of Directors;
- Consideration of the annual report, proposals for distribution of profits and the amount of dividends;
- Company's charity programmes.

Strategy Committee



TASKS OF THE COMMITTEE

- Consideration of strategy issues and the Group's long-term development programme;
- Assessment of M&A projects and large-scale investment projects;
- Consideration of the Group's performance improvement issues;
- Consideration of the Group's corporate structure including interests (disposal of interests other organizations);
- Consideration of major transactions.



An important event in 2015: Approval of an updated Strategy and the Group's Long-Term Development Programme for the period from 2015 through 2020 by the Board of Directors.



ISSUES CONSIDERED IN 2015

- Consideration of PJSOC Bashneft's Strategy, including the Company's Long-term Development Programme (LTDP) and the long-term financial model;
- The Company's resource base development;
- Consideration of an action plan for scheduled and phased replacement of procured foreign products (works, services) with Russian products (works, services);
- Matters related to procurement policy improvement;
- Consideration of transactions subject to approval by the Board of Directors;
- Consideration of the Programme for Disposal of the Company's Non-Core Assets;
- Analysis of PJSOC Bashneft's investment activity;
- Matters related to structure of PJSOC Bashneft's group of companies,
- including approaches to corporate governance of the subsidiaries;
- Determination of the list of companies used for comparison of the market capitalization growth dynamics indicators;
- Consideration of the Company's Energy Conservation and Energy Efficiency Improvement Programme;
- Consideration of the report on compliance with the requirements related to disclosure of information on the counterparties' ownership structure, including disclosure of ultimate beneficiaries;
- Approval of PJSOC Bashneft's trademark specimens;
- Approval of PJSOC Bashneft's internal documents;
- PJSOC Bashneft's interests in other organizations.

The list of minutes of the Strategy Committee meetings:

No. 01-2015 dated 03/27/2015,
No. 02-2015 dated 04/22/2015,
No. 03-2015 dated 05/25/2015,
No. 04-2015 dated 06/22/2015,
No. 05-2015 dated 07/22/2015,
No. 06-2015 dated 09/24/2015,
No. 07-2015 dated 10/23/2015,
No. 08-2015 dated 11/23/2015,
No. 09-2015 dated 12/03/2015

Members of the Committee

Non-executive members of the Board of Directors: Yu.K. Shafranik (Chairman), V.P. Orlov, V.Yu. Sergeichuk; independent members of the Board of Directors: Ch. Watson, M. Dijols, A. Considine; executive member of the Board of Directors A.L. Korsik; external experts A.I. Karpukhin (Minister, the Republic of Bashkortostan), M.A. Lobanov (Deputy Director, Ministry of Energy), V.V. Mamin (Head of Department, Ministry of Energy).

Health, Safety, Environment and Social Responsibility Committee



TASKS OF THE COMMITTEE

- Developing recommendations, monitoring the implementation of HSE measures in order to implement the strategy and achieve the goals of the Group in this sphere;
- Consideration of accident reports and the accident investigation results.



One of the key tasks of the Health, Safety, Environment and Social Responsibility Committee is to supervise implementation of HSE measures.



ISSUES CONSIDERED IN 2015

- Consideration of the quarterly status report on HSE measures;
- Consideration of findings of industrial accident investigations;
- Consideration of proposals for the Company's HSE unit structure;
- Consideration of the Sustainability Report for 2014 and measures taken by PJSOC Bashneft in this sphere for 2015;
- Accident reporting system and accident investigation between PJSOC Bashneft and its subsidiaries;
- Status of implementation of the pipeline reliability improvement and associated gas utilization programme;
- Building the HSE leadership system in the Company;
- Accidents and incidents in the sphere of HSE for the past period;
- Recommendations for improvement of the contractor management methods aimed at prevention of incidents and accidents at work during PJSOC Bashneft's operations;
- Matters related to the organization of environmental measures by the Group;
- Report on the activities carried out by the Company and its subsidiaries in the field of social responsibility;
- Consideration of the KPI implementation report, preliminary consideration of KPIs of the HSE unit for 2016;
- HSE investment project implementation and current status report.

The list of minutes of the Health, Safety, Environment and Social Responsibility Committee meetings:

No. 01-2015 dated 03/30/2015,
No. 02-2015 dated 04/27/2015,
No. 03-2015 dated 05/20/2015,
No. 04-2015 dated 06/24/2015,
No. 05-2015 dated 07/24/2015,
No. 06-2015 dated 09/28/2015,
No. 07-2015 dated 12/02/2015

Members of the Committee

Independent members of the Board of Directors: Ch. Watson (Chairman), M. Dijols, A. Considine, V.P. Orlov (non-executive member of the Board of Directors); external expert: E.V. Schekina (Deputy Minister, Government of the Republic of Bashkortostan).

CORPORATE SECRETARY OF PJSOC BASHNEFT



ELVIRA VYSHENSKAYA (ZHURAVLEVA)

**Head of the Office of the Board of Directors,
Corporate Secretary of PJSOC Bashneft**

Born in 1970 in Kaliningrad.

Graduated from the I. Kant Baltic Federal University (Kaliningrad State University) in 2001. 2006–2008 – Master's degree at Lomonosov Moscow State University; Master in Innovation Management, MIM.

2009–2011 – the 'Corporate Lawyer' Master's programme at the Higher School of Economics.

2012–2014 – Executive MBA, Kingston University / Moscow School of Social and Economic Sciences.

Winner of the 'Director of the Year' award presented by the Association of Independent Directors and the Russian Union of Industrialists and Entrepreneurs in the 'Corporate Secretary' category, 2013.

WORK EXPERIENCE:

2005 – 2011 – Head of the Office of the Board of Directors, Corporate Secretary of OJSC VAO Intourist.

2011 – 2012 – Corporate Secretary of JSOC Bashneft.

2012 – present – Head of the Office of the Board of Directors, Corporate Secretary of PJSOC Bashneft.

Does not own shares of PJSOC Bashneft or shares or stakes in its subsidiaries; is not related to other persons who are members of PJSOC Bashneft's governing bodies and/or bodies supervising financial and business operations of PJSOC Bashneft.

'We use a responsible approach to cooperation with Bashneft's shareholders. Over the last few years, we have made considerable progress in coordinating the Company's efforts to protect the rights and interests of our shareholders. As for the organization of the work of the Board of Directors and its committees, we have never ceased to work in this sphere: we make continuous efforts to improve our performance.'

**Elvira Vyshenskaya (Zhuravleva),
Corporate Secretary of PJSOC Bashneft**

The Corporate Secretary is functionally subordinate to the Chairman of the Board of Directors. This ensures the necessary level of independence when organizing the work of governing bodies. The Corporate Secretary supervises the work of the Office of the Board of Directors.

The main duties of the Corporate Secretary include:

- organizing efficient work of the Board of Directors and the Committees of the Board of Directors;
- facilitating cooperation between members of the Board of Directors and the management;
- coordinating the work of PJSOC Bashneft's governing bodies;
- monitoring the implementation of resolutions of the Board of Directors;



Code of Corporate Governance. Principle 3.1. The corporate secretary is responsible for facilitating efficient ongoing communication with shareholders, coordinating the company's efforts to protect the shareholders' rights and interests and supporting efficient work of the board of directors.

- managing processes related to participation of members of the Board of Directors in Board meetings;
- monitoring information disclosure.

The Corporate Secretary of the Company is responsible for annual monitoring of Bashneft Group's corporate governance practice and internal performance evaluation of the Board of Directors.

The Corporate Secretary also acts as the secretary of all committees of the Board of Directors. In order to prevent conflicts of interest, the Corporate Secretary does not perform the functions of the secretary of the Management Board.

Since March 2011, the post of the Corporate Secretary of PJSOC Bashneft has been held by Elvira Vyshenskaya (Zhuravleva).



The Regulations on the Corporate Secretary are available on our website: http://www.bashneft.ru/shareholders_and_investors/charter/.

PRESIDENT, MANAGEMENT BOARD AND TOP MANAGEMENT OF PJSOC BASHNEFT

The key role in organization of efficient work to achieve the Group's strategic goals is played by PJSOC Bashneft's Management Board, the Company's President and the Group's top management.

COMPETENCE OF THE PRESIDENT AND THE MANAGEMENT BOARD

The area of competence of the executive bodies includes resolution of all issues related to day-to-day operations of PJSOC Bashneft, except for issues falling within the competence of the General

Meeting of Shareholders and the Board of Directors.

Meetings of the Collective Executive Body (i.e. the Management Board) are normally held once a week exclusively on a face-to-face basis. The functions of the Secretary of the Management Board are performed by an employee of the Company who does not participate in preparation for meetings of the Board of Directors; this helps to minimize the likelihood of potential conflicts in the course of organization of supervision of the adoption and implementation of resolutions of the Board of Directors.



ISSUES WITHIN THE COMPETENCE OF THE PRESIDENT OF PJSOC BASHNEFT

The President has the right to present to the Management Board any issues related to the Group's day-to-day operations that do not fall within the competence of the General Meeting of Shareholders or the Board of Directors.

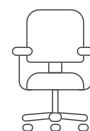
In addition, the area of competence of the President includes the following matters:

- Management of the Company's assets and funds for and on behalf of PJSOC Bashneft;
- Making any transactions on behalf of PJSOC Bashneft both in the Russian Federation and abroad, except for the cases stipulated by legislation and the Charter of PJSOC Bashneft;
- Approval of PJSOC Bashneft's staffing plan, hiring and dismissal of employees under the legislation of the Russian Federation, approval of internal work rules and the wage system, bonuses for best workers and imposition of disciplinary sanctions;
- Organization of financial and tax accounting and reporting, safekeeping

of accounts and records, accounting registers and financial statements;

- Protection of commercial and confidential information on the Company;
- Granting of powers of attorney for performance of any actions on behalf of PJSOC Bashneft, including transferable powers of attorney;
- Issue of orders, approval of internal documents regulating financial and business operations of PJSOC Bashneft and its departments.

A number of issues falling within the competence of the President as a sole executive body in accordance with the Federal Law on Joint-Stock Companies have been delegated to the Board of Directors in accordance with the Company's Charter. For more information, see the section 'Corporate Governance – Competence of the Board of Directors'.



85 hours and 35 minutes

Total duration of meetings of the Company's Management Board in 2015.



ISSUES WITHIN THE COMPETENCE OF THE MANAGEMENT BOARD OF PJSOC BASHNEFT

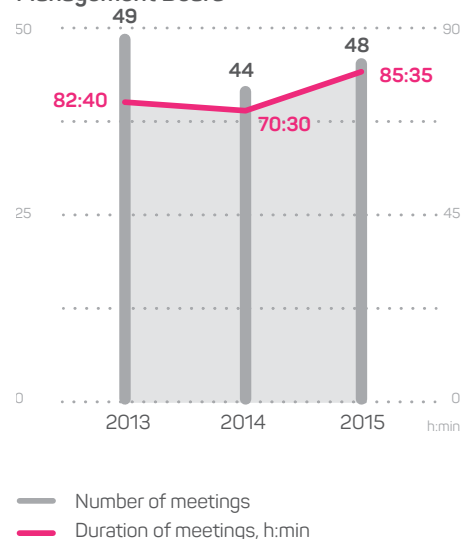
The Management Board addresses the following issues that are within its competence:

- Cooperation of PJSOC Bashneft with its subsidiaries, making decisions regarding PJSOC Bashneft's subsidiaries;
- Reviewing performance of the subsidiaries and performance of PJSOC Bashneft's departments;
- Preliminary consideration of major innovative and investment projects and programmes;
- Preparation of proposals to the Board of Directors on approval of the business plan and making changes to the previously approved business plan of PJSOC Bashneft;
- Preliminary consideration of property transactions and submitting them for approval by the Board of Directors;
- Approval and implementation of programmes to attract investment;
- Approval of internal documents submitted for review to the Management

Board under the resolution of the President of PJSOC Bashneft;

- Settlement of labour disputes, appointment of a representative of the management for out-of-court settlement of arising disputes;
- Consideration of other issues related to day-to-day operations of PJSOC Bashneft.

Statistics on the work of the Company's Management Board



COOPERATION BETWEEN EXECUTIVE BODIES AND THE BOARD OF DIRECTORS

In accordance with the Charter of PJSOC Bashneft and the Regulations on the President of PJSOC Bashneft, the Company's President and members of the Management Board report to the Board of Directors on their performance.

The Company's Charter and internal documents specify the issues on which the Management Board should report to the Board of Directors. They include:

- information on the Group's business priorities;
- reports on strategy implementation;
- annual budgets (financial plans);
- information on the Group's major transactions;
- forward-looking plans concerning PJSOC Bashneft's primary areas of business;
- financial and business operations of the subsidiaries in which PJSOC Bashneft has stakes (shares), as well as information on other enterprises in which PJSOC Bashneft has interests;
- information on the risk management system and internal control procedures.

System of remuneration for the Group's top management

The key principle underlying the Group's system of remuneration for the top management consists in a balance between the interests of the management and those of the shareholders.

The work of the Management Board is aimed at accomplishing the goals of Bashneft's shareholders and its Board of Directors: achieving an increase in the shareholder value and supporting the Group's sustainable development. The Management Board is faced with a wide range of operational tasks that are set in order to achieve the Group's strategic goals. Performance of the top management has a direct impact on the Group's financial and operating results and, consequently, implementation of the Company's dividend policy.

The fact that the top management's remuneration is linked to achievement of operational objectives and strategic

goals is consistent with best practices in the sphere of corporate governance; this is accomplished through integrated short-term and long-term incentive programmes.

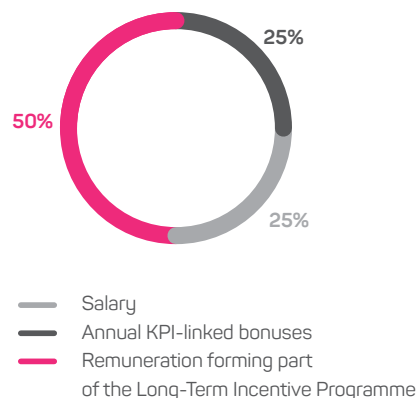
The key considerations taken into account when calculating and paying the remuneration are as follows:

- whether corporate and operating KPIs are achieved (this is relevant to performance-based short-term incentives for a reporting period);
- whether KPIs are achieved as part of the Long-Term Incentive Programme (this is a long-term goal relevant to long-term incentives for senior managers for the duration of each Plan forming part of the Programme).

Remuneration of the Group's senior management comprises three components:

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

Target structure of remuneration for senior managers in 2015



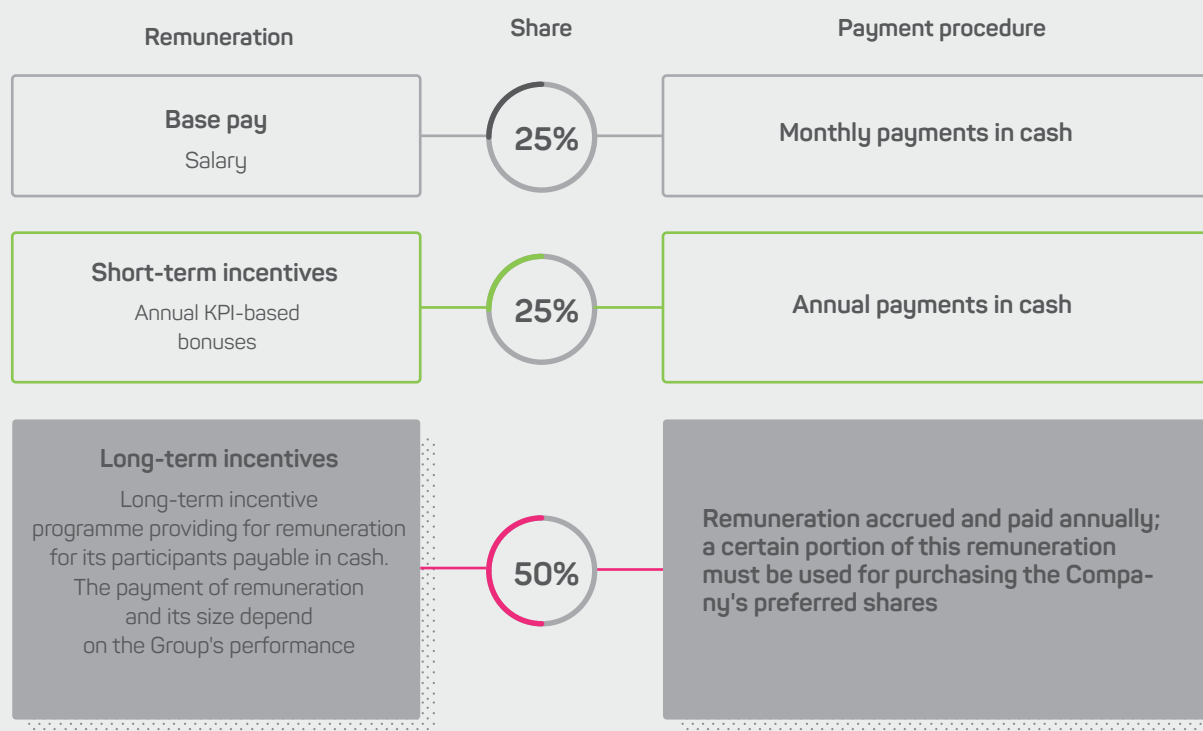
Code of Corporate Governance. Principle 4.1. The amount of remuneration paid by the company should be sufficient for attracting, motivating and retaining employees who have the competence and qualification required by the company. Remuneration should be paid to members of the board of directors, executive bodies and other key executives of the company in accordance with the remuneration policy adopted by the company.

Code of Corporate Governance. Principle 4.3. The system of remuneration of members of executive bodies and other key executives of the company should ensure that the remuneration is linked to the company's performance and reflects their personal contribution to this performance.



For more information on the Group's strategy, see the section 'Strategy and Operating Results – Strategy'.

Total remuneration of senior manager



Details of key components of the system of remuneration for the Group's senior managers

Salary

The Company structures the salary of its senior managers in such a way as to set a fair and competitive level of remuneration. The salary level meets the market conditions, which ensures that the composition of the top management is stable. In 2015 salaries of senior managers were not revised.

Bonuses forming part of the short-term incentive programme (annual bonuses)

Annual bonuses are designed to incentivize senior managers to achieve annual targets. Given that Bashneft is a dynamic and fast-growing company, short-term goals are of the utmost importance.

The amount of annual bonuses is determined on the basis of an analysis and assessment of the extent to which an established set of KPIs has been attained. The set includes corporate, operational and project-related KPIs and compliance with health and safety rules and standards.

The system of incentives for the Company's senior executives is designed to ensure achievement of financial targets (corporate indicators), operational performance (operational indicators), implementation of key projects (project-related indicators), and ensuring occupational and process safety. Targets and results for the reporting period and the amount of remuneration payable to senior managers are considered by the Nominating and Compensation Committee of the Board of Directors and are approved by the Board of Directors.

The bulk of payments as part of the 2014 short-term incentive programme were made in December 2014 due to a change of controlling shareholder.

The results of the 2015 short-term incentive programme out were announced in April and May 2016.

Bonuses forming part of the long-term incentive programmes

To provide long-term incentives for the top management to achieve an increase the Group's shareholder value and market capitalization, in 2015 the Board of



For more information on the KPI system, see 'Strategy and Operating Results – KPIs'.



Directors of PJSC Bashneft approved a long-term incentive programme¹.

Implementation of the Programme is an important motivational factor for the key Bashneft employees ensuring preservation of sustainable and long-term labour and corporate relations with the Group, which will ensure sustainable growth of the financial performance. Together with the anticipated growth of Bashneft's capitalization, the income of the Group's employees dependent on their work performance will grow. In December 2015, the Board of Directors of the Group approved² the target KPIs for the top management for 2016.

The long-term employee incentive programme for 2015-2019 involves paying bonuses provided the following conditions are satisfied:

- achievement of the relevant Programme Plan KPIs approved by the Board of Directors of PJSC Bashneft;
- maintenance of labour relationship with the Group until a specific date;
- absence of disciplinary actions at a specific date.

The Long-Term Employee Incentive Programme includes three three-year Plans. For each Programme Plan the Board of Directors approves KPIs, and following the results of their accomplishment the Programme participant acquires a right to

receive a bonus in the amount and within a time frame set by the Regulations. Part of the bonus (50% of the amount) should be spent by the programme participant on the acquisition of PJSC Bashneft's preferred shares. These shares are not to be sold, donated or disposed of by a participant within one year from the date of the acquisition. It is planned that the Group's securities will be bought through the long-term incentive programme by approximately 150 of Bashneft's employees.

The Bashneft's long-term employee incentive programme has been approved for the period of 2015-2019. The participation of members of the Board of Directors in the Programme is based on a resolution by the Company's Board of Directors on inclusion of the position into the lists of participants for a relevant Plan of the Programme. Plan I covers the period of 2015-2017, Plan II covers the period of 2016-2018, and Plan III covers the period of 2017-2019. The bonus payments in accordance with Plan I are annual payments, and for Plan II and Plan III they are paid following the results of the relevant plan completion. Thus, the first payments under Plan I will be made in 2016 following the results of 2015.



LONG-TERM INCENTIVE PROGRAMME

As consistent with the world's best practices, the Group for the first time developed and adopted the programme of long-term incentives for the period of five years. This is an efficient instrument of the HR policy aimed at shaping and strengthening of a managers' team which works on the implementation of the Group's long-term development programme.

1. Stipulated in the Regulations on the Long-Term Incentive Programme for Employees from 2015 through 2019 approved by the Board of Directors on December 23, 2015
2. Minutes of the Board of Directors No. 21-2015 dated December 23, 2015.



Amount of remuneration for members of the Management Board of PJSC Bashneft for 2015

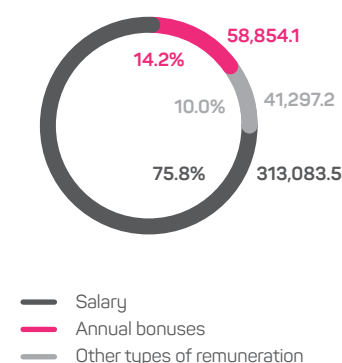
The total amount of remuneration accrued and paid³ to members of the Management Board of PJSC Bashneft for 2015 was 413,234.8 thousand roubles. Reimbursement for expenses incurred by members of the Management Board amounted to 646.2 thousand roubles. Other types of remuneration totalled 41,297.2 thousand roubles. No payments were made to members of the Management Board as part of the long-term incentive programme, as all such payments for 2014 had been made in December 2014 following the end of the programme.

Remuneration for 2015 accrued and paid to five members of the Management Board of PJSC Bashneft receiving the highest salary totalled 314,895.5 thousand roubles. Reimbursement for expenses incurred by members of the Management Board amounted to 645.6 thousand roubles. No payments were made in 2015 as part of the long-term incentive programme.

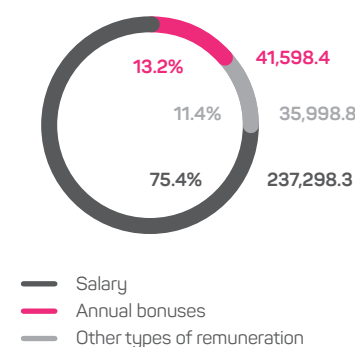
Contracts with members of the Management Board do not provide for any guaranteed payments in case of early retirement ('golden parachutes'), except for guarantees stipulated by employment legislation. In exceptional cases, the Board of Directors may make a decision to consider the circumstances of termination of contracts with senior managers on a case-by-case basis (if they have done valuable work for PJSC Bashneft and there are no complaints with regard to their work). In addition, there are no pension contributions other than payments forming part of the Russian statutory pension insurance system.

No additional remuneration is paid to the Group's management for serving on the governing bodies of PJSC Bashneft or its subsidiaries.

Breakdown of remuneration of members of the Management Board in 2015, thousand roubles⁴



Breakdown of remuneration for 2015 for five members of the Management Board receiving the highest salary, thousand roubles



3. Information on the amount of remuneration paid in 2015 is taken from PJSC Bashneft's financial statements under RAS.

4. Most of the annual bonuses for 2014 were paid in December 2014 following the end of the short-term top management incentive programme due

to the change of the Group's principal shareholder. The remainder of the annual remuneration for 2014 was paid out in May 2015.

— Salary
— Annual bonuses
— Other types of remuneration

MEMBERSHIP OF THE MANAGEMENT BOARD

Information on the President and the Management Board as of December 31, 2015

As of December 31, 2015, the President and members of the Management Board did not own shares of PJSOC Bashneft or shares or stakes in PJSOC Bashneft's subsidiaries. In 2015 members of the Management Board and the Company's President made no transactions in PJSOC Bashneft's shares.

None of the members of the Company's Management Board are related to other persons who are members of PJSOC Bashneft's governing bodies and/or bodies supervising financial and business operations of PJSOC Bashneft.

In 2015 the Group did not grant loans (credits) to any members of the Management Board.

CHANGES IN THE MEMBERSHIP OF THE MANAGEMENT BOARD IN 2015

In 2015 there were no changes in the membership of the Company's Management Board.

In the middle of 2015 a number of members of the Management Board ceased holding office of the Group's Vice Presidents. As of the end of 2015, the decision on the cessation of their membership was not taken because of absence of directives for voting in the frame of Decree No. 738 of the Russian Government dated December 3, 2004.

Under the resolution of the Board of Directors dated March 31, 2016, seven members of the Management Board were appointed: A.L. Korsik (Chairman of the Management Board), K.I. Andreychenko, A.Yu. Lisovenko, I.V. Marchenko, V.V. Pozdyshev, M.E. Stavskiy, D.A. Stankevich.

ABOUT THE GROUP

ALEXANDER KORSIK

President

Chairman of the Management Board of PJSOC Bashneft

Born in 1956 in Minsk.
Graduated from the Bauman Moscow State Technical University with a degree in Automatic Control Systems in 1979.

WORK EXPERIENCE:

2007–2009 – Chairman of the Board of Directors of OJSC RussNeft.
2009–2011 – Senior Vice President of OJSC JSFC Sistema, Head of the Fuel and Energy Business Unit of OJSC JSFC Sistema.
2011 – present – President and Chairman of the Management Board of PJSOC Bashneft. Under the resolution of the Company's Board of Directors dated March 25, 2014, Alexander Korsik was reappointed as President of the Company for three years.

Member of the Management Board of PJSOC Bashneft since April 6, 2011

KIRILL ANDREYCHENKO

Vice President, Corporate Governance and Legal Issues

Deputy Chairman of the Management Board

Born in 1975 in Moscow.
Graduated from Moscow State Industrial University as a lawyer in 1997.

WORK EXPERIENCE:

2005–2009 – General Director of CJSC United TeleSystems (part-time).
2007–2008 – Director for Corporate Governance and Legal Issues of OJSC COMSTAR-UTS.
2008–2009 – Vice President for Corporate Governance and Legal Issues of OJSC COMSTAR-UTS.
2009 – present – Vice President for Corporate Governance and Legal Issues of PJSOC Bashneft.

Member of the Management Board of Autonomous Non-Profit Organization Bashneft Professional Checkers Club

Member of the Management Board of PJSOC Bashneft since February 1, 2010

MAXIM ANDRIASOV

Member of the Management Board

Born in 1974 in Moscow.
Graduated from Gubkin Russian State University of Oil and Gas as mining engineer in 1997. Graduated from INSEAD Business School ('Building world-class companies' educational programme) in 2012.

WORK EXPERIENCE:

2005–2008 – General Director of OJSC TNK-Stolitsa.
2009–2010 – Director of LLC TNK-BP Zapad.
2010–2012 – Head of a business unit of OJSC TNK-BP Management.
2012–2012 – Vice President for Regional Sales of JSOC Bashneft.
2012 – May 2015 – First Vice President for Refining and Commerce of JSOC Bashneft.

STRATEGY. EFFICIENCY. RESULTS

Member of the Management Board of PJSOC Bashneft since September 10, 2012

Vice President of PJSOC Bashneft until May 19, 2015

RUSLAN GENSH

Member of the Management Board

Born in 1965 in Dushanbe (Tajikistan).
Graduated from Moscow Mining University with a degree in Mining Machinery and Equipment in 1987. Candidate of Economics; holds an Executive MBA degree.

WORK EXPERIENCE:

2005–2008 – First Deputy General Director, Director for Procurement of Petrotel-Lukoil S.A. (Romania).
2008–2009 – First Deputy General Director for Commerce of LLC Lukoil-Resurs.
2009–2009 – First Deputy General Director of LLC Lukoil-Reservnefteproduct.
2009–2009 – Executive Vice President, Head of the Export Project Office of OJSC Sistema-Invest.
2009–2011 – Vice President for Export of JSOC Bashneft.
2011 – Vice President for Export of JSOC Bashneft, Moscow Branch Office.
2011–2012 – Executive Vice President for Export of JSOC Bashneft, Moscow Branch Office.
2012 – October 2015 – Vice President for Crude Oil Procurement, Marketing and Logistics of PJSOC Bashneft.

Member of the Management Board of PJSOC Bashneft since October 23, 2012

Vice President of PJSOC Bashneft until October 6, 2015

YURI KRASNEVSKY

Vice President, Geology and Development

Member of the Management Board

Born in 1955 in the town of Svobodny in the Amur Region.
Graduated from Gomel State University as a geological engineer and hydrogeologist in 1977.

WORK EXPERIENCE:

2008–2010 – Field Development and Modelling Manager at the Technical Department, Upstream Division of OJSC TNK-BP Management.
2010–2011 – Director for New Technologies and Innovations in Development of the Upstream Division (Department of Technical Operation) of OJSC TNK-BP Management.
2011 – present – Vice President for Geology and Development of PJSOC Bashneft.

Member of the Board of Directors of LLC Bashneft-Polyus, Bashneft International B.V.

Member of the Management Board of PJSOC Bashneft since October 23, 2012

DMITRY PANYUKOV

Member of the Management Board

Born in 1975 in the town of Yefremov in the Tula Region.
Graduated from Lomonosov Moscow State University with a degree in Applied Mathematics in 1999.

WORK EXPERIENCE:

2004–2008 – Deputy General Director of OJSC TNK-Stolitsa.
2008–2010 – Deputy General Director, Retail Sales Director, General Director of CJSC Petrol Complex Equipment Company.
2010–2010 – Director of the Legal Department of CJSC TNK-South Management.
2010–2011 – General Director of CJSC TNK-South.
2011 – Head of the Retail Sales Department of LLC TNK-BP Marketing (the South Business Unit in Rostov-on-Don).
Since December 2011 – Director of the Retail Sales Department of PJSOC Bashneft.
November 2012 through July 2015 – Vice President for Regional Sales of PJSOC Bashneft.

Member of the Management Board of PJSOC Bashneft since February 26, 2013

Vice President of PJSOC Bashneft until July 4, 2015

ANDREY PILIPENKO

Member of the Management Board

Born in 1973 in Gubkin in the Belgorod Region.
Graduated from the Faculty of History of Voronezh State University in 1995.

WORK EXPERIENCE:

1997–2013 – military service; a reserve colonel.
2014 – Director of the Economic and Information Security Department, acting Vice President for Security of JSOC Bashneft.
May 2014 through March 2015 – Vice President for Security of PJSOC Bashneft.

Member of the Management Board of PJSOC Bashneft since May 30, 2014

Vice President of PJSOC Bashneft until March 18, 2015

VLADISLAV POZDYSHEV

Vice President, Organizational Development and Human Resources

Member of the Management Board

Born in 1970 in Leningrad.

Graduated from of St. Petersburg State University with a degree in Political Economy in 1992.

Completed an Executive MBA programme at Stockholm School of Economics in St. Petersburg in 2001.

WORK EXPERIENCE:

2008–2009 – Director for Organizational Development of OJSC KIT Finance Investment Bank.
2009–2013 – Chief Human Resources and Administrative Officer, Chief Organizational Excellence and Customer Experience Officer of Sistema Shyam Limited Gurgaon (India).
2013–2015 – Vice President for Human Resources of JSOC Bashneft.

May 2015 – present – Vice President for Organizational Development and Human Resources of PJSOC Bashneft.
Member of the Board of Directors of LLC Medovarus.
Member of the Management Board of PJSOC Bashneft since October 28, 2013

DMITRY RYABCHENKO

Vice President, Capital Construction and Logistic Support

Member of the Management Board

Born in 1971 in Irkutsk.
Graduated from National Research Irkutsk State Technical University with a degree in Industrial Power Supply in 1993.

WORK EXPERIENCE:

2007–2008 – General Director of LLC Baykitskaya Oil and Gas Exploratory Expedition, OJSC Messoyakhaneftegaz, Oil and Gas Company Slavneft
2008–2010 – Vice President for Capital Construction of OJSC RussNeft.
2010 – management positions in the Capital Construction Department of OJSC RUSAL, OJSC NOVATEK, OJSC Yamal LNG.
October 2012 – present – Vice President for Capital Construction and Logistic Support of PJSOC Bashneft

Member of the Management Board of PJSOC Bashneft since February 26, 2013

MIKHAIL STAVSKIY

First Vice President, Exploration and Production

Member of the Management Board

Born in 1961 in Ufa.

Graduated from Ufa State Petroleum Technological University with a degree in Oil and Gas Fields Machinery and Equipment in 1985.
Graduated from Moscow State Institute of International Relations (university) of the Ministry of Foreign Affairs of Russia with a Master's degree in Business Administration in 2009.
Received an MBA in International Business in Oil and Gas at MGIMO in 2010.

WORK EXPERIENCE:

2005–2010 – Vice President for Production of OJSC Rosneft.
2011 – present – First Vice President for Exploration and Production of PJSOC Bashneft.
Chairman of the Board of Directors of LLC Bashneft-Polyus, member of the Management Board of Autonomous Nonprofit Organization Hockey Club Salavat Yulaev.
Member of the Management Board of PJSOC Bashneft since June 26, 2011

DENIS STANKEVICH

First Vice President, Refining and Commerce

Member of the Management Board

Born in 1974 in Izhevsk
Graduated from Udmurt State University with a degree in Applied Mathematics in 1997.
Graduated from Udmurt State University with a degree in Finance and Credit in 1998.

WORK EXPERIENCE:

2008–2010 – General Director of OJSC ASPEC.
2010–2013 – Deputy Finance Director for Refining and Commerce, Finance Director for Refining and Commerce of JSOC Bashneft.
2013 – May 2015 – Vice President for Economics and Finance, Chief Financial Officer of JSOC Bashneft.
May 2015 – present – First Vice President for Refining and Commerce of PJSOC Bashneft.

Member of the Management Board of PJSOC Bashneft since April 12, 2013

TOP MANAGEMENT OF PJSOC BASHNEFT

as of December 31,
2015



ALEXANDER KORSIK

Executive director
Member of the Strategy Committee
Member of the Board of Directors
Chairman of the Management Board
President

Born in 1956 in Minsk.

Graduated from the Bauman Moscow State Technical University with a degree in Automatic Control Systems in 1979.

WORK EXPERIENCE:

2007–2009 – Chairman of the Board of Directors of OJSC RussNeft.

2009–2011 – Senior Vice President of OJSC JSFC Sistema, Head of the Fuel and Energy Business Unit of OJSC JSFC Sistema.

2011 – present – President and Chairman of the Management Board of PJSOC Bashneft. Under the resolution of the Company's Board of Directors dated March 25, 2014, Alexander Korsik was reappointed as President of the Company for three years.

Member of the Management Board of PJSOC Bashneft since April 6, 2011



MIKHAIL STAVSKIY

First Vice President, Exploration and Production
Member of the Management Board

Born in 1961 in Ufa.

Graduated from Ufa State Petroleum Technological University with a degree in Oil and Gas Fields Machinery and Equipment in 1985.

Graduated from Moscow State Institute of International Relations (university) of the Ministry of Foreign Affairs of Russia with a Master's degree in Business Administration in 2009.

Received an MBA in International Business in Oil and Gas at MGIMO in 2010.

WORK EXPERIENCE:

2005–2010 – Vice President for Production of OJSC Rosneft.

2011 – present – First Vice President for Exploration and Production of PJSOC Bashneft.

Member of the Board of Directors of LLC Bashneft-Polyus, member of the Management Board of Autonomous Nonprofit Organization Hockey Club Salavat Yulaev.

Member of the Management Board of PJSOC Bashneft since June 26, 2011



DENIS STANKEVICH

**First Vice President, Refining and Commerce
Member of the Management Board**

Born in 1974 in Izhevsk

Graduated from Udmurt State University with a degree in Applied Mathematics in 1997.

Graduated from Udmurt State University with a degree in Finance and Credit in 1998.

WORK EXPERIENCE:

2008–2010 – General Director of OJSC ASPEC.

2010–2013 – Deputy Finance Director for Refining and Commerce, Finance Director for Refining and Commerce of JSOC Bashneft.

2013 – May 2015 – Vice President for Economics and Finance, Chief Financial Officer of JSOC Bashneft.

May 2015 – present – First Vice President for Refining and Commerce of PJSOC Bashneft.

Member of the Management Board of PJSOC Bashneft since April 12, 2013



ALEXEY LISOVENKO

**Vice President, Economics and Finance, Chief
Financial Officer**

Born in 1972 in Orsk in the Orenburg Region.

Graduated from the Astronautical and Rocket Engineering Faculty of Moscow Aviation Institute with a degree in Computer-Aided Design and completed a correspondence course in Business on the Market for Goods and Services in Moscow State University of Commerce in 1996.

WORK EXPERIENCE:

2009–2015 – Deputy Chief Financial Officer, Chief Accountant of JSOC Bashneft.

2015 – present – Vice President for Economics and Finance, Chief Financial Officer of PJSOC Bashneft.

Vice President of PJSOC Bashneft since July 2015



IGOR MARCHENKO

Vice President, Strategy and Development

Born in 1968 in Moscow.

Graduated from Moscow State Institute of Radio Engineering, Electronics and Automation with a degree in Automated Data Processing and Management Systems in 1994 and finished the Graduate School of International Business of the Russian Presidential Academy of National Economy and Public Administration in 1998.

WORK EXPERIENCE:

2009–2011 – Executive Vice President, Director of the Strategy Department of the Fuel and Energy Business Unit of JSFC Sistema.

Since April 2011 – Executive Vice President for Development of Oil Assets of the Core Assets Business Unit of JSFC Sistema.

April 2012 through July 2014 – Vice President for Strategy and Development of JSOC Bashneft.

Since January 2015 – acting Vice President for Strategy and Development of PJSOC Bashneft.

Vice President of PJSOC Bashneft since April 2015

TOP MANAGEMENT OF PJSOC BASHNEFT



VITALY KOZLOV

Vice President, Refining and Petrochemicals

Born in 1977 in the village of Mys Dobroy Nadezhdy in the Sasovsky District of the Ryazan Region.

Graduated from the Ryazan State Radio Engineering University with a degree in Management in 1999 and completed a thesis in Moscow Aviation Institute in 2002. Obtained a MBA degree in Strategic Management and Leadership in 2012.

WORK EXPERIENCE:

2001–2012 – Head of the Planning and Controlling Division, Director of the Planning and Performance Management Department, Commercial Director and acting General Director of CJSC Ryazan Oil Refining Company.

2012–2013 – Commercial Director, Director of the Planning and Performance Management Department and Director of Operations at OJSC TNK-BP Management.

Since May 2013 – Director of the Department for Improvement of Operational Efficiency of Oil Refining at JSOC Bashneft.

Since September 2014 – acting Senior Vice President for Refining and Petrochemicals of PJSOC Bashneft.

Member of the Board of Directors of PJSC Ufaorgsintez.

Vice President of PJSOC Bashneft since April 2015



KIRILL KASTERIN

Vice President, Regional Sales

Born in 1973 in Taganrog in the Rostov Region.

Graduated with honours from the Gubkin State Oil and Gas University with a degree in Chemical Engineering of Fuel and Carbon Materials in 1995 and from Lomonosov Moscow State University in 2001. Candidate of in Chemistry. Obtained an MBA degree from Stockholm School of Economics in 2009.

WORK EXPERIENCE:

2009–2010 – Deputy General Director for Commercial Issues of LUKOIL ROMANIA S.R.L.

2010–2013 – Executive Director, Commercial Director and General Director of LLC Bashneft-Region.

Since December 2013 – Director of the Bashneft-Regional Sales Branch of PJSOC Bashneft.

Vice President of PJSOC Bashneft since October 2015



YURI KRASNEVSKY

**Vice President, Geology and Development
Member of the Management Board**

Born in 1955 in the town of Svobodny in the Amur Region.
Graduated from Gomel State University as a geological engineer and hydrogeologist in 1977.

WORK EXPERIENCE:

2008–2010 – Field Development and Modelling Manager at the Technical Department, Upstream Division of OJSC TNK-BP Management.

2010–2011 – Director for New Technologies and Innovations in Development of the Upstream Division (Department of Technical Operation) of OJSC TNK-BP Management.

2011 – present – Vice President for Geology and Development of PJSOC Bashneft.

Member of the Board of Directors of LLC Bashneft-Polyus, Bashneft International B.V.

Member of the Management Board of PJSOC Bashneft since October 23, 2012



SERGEY ZDOLNIK

Vice President, Oil and Gas Production

Born in 1972 in Slavuta in the Khmelnytsky Region.

Graduated from the Tyumen Industrial Institute with a degree in Mining Engineering in 1994, from Tyumen State Oil and Gas University as an economic manager in 2000 and from Stockholm School of Economics in Saint Petersburg in 2009. Candidate of Engineering Sciences.

WORK EXPERIENCE:

2006–2012 – First Deputy General Director for Production, Chief Engineer, General Director of LLC RN-Yuganskneftegaz.

Since January 2013 – Director of the Department of Oil and Gas Production of JSOC Bashneft.

Since September 2014 – acting Vice President for Oil and Gas Production of JSOC Bashneft.

Since April 2015 – Vice President for Oil and Gas Production of PJSOC Bashneft.

Member of the Board of Directors of LLC Bashneft-Polyus.

Vice President of PJSOC Bashneft since April 2015



DMITRY RYABCHENKO

**Vice President, Capital Construction
and Logistic Support**

Member of the Management Board

Born in 1971 in Irkutsk.

Graduated from National Research Irkutsk State Technical University with a degree in Industrial Power Supply in 1993.

WORK EXPERIENCE:

2007–2008 – General Director of LLC Baykitskaya Oil and Gas Exploratory Expedition, OJSC Messoyakhaneftegaz, Oil and Gas Company Slavneft.

2008–2010 – Vice President for Capital Construction of OJSC RussNeft.

2010 – management positions in the Capital Construction Department of OJSC RUSAL, OJSC NOVATEK, OJSC Yamal LNG.

October 2012 – present – Vice President for Capital Construction and Logistic Support of PJSOC Bashneft

Member of the Management Board of PJSOC Bashneft since February 26, 2013

TOP MANAGEMENT OF PJSOC BASHNEFT



KIRILL ANDREYCHENKO

**Vice President, Corporate Governance
and Legal Issues**

Member of the Management Board

Born in 1975 in Moscow.

Graduated from Moscow State Industrial
University as a lawyer in 1997.

WORK EXPERIENCE:

2005–2009 – General Director of CJSC United
TeleSystems (part-time).

2007–2008 – Director for Corporate Governance
and Legal Issues of OJSC COMSTAR-UTS.

2008–2009 – Vice President for
Corporate Governance and Legal Issues of
OJSC COMSTAR-UTS.

2009 – present – Vice President for
Corporate Governance and Legal Issues of
PJSOC Bashneft.

Member of the Management Board of
Autonomous Non-Profit Organization Bashneft
Professional Checkers Club

Member of the Management Board of
PJSOC Bashneft since February 1, 2010



VLADISLAV POZDYSHEV

**Vice President, Organizational Development
and Human Resources**

Member of the Management Board

Born in 1970 in Leningrad.

Graduated from of St. Petersburg State
University with a degree in Political Economy in
1992.

Completed an Executive MBA programme
at Stockholm School of Economics in
St. Petersburg in 2001.

WORK EXPERIENCE:

2008–2009 – Director for Organizational
Development of OJSC KIT Finance Investment
Bank.

2009–2013 – Chief Human Resources and
Administrative Officer, Chief Organizational
Excellence and Customer Experience Officer of
Sistema Shyam Limited Gurgaon (India).

2013–2015 – Vice President for Human
Resources of JSOC Bashneft.

May 2015 – present – Vice President for
Organizational Development and Human
Resources of PJSOC Bashneft.

Member of the Board of Directors of
LLC Medovarus.

Member of the Management Board of
PJSOC Bashneft since October 28, 2013



YURY KORSKOV

Vice President, Security

Born in 1966 in Tambov.

Graduated from F.E. Dzerzhinsky Tambov Military Aviation Engineering Institute with a degree in Avionics in 1988.

WORK EXPERIENCE:

2012–2014 – Deputy Head of Security of OJSC Rosneft.

June 2014 through July 2014 – Deputy General Director for Security of OJSC RN-Nyaganneftegaz.

March through October 2015 – Security Adviser to the President of PJSOC Bashneft.

Vice President of PJSOC Bashneft since October 2015



IGOR KALYUZHNY

Vice President, Information Technologies

Born in 1966 in Kiev.

Graduated from Kiev High Military Radioengineering Air Defence School with a degree in Mathematical Support of Automated Control Systems in 1988 and from Moscow State University with a degree in Applied Mathematics in 1995. Obtained an MBA CIO diploma at the Russian Presidential Academy of National Economy and Public Administration in 2011.

WORK EXPERIENCE:

2009–2014 – Vice President for Information Technologies of JSOC Bashneft.

2014–2015 – CIO of Medsi Group of Companies.

Since February 2015 – acting Vice President for Information Technologies of JSOC Bashneft.

Vice President of PJSOC Bashneft since April 2015

SETTLEMENT OF POTENTIAL CONFLICTS OF INTEREST OF MEMBERS OF PJSOC BASHNEFT'S GOVERNING BODIES

The Group pays special attention to the prevention and minimization of the impact of possible conflicts of interest among members of its governing and executive bodies.

Internal regulations of the Group establish procedures for supervising and monitoring actions which could indicate a conflict of interest (including notifying all directors and executives of the Group on a quarterly basis about the necessity of compliance with applicable requirements). The Board of Directors reviews bi-annual reports on compliance with the Code of Corporate Governance, the Code of Ethics and the Anti-Corruption Policy (following a preliminary review by the Audit Committee).

The Group has organized training for employees of PJSOC Bashneft, its branches and subsidiaries and tests for assessing their knowledge of the provisions of the Code of Ethics and the Anti-Corruption Policy. The Group successfully continues to run a hotline; employees are regularly informed about its operation via mailings and publications in the corporate newspaper.

In accordance with recommendations from the Audit Committee of the Company's Board of Directors, in 2015 the Group's compliance function was separated from the Internal Audit Unit and transferred to the Compliance Control Department headed by a Compliance Officer and reporting to the Vice President for Corporate Governance and Legal Issues.

The main tasks of the Company in the sphere of compliance are:

- ensuring compliance of all the Company's employees with the laws, internal regulatory documents and business ethics standards;
- forming and maintaining the atmosphere of 'zero tolerance' to corruption;

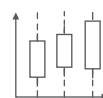
- implementation and control over the control procedures related to anti-corruption practices, observance of business ethics and compliance with obligations, including the level of senior management and directors;
- ensuring compliance with the Code of Corporate Governance, the Code of Ethics and the Anti-Corruption Policy of PJSOC Bashneft;
- ensuring that senior management monitors and is informed of the extent to which the rules and standards are observed in the Group;
- training and development of the Company's employees in the compliance matters

SETTLEMENT OF POTENTIAL CONFLICTS OF INTEREST WITH SHAREHOLDERS AND INVESTORS

The Group's principal shareholders hold a sufficient number of votes to make decisions on a wide range of issues coming falling within the competence of the General Meeting of Shareholders and to influence the composition of the Board of Directors. However, the Group has in place a number of efficient instruments to mitigate risks associated with its special management structure characterized by a high concentration of share capital (a special procedure for voting on certain issues, information transparency, a well-balanced structure of the Board of Directors, regular open meetings with minority shareholders, etc.).

The main instruments used to prevent conflicts among shareholders include the following:

- compliance with the scope of authority, rules and procedures for making decisions on the most important issues (involvement of shareholders in the decision-making process through their



In accordance with international best practice, Bashneft has established a compliance function tasked with maintaining high standards of openness and business integrity.



RESPECTING THE RIGHTS OF MINORITY SHAREHOLDERS

The Group respects the rights and legitimate interests of minority shareholders and provides them with equal opportunities to participate in the management, access to information, and profit distribution in proportion to their voting power.



participation in the General Meeting of Shareholders);

- compliance with restrictions imposed by special procedures for voting on related-party transactions (with interested shareholders abstaining from voting);
- engagement of recognized independent appraisers for valuation of assets in related-party transactions;
- ensuring maximum transparency and disclosure of information in the course of preparation and participation in shareholder meetings (publication of materials for the General Meeting of Shareholders on the corporate website, preparation of recommendations and comprehensive rationale, press conferences attended by representatives of the media);
- holding the General Meeting of Shareholders in Ufa, the city where

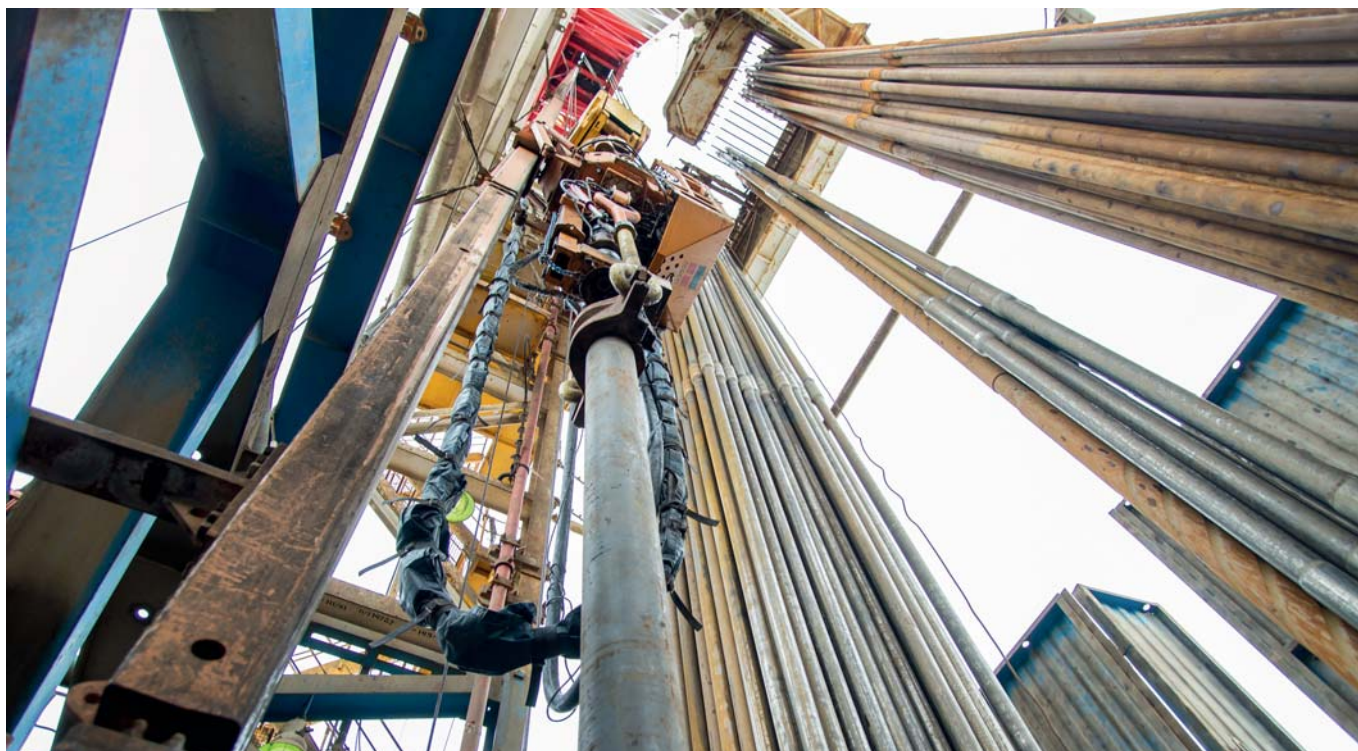
the overwhelming majority of minority shareholders live (are located);

- cancellation of shares at proper market prices confirmed by independent valuation reports in cases specified by applicable laws;
- engagement of one of the 'Big Four' auditing firm as independent auditors.

Minority shareholders have an opportunity to communicate with senior managers, members of the Board of Directors and the Audit Commission. Shareholders can also use the Group's hotline to inform the President or members of the Board of Directors about any existing conditions that may give rise to conflicts or about other issues, the settlement of which could improve the efficiency of governance.

When the Board of Directors addresses key issues such as the approval of business

strategy, the long-term budget or major projects, members of the Board of Directors can initiate their discussion with the Group's shareholders in order to arrive at the best possible decision based on the balance of interests of all stakeholders.



SETTLEMENT OF POTENTIAL CONFLICTS OF INTEREST OF MEMBERS OF THE BOARD OF DIRECTORS

Cases which may be considered as a conflict of interest of members of the Board of Directors are specified in the Code of Corporate Governance and the Code of Ethics of PJSOC Bashneft. These documents stipulate that the Board members must refrain from making decisions on issues in relation to which they have a conflict of interest.

The Regulations on the Board of Directors of PJSOC Bashneft contain a list of information on the Board members and their affiliated persons to be provided by the Board members.

The Corporate Secretary is tasked with monitoring the deadlines and schedule for providing the above-mentioned information.

In accordance with the Regulations on Insider Information approved by the Company, the Board members may not disclose or use insider information.

As part of the work of the Board of Directors, the Board Chairman and the Company's Corporate Secretary take measures necessary for developing relationships among the Board members that are as friendly and constructive as

possible in order to make informed and rational decisions. Internal procedures ensure that no issues which have not been elaborated and prepared for decision-making can be submitted for consideration to the Board of Directors, and the time frame during which the directors familiarize themselves with the agenda and materials in advance ensure to a certain extent that an issue will be examined exhaustively. At the same time, in certain cases, 'live' discussion during face-to-face meetings may create situations when initial draft resolutions are changed considerably or when certain directors vote against or abstain from voting on agenda items. This proves again that the Company's Board of Directors is really a functioning governing body whose decisions are based on thorough collaborative work and take into account the balance of interests of directors representing different groups of shareholders.

In 2015 no conflicts of interest of members of the Board of Directors or members of the Management Board of PJSOC Bashneft were revealed.

Voting statistics of the Board members in 2015*

| FOR | AGAINST | ABSTAINED | TOTAL |
|----------|---------|-----------|-------|
| 1,816 | 1 | 21 | 1,838 |
| 98.8030% | 0.0544% | 1.1425% | 100% |

*The table shows the data on the total number of votes of all Board members of the Company for 2015, based on the analysis of voting results recorded in the minutes of Board meetings.



Code of Corporate Governance. Principle 2.6. Members of the board of directors should act reasonably and in good faith in the interests of the company and its shareholders on the basis of sufficient information, exercising due diligence and care.

RISK MANAGEMENT AND INTERNAL CONTROL

PRINCIPLES AND APPROACHES TO ORGANIZING THE RISK MANAGEMENT SYSTEM

When working to achieve its goals, the Group faces internal and external operational risks. One of PJSOC Bashneft's main tasks is to monitor and forecast risks inherent in its business operations.

We regularly monitor potential risk events and take measures to prevent them. When these events are inevitable, we take all necessary measures to reduce their negative impact.

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

On October 2, 2015, the Board of Directors of PJSOC Bashneft approved a new version of the Regulations on Risk Management. The new version incorporates the recommendations of the Federal Agency for State Property Management concerning the structure and content of internal documents regulating approaches to risk management used by state-owned companies; more specifically, it formalized the procedures used for determining the Company's risk appetite.

Risk management is an integral part of strategic and operations management and business planning; it is a package of measures implemented at all levels of management and planning.

Key principles of operation of the RMS in the Group:

- a systematic approach to managing all types of risks faced by the Group across the entire organizational structure and operating regions;
- risk management based on the Group's strategic goals and the aims of specific processes;
- cost efficiency and feasibility of risk management measures.

AIMS AND OBJECTIVES OF THE RISK MANAGEMENT SYSTEM

The integrated risk management system is aimed at developing and implementing a package of the following measures:

- identification and systematic analysis of the Group's risks;
- allocation of responsibility for risk management;
- taking risks into account when making managerial decisions in all cases;
- development of action plans for responding to considerable risks and monitoring of their implementation;
- risk monitoring and performance evaluation of the RMS;
- gaining knowledge in the sphere of integrated risk management;
- preparation of risk management reports for the Group's managers and the Board of Directors.

Integrated risk management exists at all levels of the Group's management, forming an integral part of corporate management.

Bashneft Group uses various methods for managing identified risks:

- risk avoidance, i.e. withdrawing from a risky project;
- risk reduction, i.e. taking preventative measures to either completely prevent the risk or reduce potential losses and their likelihood;
- risk transfer, when the risk is mitigated by transferring it to a third party (insurance programmes etc.);
- risk retention, when losses are covered using the Group's own funds.



RISK MANAGEMENT SYSTEM

Risk management is aimed at providing a reasonable guarantee that strategic goals will be achieved and that the level of risks faced by the Group remains acceptable for the management and shareholders.



Code of Corporate Governance. Principle 5.1. The company should create an effective risk management and internal control system aimed at ensuring reasonable confidence that the company will achieve its goals.

Insurance



We consider the insurance system to be one of the most important mechanisms for ensuring the Group's sustainable strategic development in the long term and a tool for protection against irrecoverable financial losses incurred in case of accidents and other emergencies at production sites. Insurance activity is guided by a single approach to and single methodology for the corporate insurance process management.

In accordance with the approved Insurance Programme, Bashneft uses an integrated approach to

property and liability insurance of the Group and its shareholders. Insurance coverage is provided for property, plant and equipment (property insurance, construction and installation work and cargo hauling) and the liability of the Group, its directors and executives. To improve protection of the property interests, the Insurance Programme is regularly reviewed for potential amendments and improvements. In particular, starting from 2016, in addition to property insurance 'against all risks', insurance against losses resulting from business interruption in the Downstream sector enterprises was approved.

An insurance programme ensuring continuous coverage across the entire life cycle of the project (from drilling wells to commercial production) was developed for the oilfield development projects. Additional attention is given to environmental risks and potential environmental damage resulting from accidents and incidents in the process of well drilling, workover or production. To ensure reliable insurance coverage, international reinsurance companies with 'A-' reliability rating (S&P) and higher are engaged.

RISK MANAGEMENT ORGANIZATIONAL STRUCTURE

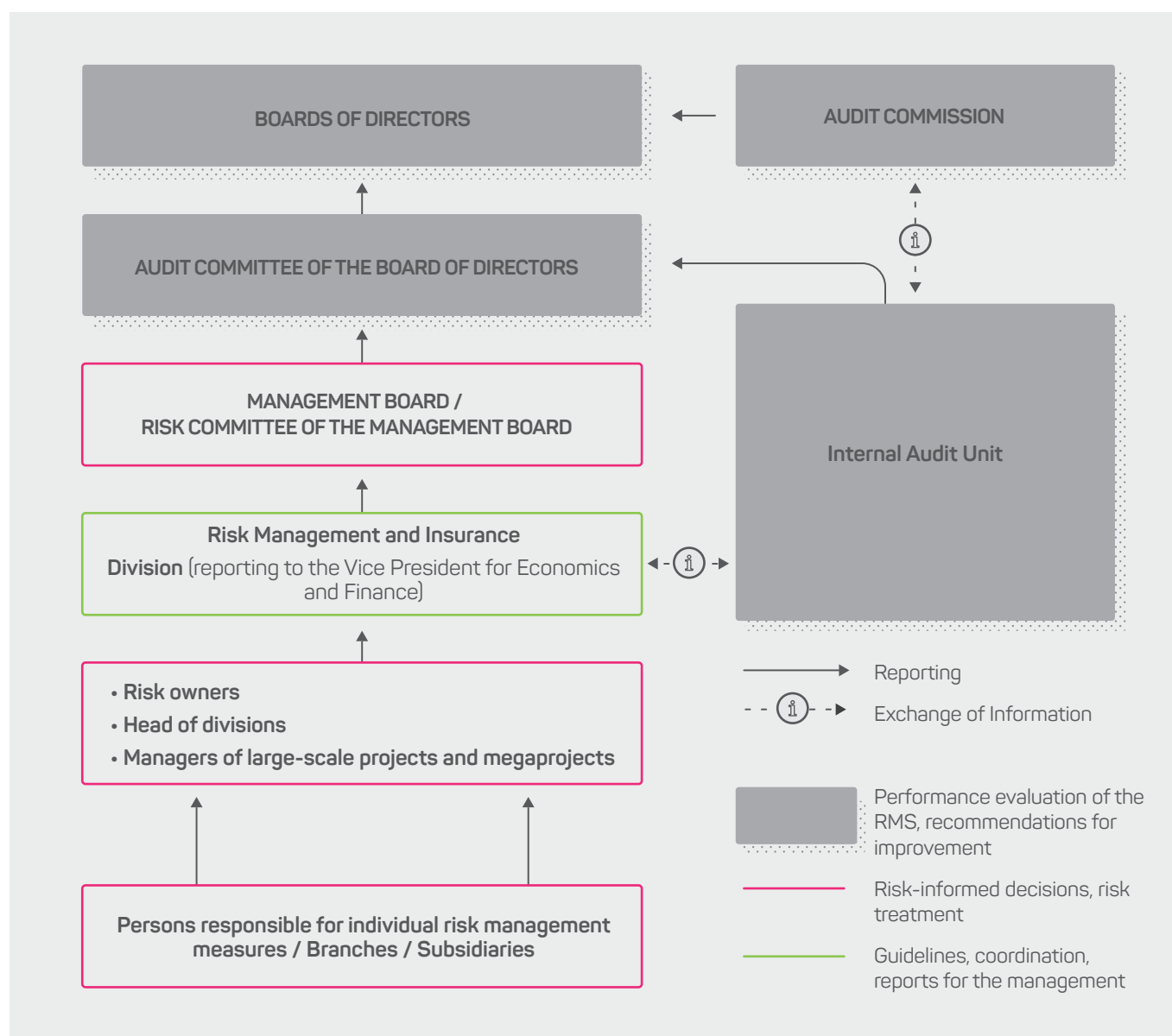
To maintain and develop the Risk Management System, the Group has created the Risk Committee of the Management Board. The Committee comprises Vice Presidents, Finance Directors and Department Directors representing various business areas and performs the following key functions:

- it considers and approves the corporate risk register, the risk map and the risk management report;
- it develops recommendations for the Management Board concerning risk management methods and mechanisms and approves action plans for managing risks.

In 2015 the Risk Committee considered issues related to management of individual operational and project risks, arrangement of insurance cover for the Company, methods for setting limits for banks and insurance companies, as well as measures for integrating the RMS with other processes of the Group.

The Risk Management and Insurance Department coordinates the risk management process and has the following functions related to organization of the RMS:

- it facilitates cross-functional cooperation between the Group's departments;
- it provides those involved in integrated risk management with methodological guidelines;
- it consolidates the information on Bashneft's risks, analyses the impact of the key risks on cash flow and prepares a risk management report to be considered by the Group's governing bodies.



MEASURES FOR IMPROVING THE RMS

Every year the Group develops and implements a package of measures to improve the performance of the RMS. In accordance with the decision of the Board of Directors, an action plan for developing the RMS function for 2015 was approved. As part of this plan, measures were implemented to improve the methodology of risk assessment and management and integration of the risk management processes with the Group's budgeting, strategic planning and project activities.

Considering that the Company implemented key provisions of the Code of Corporate Governance of the Bank of Russia, the primary RMS development areas for 2016 are:

- development and approval of proposals for acceptable level of risk (risk appetite) by the Board of Directors;
- development and implementation of tools ensuring interconnection between the risk management system and the incentive system.

Annually, the Company's Board of Directors reviews a risk management report generated by the Company's internal division responsible for analysis and systematization of data on the risks faced by the Group and measures to mitigate them. In 2015, the Board of Directors reviewed such a report for the previous year in April along with an action plan for the risk management function development.



For a detailed description of our risks, see the Appendix 'Key risk factors'.



INTERNAL CONTROL

Internal control forms a required element of the organization management in PJSOC Bashneft. The internal control provided by each employee of the organization at his or her level makes sure risks are reduced to a minimum as the Group achieves its operational and strategic goals; it ensures that activities are efficient and expedient, the laws are complied with and reliability of any type of report is enhanced. The Internal Audit Unit was the main division responsible for the internal control function.

Complying with the new requirements of the Russian legislation and the Code of Corporate Governance for building the internal control system, in 2015, the Group's management considered the issue of 'PJSOC Bashneft's Internal Control Function Development', to improve quality of the corporate governance, transparency and manageability of the Group's operations at the meeting of the Management Board held in April 2015. The resolutions adopted contributed to revision of the internal control functioning and to making it an independent and separate function, namely:

- make sure the key philosophy behind the internal control system function complies with the new legal requirements;
- based on the revised philosophy, develop the internal control system management

and implementation methodology and launch it in a test mode for specially selected business processes of the Group;

- recommend that an organizational structure should be created for the internal control function to perform as a separate type of activity.

The creation and implementation of the internal control system is based on the COSO framework recommended for use by Decree No. 249 of the Federal Agency for State Property Management (Rosimushchestvo) On Approval of Methodological Recommendations for the Organization of Internal Audit in Joint-Stock Companies Partially Owned by the Russian Federation dated July 4, 2014, and adapted to specific activities of PJSOC Bashneft.

The key principles of the internal control functioning and internal control system creation include integrity, feasibility, responsibility, documenting, separation of powers, total communication, continuous improvement and functioning.

The internal control system management methodology and recommendations for development of the unit's organizational structure for performing the internal control function were submitted for review and approval to the Audit Committee of the Board of Directors of PJSOC Bashneft in the first quarter of 2016.

At present, special attention is given to internal control of processes for preparation of financial statements, procedures for countering abuse, corruption and fraud. The Group has in place a corruption and fraud prevention Hotline and a Hotline for the Group's customers. Internal control is regularly monitored (the Group's performance is analysed; performance of individual business operations is reviewed; internal organizational and management documents are regularly appraised and updated). A special compliance control division has been set up.

Internal controllers are also focused on IT processes, i.e. automated control procedures are developed and implemented, measures are taken to manage information system access and prevent conflicting transactions carried out by the same person.

INTERNAL AUDIT



**NIKOLAY
MOROZOV**

Chief Auditor

Born in 1967 in Moscow.
Graduated from Moscow State Institute of International Relations (MGIMO) with a degree in International Economic Relations in 1989.
Candidate of in Economics.

WORK EXPERIENCE:

2008 – 2013 – Deputy General Director for Internal Control of CJSC Polyus Gold Mining Company.

2013 – 2014 – Executive Director of ONEXIM Group.

2014 – 2015 – Internal Audit Director of PJSC Uralkali.

September 2015 – present – Chief Auditor of PJSOC Bashneft.



The Internal Audit Unit (IAU) is headed by the Chief Auditor, who is administratively subordinate to the President of PJSOC Bashneft and functionally accountable to the Audit Committee of the Board of Directors of PJSOC Bashneft. This ensures an appropriate level of independence from the management in judgements and conclusions based on audit findings.

The Internal Audit Unit forms an integral part of Bashneft's organizational structure; it comprises internal audit departments responsible for various areas of business. The Internal Control Department was excluded from the structure of the IAU in 2015.

The main aim of internal audit in the Group is to provide the Board of Directors, the Audit Committee of the Board of Directors and executive bodies with independent and objective guarantees that PJSOC Bashneft and its subsidiaries have appropriate internal control, risk management and corporate governance systems.

The internal audit function assists the Board of Directors and executive bodies in improving the efficiency of the Group's management, improving its financial and business operations using a systematic and consistent approach to the analysis and assessment of the risk management, internal control and corporate governance system as tools for ensuring reasonable confidence that the Group's goals will be achieved.

To achieve its goals, the Internal Audit Unit performs its tasks in the following areas:

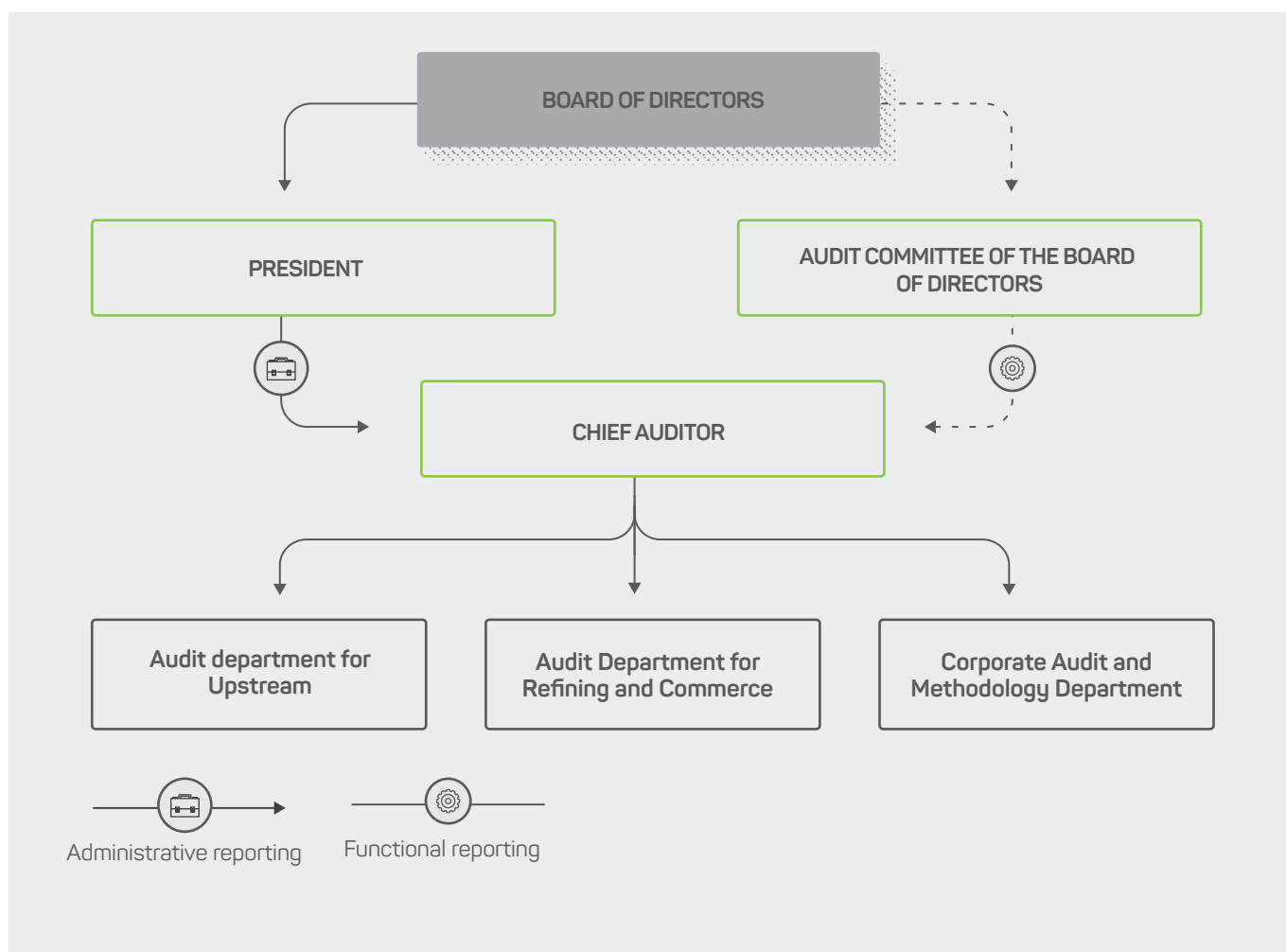
- organizing and developing audit programmes, as well as organizing and conducting audits at PJSOC Bashneft and its subsidiaries, which involves:
 - assessing the efficiency of internal control in the main business processes of the Group;

- assessing the efficiency of the Group's corporate governance;
- assessing compliance with the requirements of applicable legislation and internal regulatory documents;
- assessing the quality of preparation and reliability of financial statements;
- assessing the efficiency of the risk management system and developing recommendations for improvement of risk management processes;
- preparing reports outlining the main conclusions based on audit findings, as well as recommendations for eliminating shortcomings that have been identified;
- monitoring the implementation of internal auditors' recommendations and preparing the relevant progress reports;
- advising the Group's management on risk management, internal control and corporate governance issues;
- conducting special checks at the request of the Group's senior management;
- developing recommendations for organizing internal control aimed at ensuring the achievement of the Group's business objectives, efficiency of financial and business operations and safeguarding the Group's assets;
- identifying risks of fraud.

Specific internal audit tasks and functions for the year are approved by the Board



Code of Corporate Governance. Principle 5.2. The company shall organize internal audit in order to make an independent and systematic assessment of the reliability and performance of the risk management and internal control system and corporate governance practice.



of Directors and may include carrying out certain instructions of the Board of Directors, the Audit Committee of the Board of Directors and the President of PJSC Bashneft.

The work of the Internal Audit Unit is governed by the Regulations on the Internal Audit¹. Employees of the Internal Audit Unit comply with international standards in internal audit, the legislation of the Russian Federation, the Company's Charter, resolutions of the Board of Directors, the Management Board and the President of PJSC Bashneft, as well as local regulations.

To provide methodological guidelines for ensuring compliance of the Group's internal audit function with international best practices and international professional standards in internal audit, the Company has approved the Quality Standard in Internal Control and Audit. The Standard sets out the rules of conduct of the Company's internal auditors and key principles to which they must adhere when performing their professional duties.

The Company's Board of Directors annually (usually once or twice a year) considers a report of the Chief Auditor on the work of the Internal Audit Unit and an audit plan for the next reporting period. In 2015, the Board of Directors considered such a report in April along with an Action Plan for the reporting year.

In 2015 the Board of Directors adopted a number of important resolutions regarding internal audit issues:

- it approved a new version of the Company's Regulations on Internal Audit which includes the requirements of the Moscow Exchange for audit procedures in public companies, and the recommendations of the Federal Agency for State Property Management (Rosimushchestvo) concerning practical arrangement of internal audits in state-owned companies (in May and October 2015);
- it approved the termination of powers of A. Pavlov, the previous Chief Auditor, and the appointment of N. Morozov to this position (September 2015).

Based on the opinion of the Audit Committee, generally, the Group's internal audit process may be described as complying with the essential requirements.

1. The new version of the Regulations was approved by the Board of Directors (Minutes No. 16-2015 dated October 2, 2015).

AUDIT COMMISSION

The Audit Commission is a standing elected body which regularly monitors financial and business operations of PJSOC Bashneft and the work of its governing bodies and executives.

As of December 31, 2015, PJSOC Bashneft's Audit Commission comprised five members:¹:

- Boris Lyuboshits – General Director of LLC Audit Group (Chairman);
- Alexey Afonyashin – Deputy Director of the Department of State Regulation of Tariffs, Infrastructure Reforms and Energy Efficiency of the Ministry of Energy of the Russian Federation, Moscow;
- Oleg Zenkov – Adviser to the Head of the Federal Agency for State Property Management;
- Andrey Novakovskiy – Managing Partner of the Liniya Prava Law Firm;
- Andrey Kharin – Deputy Director of the Department of Corporate Governance, Pricing Environment and Control and Audit Activities in Industries of the Fuel and Energy Sector of the Ministry of Energy of the Russian Federation.

In the reporting year, the role of the Audit Commission became much more important as state-owned companies consider the Audit Commission to be a real instrument for control for shareholders enabling them to secure an independent opinion on the company's activities. For instance, in 2015, the Audit Commission held seven meetings (three face-to-face meetings and four meetings by absentee voting) that addressed ten issues (five issues at face-to-face meetings and five issues at meetings by absentee voting). The total duration of the face-to-face meetings amounted to 2 hours and 25 minutes. At the meetings, the Audit Commission considered issues related to practical arrangement of the audit as part of preparation for the Annual General Meeting of Shareholders of the Company,

the report on the results of the audit and several procedural matters.

By a decision of the Annual General Meeting of Shareholders of the Company held on June 30, 2015, a new version of the Regulations on the Audit Commission was approved. In this document the powers of the supervisory body were updated considering the recommendations of the Federal Agency for State Property Management (Rosimushchestvo) regarding the development of such documents in state-owned companies (amendments were made as regards the time frame for certain procedures and interaction with other participants). Besides, at the GMS, the Regulations on Remunerations and Compensations Payable to Members of the Audit Commission of the Company were approved. These regulations provide for the first time for remunerations of the Audit Commission members who do not hold positions in governmental (municipal) agencies (before that, the Group did not have a separate procedure for remunerating members of the Audit Commission).

In accordance with the Regulations, by a resolution of the Annual General Meeting of Shareholders, remuneration for serving on the Audit Commission totals 750 thousand roubles per year; besides, the Chairman of the Commission is paid additional 150 thousand roubles. Expenses incurred by the Audit Commission members and connected to performance of their functions may also be reimbursed within the limits established by the Regulations.

In 2015 no remuneration was paid to the members of PJSOC Bashneft's Audit Commission, and no expenses incurred by them while performing their duties were reimbursed. The issue of remunerating the Audit Commission members for 2015 in accordance with the Regulations is scheduled for consideration by the Annual General Meeting of Shareholders of the Company in 2016.

Participation of members of the Audit Commission in meetings in 2015

| Members of the Audit Commission in 2015 | Status | Audit Commission (Seven meetings) |
|---|--------|-----------------------------------|
| B. Lyuboshits | | 7/7 |
| A. Afonyashin | CS | 6/7 |
| O. Zenkov | CS | 7/7 |
| A. Novakovskiy | | 6/7 |
| A. Kharin | CS | 7/7 |

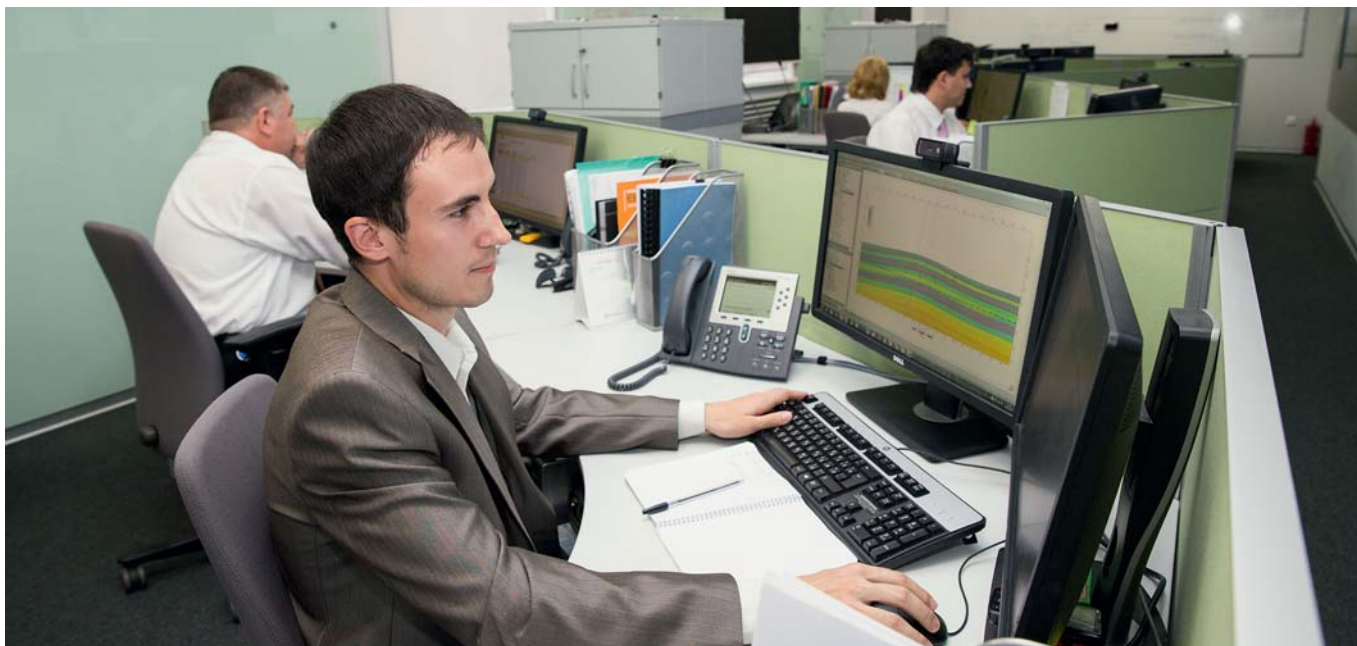
Notes:

1. CS means a civil servant.
2. The 6/7 format means that an Audit Commission member was able to attend seven meetings, however, actually he/she attended six meetings only.
3. The Audit Commission which functioned until March 11, 2015, did not hold meetings.

1. These members were elected at an extraordinary meeting of shareholders on March 11, 2015 and re-elected under the resolution of the Annual General Meeting of Shareholders on June 30, 2015. Before March 11, 2015, the Audit Commission comprised the following

members: Irina Borisenkova; Alexey Lipskiy; Anatoly Pavlyuchenok; Ural Suleymanov; Viktor Cherkassky (at the time of their election all of them were employees of OJSC JSFC Sistema).

EXTERNAL AUDIT



In order to make an independent assessment of the accuracy and reliability of financial statements, the Company annually engages an external auditor to carry out an audit of the statements prepared under IFRS and RAS. External auditors are engaged based on annual tenders ensuring objective selection in accordance with criteria such as the scope and schedule of work, as well as the nature of the Group's operations. Candidates for the position of the auditor of the Company, its subsidiaries (including the main terms and conditions of the contracts under which auditors are engaged) are provisionally considered by the relevant Committee of the Company's Board of Directors in order to develop recommendations for further approval of the external auditors in accordance with the procedure established by law.

Given the special requirements for selecting auditors for conducting an audit of financial statements in state-owned companies, in 2015 PJSOC Bashneft selected auditors for the period from 2015 through 2017 by putting auditing services out to tender. The tender winners included CJSC Deloitte & Touche CIS (under IFRS) and LLC RSM RUS (under RAS).

The General Meeting of Shareholders approved CJSC Deloitte & Touche CIS as the auditor for conducting the audit of the Company's IFRS financial statements for 2015 (the General Meeting of Shareholders had also approved the company as the

auditor of financial statements from 2010 through 2014). The cost of services under the contract determined under the resolution of the Company's Board of Directors totalled 40,592 thousand roubles (including VAT).

The General Meeting of Shareholders approved LLC RSM RUS as the auditor for conducting the audit of the Company's financial statements for 2015 under RAS (the company was approved as the auditor of financial statements for the first time). The cost of services under the contract determined under the resolution of the Company's Board of Directors totalled 8,084 thousand roubles (including VAT).

In 2015 the auditors did not provide the Company with advisory (audit-related) services.

At a meeting in April 2015, the Audit Committee of the Board of Directors considered the findings of audit of the Company's financial statements for the previous reporting period and recommended that they be considered by the Board of Directors. In addition, during the reporting year the Committee considered issues related to audit of financial statements for the six months and for the nine months. Having reviewed the financial statements, the Committee did not find any significant shortcomings in audit procedures.

Based on the opinion of the Audit Committee, overall, the Group's external audit process may be described as complying with essential requirements.



Code of Corporate Governance. Principle 6.2. The company should disclose comprehensive, up-to-date and reliable information on the company in a timely manner to ensure that its investors and shareholders can make informed decisions.

SIGNIFICANT CORPORATE EVENTS

In 2015 a number of significant events took place that had a considerable impact on both the Group's corporate governance practices and individual performance indicators:

- In March 2015, the Extraordinary General Meeting of Shareholders approved new membership of the Board of Directors comprising ten members, including eight new ones. This resulted from the change in the composition of the Company's principal shareholders in late 2014. Two new independent directors (A. Considine and M. Dijols) joined the Group's Board of Directors as having unique experience in the field of strategy and development of world-class oil companies (BP and Schlumberger).
- In June 2015, the Group's authorized share capital was reduced through redemption of 2,724,173 ordinary treasury shares. That was based on a resolution adopted by the meeting of shareholders on March 18, 2015. The said treasury shares comprising 1.51% of PJSOC Bashneft's authorized share capital were bought back by the Group from shareholders in April 2014 as part of the restructuring through merger of CJSC Bashneft-Invest into Bashneft. In accordance with the law, these securities were to be redeemed or sold within a year. As a result of the reduction of the authorized capital, the share of each shareholder in the Group's authorized capital increased proportionally.
- After June 2, 2015, preferred shares of PJSOC Bashneft were included in the First (top) Tier quotation list. Inclusion of Bashneft's preferred shares in the top quotation list of the Moscow Exchange is the result of our consistent efforts to make the Group more attractive to investors and provides evidence of the full conformity of Bashneft to the listing rules.
- In July 2015 the President of the Russian Federation signed a Decree according to which the Russian

Federation transferred 25% of the Group's ordinary shares to the Republic of Bashkortostan. Subsequently, the two major shareholders signed a shareholder agreement outlining the approach to coordinating their efforts related to the Company's governance.

- In September 2015 the Board of Directors approved an updated Development Strategy and the Group's Long-Term Development Programme for the period from 2015 through 2020 taking into account the Group's new status and changes in the situation on the global and local markets as well as a number of key initiatives by the President and the Government of the Russian Federation.
- In 2015 the Group successfully continued implementing its strategy aimed at optimizing its corporate structure and translated into the Group's withdrawal from the majority of overseas organizations (except for the operator of projects in Iraq and Myanmar).
- In 2015, the Group approved a new long-term management incentive programme aimed at improving the Group's TSR and aligning shareholders' interests with those of the Group's management in an optimal way.



OUR RESPONSIBILITY

The Board of Directors has been giving its close attention to most of significant corporate events, making key decisions where provided for by legislation or the Company's Charter.

PJSOC BASHNEFT'S CODE OF CORPORATE GOVERNANCE

In 2014 the Bank of Russia approved the Code of Corporate Governance which established new corporate governance benchmarks and development standards based on the best international practices and changes in the Russian laws.

Demonstrating commitment to the high corporate governance standards, Bashneft was one the first Russian companies to develop and endorse by a resolution of the Board of Directors in November 2014 a new version of the internal Code of Corporate Governance (hereinafter referred to as the Code) consistent with the provisions of the document recommended for use by the Bank of Russia. In 2015 the Board of Directors approved an updated version of the Code incorporating a number of points resulting from additional comments by a regulatory authority along with some Roadmap recommendations¹.

The Code is a set of corporate governance principles that the Group is supposed to employ in its activities. It provides for a higher level of guarantees and commitments to shareholders, investors and other stakeholders versus the current requirements in the applicable laws.

Development of Bashneft's Code was based on:

- legal requirements of the Russian Federation;
- applicable international laws;
- corporate governance principles of the Organisation for Economic Cooperation and Development;
- Moscow Exchange listing rules;
- the Company's Charter;
- best international practices and principles of business ethics

The Code development also used the Group's existing approaches and practices developed over the past years, including those in the field of the management system creation, the corporate conflict

resolution, taking significant corporate actions.

Main features of the Code:

- increased focus on ensuring the shareholders' rights and equal conditions, when exercising their rights, more specific procedure for convocation, preparation and holding the General Meeting of Shareholders;
- based on the best corporate governance practices established earlier, the competences of the Board of Directors have been specified as well as criteria for election of candidates to the Board of Directors, functions of the Chairman of the Board of Directors and the role of the Board of Directors in preventing and detecting conflicts of interest;
- independence criteria for members of the Board of Directors and requirements for the performance of the Board of Directors have been updated and emphasis has been added to the functions of the Board of committees and those of the Corporate Secretary;
- internal control, internal audit, risk management functions have been more clearly defined;
- the list of significant corporate events has been updated;
- regular consideration of issues of compliance with the Code has been provided.

The Audit Committee and the Board of Directors regularly review reports on compliance with the Code. Following the results of 2015, the Company did not receive any reports on violation of the Code provisions; the Company's compliance controller and the Corporate Secretary did not observe any violations of the Code either.

1. See the subsection 'Corporate governance quality audit and self-assessment'.